

E L E C T R O N I C P R O O F

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## Aire Valley Mortgages 2004 – 1 plc

*(Incorporated in England and Wales with limited liability, registered number 05154235)*

**USD 405,000,000 Series 1 Class A Asset Backed Floating Rate Notes due September 2005**  
**GBP 250,000,000 Series 2 Class A1 Asset Backed Floating Rate Notes due September 2034**  
**EUR 803,000,000 Series 2 Class A2 Asset Backed Floating Rate Notes due September 2034**  
**USD 360,000,000 Series 2 Class A3 Asset Backed Floating Rate Notes due September 2034**  
**GBP 20,000,000 Series 2 Class B1 Asset Backed Floating Rate Notes due September 2066**  
**EUR 65,500,000 Series 2 Class B2 Asset Backed Floating Rate Notes due September 2066**  
**GBP 20,000,000 Series 2 Class C1 Asset Backed Floating Rate Notes due September 2066**  
**EUR 75,500,000 Series 2 Class C2 Asset Backed Floating Rate Notes due September 2066**  
**GBP 215,000,000 Series 3 Class A1 Asset Backed Floating Rate Notes due September 2066**  
**EUR 460,000,000 Series 3 Class A2 Asset Backed Floating Rate Notes due September 2066**  
**GBP 20,000,000 Series 3 Class B1 Asset Backed Floating Rate Notes due September 2066**  
**EUR 25,000,000 Series 3 Class B2 Asset Backed Floating Rate Notes due September 2066**  
**GBP 20,000,000 Series 3 Class C1 Asset Backed Floating Rate Notes due September 2066**  
**EUR 31,000,000 Series 3 Class C2 Asset Backed Floating Rate Notes due September 2066**  
**GBP 15,000,000 Series 3 Class D1 Asset Backed Floating Rate Notes due September 2066**  
**EUR 22,000,000 Series 3 Class D2 Asset Backed Floating Rate Notes due September 2066**

	Principal Amount	Interest Rate	Scheduled Redemption Date(s)	Final Maturity Date	Expected Ratings
Series 1 Class A	\$405,000,000	1m USD LIBOR + 0.0%	September 2005	September 2005	A-1+/P-1/F1+
Series 2 Class A1	£250,000,000	3m LIBOR + 0.17%	June and December 2007	September 2034	AAA/Aaa/AAA
Series 2 Class A2	€803,000,000	3m EURIBOR + 0.17%	June and December 2007	September 2034	AAA/Aaa/AAA
Series 2 Class A3	\$360,000,000	3m USD LIBOR + 0.18%	June and December 2007	September 2034	AAA/Aaa/AAA
Series 2 Class B1	£20,000,000	3m LIBOR + 0.35%	—	September 2066	AA/Aa3/AA
Series 2 Class B2	€65,500,000	3m EURIBOR + 0.33%	—	September 2066	AA/Aa3/AA
Series 2 Class C1	£20,000,000	3m LIBOR + 1.00%	—	September 2066	BBB/Baa2/BBB
Series 2 Class C2	€75,500,000	3m EURIBOR + 0.95%	—	September 2066	BBB/Baa2/BBB
Series 3 Class A1	£215,000,000	3m LIBOR + 0.20%	—	September 2066	AAA/Aaa/AAA
Series 3 Class A2	€460,000,000	3m EURIBOR + 0.21%	—	September 2066	AAA/Aaa/AAA
Series 3 Class B1	£20,000,000	3m LIBOR + 0.40%	—	September 2066	AA/Aa3/AA
Series 3 Class B2	€25,000,000	3m EURIBOR + 0.38%	—	September 2066	AA/Aa3/AA
Series 3 Class C1	£20,000,000	3m LIBOR + 1.05%	—	September 2066	BBB/Baa2/BBB
Series 3 Class C2	€31,000,000	3m EURIBOR + 1.05%	—	September 2066	BBB/Baa2/BBB
Series 3 Class D1	£15,000,000	3m LIBOR + 3.25%	—	September 2066	BB/Ba1/BB
Series 3 Class D2	€22,000,000	3m EURIBOR + 3.25%	—	September 2066	BB/Ba1/BB

On the Closing Date, the Issuer will issue the Notes and lend the aggregate sterling proceeds thereof (after making the appropriate currency exchanges under the Issuer Currency Swaps) to Funding 1, an affiliated company, pursuant to an Intercompany Loan Agreement. The principal asset from which the Issuer will make payments of interest and principal on the Notes is its rights under the Intercompany Loan Agreement between the Issuer and Funding 1. The principal asset from which Funding 1 will make payments of interest and principal on the Intercompany Loan is its interest in the Trust Property under the Mortgages Trust. The Beneficiaries of the Mortgages Trust are the Seller, Funding 1 and two other affiliates of Funding 1 (Funding 2 and Funding 3), who together will have a joint and undivided interest in the Trust Property. The Trust Property will consist of residential mortgage loans originated or acquired by the Seller or Mortgage Express, a wholly-owned subsidiary of the Seller, or other subsidiaries of the Seller. In order to understand the terms of the transaction and the Notes, you need to consider carefully the terms of this document, which, for the avoidance of doubt, includes the Supplement attached hereto.

The Transaction Documents provide for the establishment of Other Issuers which may make Other Intercompany Loans to Funding 1 and share with the Issuer the security granted by Funding 1 in respect of its obligations under the Programme Intercompany Loans.

Application has been made to the FSA in its capacity as the UK Listing Authority for the Notes to be admitted to its Official List. Application has been made to the London Stock Exchange for the Notes to be admitted to trading on its market for listed securities. A copy of this document, which comprises listing particulars with regard to the Issuer and the Notes in accordance with the listing rules of the UK Listing Authority under Part VI of FSMA, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with Section 83 of FSMA. 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 judgement, circumstances in the future so warrant. **The Notes are highly structured. Before you purchase any Notes, be sure that you understand the structure and the risks (see *Investment Considerations and The Supplement – Additional Investment Considerations*).**

### Joint Arrangers and Bookrunners

**Credit Suisse First Boston**

**HSBC**

**Co-Managers for the Series 2 Class A Notes and the Series 3 Class A Notes**

**ABN AMRO**

**Barclays Capital**

**Citigroup**

**The Royal Bank of Scotland**

The date of this Offering Circular is 29th September, 2004

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

**The Notes will be obligations of the Issuer only. The Notes will not be obligations of, or the responsibility of, or guaranteed by any person other than the Issuer. In particular, the Notes will not be obligations of, or the responsibility of, or guaranteed by any of the Seller, Mortgage Express, Funding 1, Funding 2, Funding 3, the Issuer Swap Providers, the Liquidity Facility Provider, the Managers, the Mortgages Trustee, the Note Trustee, the Issuer Security Trustee, the Security Trustee, any company in the same group of companies as the Seller or the Managers 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 will be accepted by any of the Seller, Mortgage Express, Funding 1, Funding 2, Funding 3, the Issuer Swap Providers, the Liquidity Facility Provider, the Managers, the Mortgages Trustee, the Note Trustee, the Issuer Security Trustee, the Security Trustee or by any person other than the Issuer (but without prejudice to the obligations of the parties under the relevant Transaction Documents).**

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE SECURITIES LAWS AND THEREFORE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. ACCORDINGLY, THE NOTES ARE BEING OFFERED AND SOLD AND CAN BE RESOLD (A) IN THE UNITED STATES ONLY TO QIBS PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, AND (B) OUTSIDE THE UNITED STATES TO PERSONS OTHER THAN U.S. PERSONS PURSUANT TO REGULATION S UNDER THE SECURITIES ACT. FOR A DESCRIPTION OF CERTAIN RESTRICTIONS ON RESALES OR TRANSFERS, SEE *TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*.

The Notes are expected to settle in book-entry form through the facilities of DTC, Euroclear and Clearstream, Luxembourg on or about the Closing Date against payments therefor in immediately available funds.

All Euro Notes and Sterling Notes will only be offered and sold outside the United States to non-U.S. persons pursuant to Regulation S. All Dollar Notes will be offered and sold either (i) outside the United States to non-U.S. persons pursuant to Regulation S or (ii) in the United States only to qualified institutional buyers pursuant to Rule 144A.

There is no undertaking to register the Notes under U.S. state or federal securities laws. Until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements of the Securities Act.

The Notes cannot be resold in the United States or to, or for the account or benefit of, U.S. Persons unless they are registered under the Securities Act or an exemption from registration is available. For a description of certain restrictions on resales and transfers, see *Transfer Restrictions and Investor Representations*.

Each initial and subsequent purchaser of the Notes will be deemed by its acquisition 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 document 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*.

The distribution of this document and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by the Issuer, the Seller, Mortgage Express, the Note Trustee, the Issuer Security Trustee, the Security Trustee, the Mortgages Trustee, Funding 1, Funding 2, Funding 3 or any of the Managers that this document 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 document as listing particulars by the UK Listing Authority and delivery of copies of this document to the Registrar of Companies in England and Wales, no action has been taken by the

Issuer, the Seller, Mortgage Express, the Note Trustee, the Issuer Security Trustee, the Security Trustee, the Mortgages Trustee, Funding 1, Funding 2, Funding 3 or any of the Managers which would permit a public offering of the Notes or distribution of this document 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 document 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 each Manager has represented that all offers and sales by it will be made on such terms. Persons into whose possession this document comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission, any State securities commission or any other regulatory authority within the United States, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this document. Any representation to the contrary is unlawful.

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 document and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Seller, Mortgage Express, the Note Trustee, the Issuer Security Trustee, the Security Trustee, the Mortgages Trustee, Funding 1, Funding 2, Funding 3, any of the Managers or any of their respective affiliates or advisers. Neither the delivery of this document 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, the Seller, Mortgage Express, the Mortgages Trustee, Funding 1, Funding 2 or Funding 3 or in the other information contained herein since the date hereof. The information contained in this document was obtained from the Issuer and other sources, but no assurance can be given by the Managers as to the accuracy or completeness of such information. None of the Seller, Mortgage Express, the Note Trustee, the Issuer Security Trustee, the Security Trustee or the Managers makes any representation, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this document. In making an investment decision, investors must rely on their own examination of the terms of this offering and the Notes, including the rewards and risks involved. The contents of this document 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 document does not constitute an offer of, or an invitation by or on behalf of, the Issuer, the Seller, Mortgage Express, the Mortgages Trustee, Funding 1, Funding 2, Funding 3 or the Managers 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 document, 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 being obliged to pay additional amounts therefor.

The Issuer and the Managers make no representation to any prospective investor or purchaser of the Notes regarding the legality of investment therein by such prospective investor or purchase under applicable legal investment or similar laws or regulations. See *United States Legal Investment Considerations*.

**Please consider carefully the investment considerations set out in the sections herein entitled *Investment Considerations* and *The Supplement – Additional Investment Considerations*.**

*In connection with the distribution of the Notes, Credit Suisse First Boston (Europe) Limited or any other person acting for it may, but is not obliged to, over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Closing Date. However, there will be no obligation on Credit Suisse First Boston (Europe) Limited or any of its agents to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilisation will be in compliance with all applicable laws, regulations and rules.*

## AVAILABLE INFORMATION

The Issuer has agreed that, for so long as any of the Rule 144A Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon request of a holder or of any beneficial owner of such a Rule 144A Note or of any prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the **Exchange Act**), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

## ENFORCEABILITY OF JUDGMENTS

The Issuer is a public limited company registered in England and Wales. All of the Issuer’s assets are located outside the United States. None of the officers and directors of the Issuer are residents of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer or any such person not residing in the United States with respect to matters arising under the federal securities laws of the United States, or to enforce against them judgments of courts of the United States predicated upon the civil liability provisions of such securities laws. There is doubt as to the enforceability in England and Wales, in original actions or in actions for the enforcement of judgment of U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

## NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE STATE OF NEW HAMPSHIRE REVISED STATUTES ANNOTATED (RSA 421-B) WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

## FORWARD-LOOKING STATEMENTS

Certain matters contained herein are forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this document, 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, most of which are beyond the control of the Issuer. The Managers have not attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements. Neither the Issuer nor any of the Managers 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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## DEFINED TERMS

The principal and technical terms used in this document have the meanings set forth in *Glossary*, unless otherwise defined where they appear in the text.

References to **this document** include, for the avoidance of doubt, *The Supplement*.

References to **you** mean potential investors in Notes to be issued by the Issuer under the Programme.

As the issuance of Notes contemplated by this document is connected, by virtue of its structure, with possible future transactions under the Programme, it is necessary in this document to refer generally to these future transactions. In this document the following terms relate to the Programme:

- The **Issuer**, the **Notes**, the **Term Advances**, the **Intercompany Loan** and other analogous terms mean the Issuer identified in *The Supplement*, the Notes to be issued by it, the Term Advances to be made by it to Funding 1 and the Intercompany Loan between it and Funding 1, respectively.
- **New Issuers**, **New Notes**, **New Term Advances**, **New Intercompany Loans** and other analogous terms mean new wholly-owned subsidiaries of Holdings that may be established in the future where the proceeds of the notes issued by such New Issuers will be on-lent to Funding 1 by way of new term advances under the terms of new intercompany loans.
- **Previous Issuers**, **Previous Notes**, **Previous Term Advances**, **Previous Intercompany Loans** and other analogous terms mean the wholly-owned subsidiaries of Holdings that have been established where the proceeds of the notes issued by such Previous Issuers have been on-lent prior to the date of this Offering Circular to Funding 1 by way of previous term advances under the terms of previous intercompany loans. Any such Previous Issuers are described in *The Supplement – Previous Notes*. As at the date hereof, there are no Previous Issuers.
- **Other Issuers** mean any New Issuers or any Previous Issuers of notes under the Programme where all or part of the proceeds of the issue of such notes have been, or will be, on-lent to Funding 1. References to the terms **Other Notes**, **Other Term Advances**, **Other Intercompany Loans** and analogous terms mean any notes to be issued by Other Issuers, any term advances made by Other Issuers and any intercompany loans made by Other Issuers to Funding 1, respectively.
- **Programme Issuers** mean the Issuer and any Other Issuers together. References to the terms **Programme Notes**, **Programme Term Advances**, **Programme Intercompany Loans** and analogous terms mean the notes issued by Programme Issuers, term advances made by Programme Issuers and intercompany loans made by the Programme Issuers to Funding 1, respectively.
- **Programme** means the programme of issuance by Programme Issuers, where all or part of the proceeds of the issue of Programme Notes will be on-lent to Funding 1 under Programme Intercompany Loans.

In addition, in this document any Series 2 Class A Notes, Series 2 Class B Notes, Series 2 Class C Notes etc. are collectively referred to as the **Series 2 Notes** and references to any **Series 3 Notes** etc. are to be construed in an analogous manner. Any Series 1 Class A Notes, Series 2 Class A Notes, Series 3 Class A Notes etc. are also collectively referred to as the **Class A Notes** and references to **Class B Notes**, **Class M Notes**, **Class C Notes**, **Class D Notes**, **Class E Notes** etc. are to be construed in an analogous manner. References to Class A1 Notes, Class A2 Notes, Class A3 Notes etc. are collectively referred to as the **Class A Notes** and references to **Class B Notes**, **Class M Notes**, **Class C Notes**, **Class D Notes**, **Class E Notes** etc. are to be construed in an analogous manner.

You should be aware that there may be instances when references are made to some classes of Notes which the Issuer may not be issuing on the Closing Date (for instance, Class M Notes and Class E Notes). However, as it is expected that Other Issuers may issue Other Notes which may include Class M Notes and/or Class E Notes, it is necessary in certain circumstances in this document to refer to Class M Notes and/or Class E Notes of Other Issuers and the corresponding Class M Term Advances and/or Class E Term Advances that such Other Issuers may make to Funding 1.

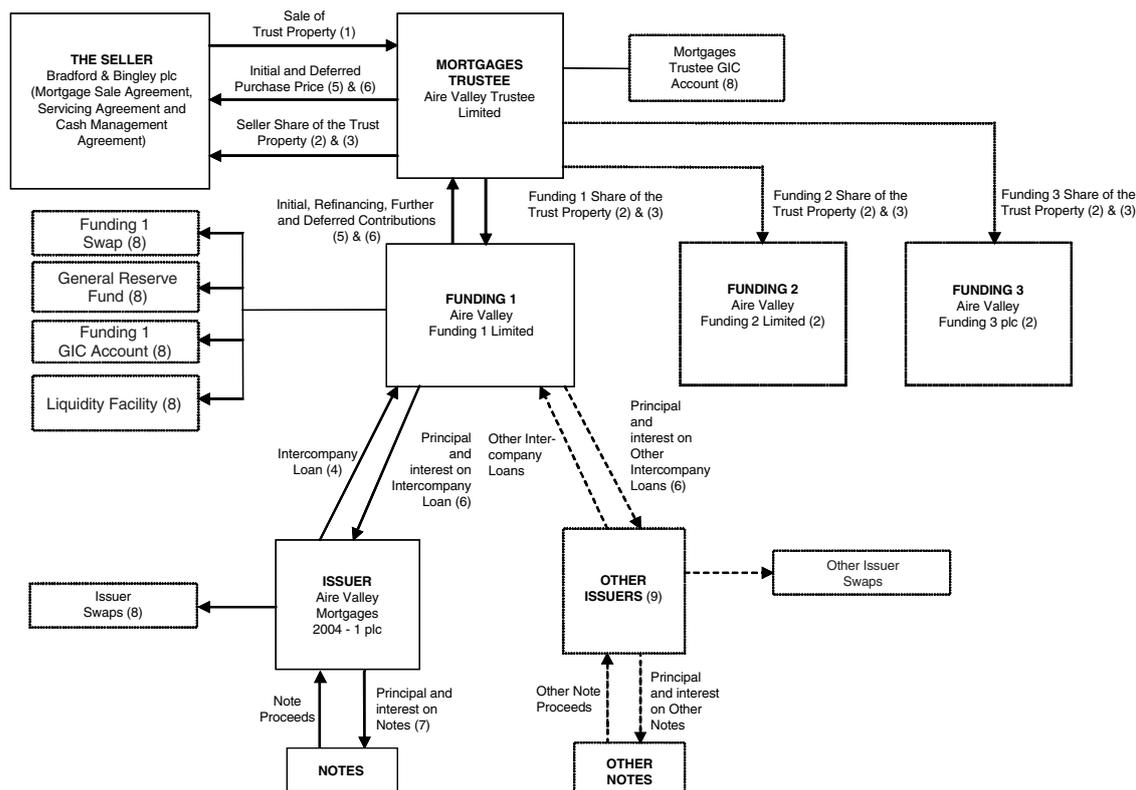
References in this document to **£**, **pounds**, **sterling** or **Sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland. References to **US\$**, **\$**, **US dollars** or **dollars** are to the lawful currency of the United States of America. References to **€**, **euro** or **Euro** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time.

## SUMMARY OF PROGRAMME

The following is a summary of the principal features of the transactions contemplated in connection with the issuance of Programme Notes by the Issuer and Other Issuers from time to time under the Programme and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. In addition, the information contained in this document (other than in the Supplement) describes the transactions as they relate generally to the Issuer and, where applicable, Other Issuers. The Supplement describes the transactions as they relate specifically to the Issuer and also contains specific information relating to Previous Issuers, if any.

A glossary of certain defined terms used in this document is set out in the section entitled Glossary.

### 1. Programme Overview



The above diagram illustrates a brief overview of the transactions involving the Issuer and the transactions that will occur from time to time in the Programme, as follows:

- (1) From time to time the Seller will sell a portfolio of Loans, their Related Security and all amounts derived therefrom to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement. The Loans will be residential mortgage loans originated and/or acquired by the Seller or Mortgage Express, a wholly-owned subsidiary of the Seller, or other subsidiaries of the Seller secured over residential properties in England, Wales, Northern Ireland and Scotland. For more information relating to the terms of the sale of a portfolio see further *Summary of the Transaction Documents – Mortgage Sale Agreement*, and for information relating to the Loans see further *The Loans*.
- (2) The Mortgages Trustee will hold the Portfolio as Trust Property on bare trust for the benefit of the Beneficiaries (which, as at the date hereof, are the Seller and each Funding Company) pursuant to the terms of the Mortgages Trust Deed. Each of the Beneficiaries has a joint and undivided beneficial interest in the Trust Property, but their entitlement to the proceeds from the Trust Property will be in proportion to their then respective shares of the Trust Property. As at the date hereof, Funding 2 and Funding 3 only have a nominal share in the Trust Property. However, it is expected that Funding 2 and/or Funding 3 will, in the future, acquire a substantive share in the Trust Property and their respective shares will be set out in the quarterly reports to be delivered to Noteholders. For more information relating to the terms of the

Mortgages Trust and the allocations of shares in the Trust Property to the Beneficiaries see *Investment Considerations – Holdings has established other companies, Funding 2 and Funding 3, which are additional Beneficiaries under the Mortgages Trust and Summary of the Transaction Documents – Mortgages Trust Deed.*

- (3) On each monthly Distribution Date, the Cash Manager on behalf of the Mortgages Trustee will distribute Revenue Receipts and Losses in respect of the Loans to each of the Beneficiaries based on the then share that each of them has in the Trust Property expressed as a percentage. On each monthly Distribution Date, the Cash Manager will distribute Principal Receipts to each of the Beneficiaries based on their respective share in the Trust Property and the respective requirements of the Funding Companies, as at the relevant Distribution Date, to enable them to accumulate cash to repay, as applicable, a Bullet Term Advance or a Controlled Amortisation Instalment or to repay principal amounts due and payable on their respective funding obligations. The respective shares of each Beneficiary in the Trust Property will fluctuate from time to time in accordance with the terms of the Mortgages Trust Deed. See further *Summary of the Transaction Documents – Mortgages Trust Deed – Fluctuation of Shares in the Trust Property.*
- (4) The Issuer will on-lend the proceeds of the issue of the Notes to Funding 1 pursuant to the Intercompany Loan Agreement, after converting the same into sterling under the Issuer Currency Swaps, where applicable.
- (5) Funding 1 may use the proceeds of any Programme Intercompany Loan for any of the following purposes:
  - (i) to make an Initial Contribution to the Mortgages Trustee to acquire a share of the Trust Property and the amount of such Initial Contribution will be paid by the Mortgages Trustee to the Seller as Initial Purchase Price for the sale of a portfolio of Loans and their Related Security by the Seller to the Mortgages Trustee; and/or
  - (ii) to make a Further Contribution to the Mortgages Trustee to acquire a share of the Trust Property, and the amount of such Further Contribution will be applied by the Mortgages Trustee either to make a Special Distribution to the Seller or to make a Refinancing Distribution on the immediately following Distribution Date. A payment of any Special Distribution to the Seller will reduce the Seller Share of the Trust Property by a corresponding amount. A Refinancing Contribution will be applied by the Mortgages Trustee to refinance the funding obligations of Funding 2 and/or Funding 3; and/or
  - (iii) to fund the General Reserve Fund and/or, if established, any Additional Reserve Fund; and/or
  - (iv) to refinance one or more of the Programme Intercompany Loans outstanding from time to time.

Funding 1 will use the proceeds of the Intercompany Loan for the purpose specified in *The Supplement – Transaction Features – Use of Proceeds of the Intercompany Loan.*

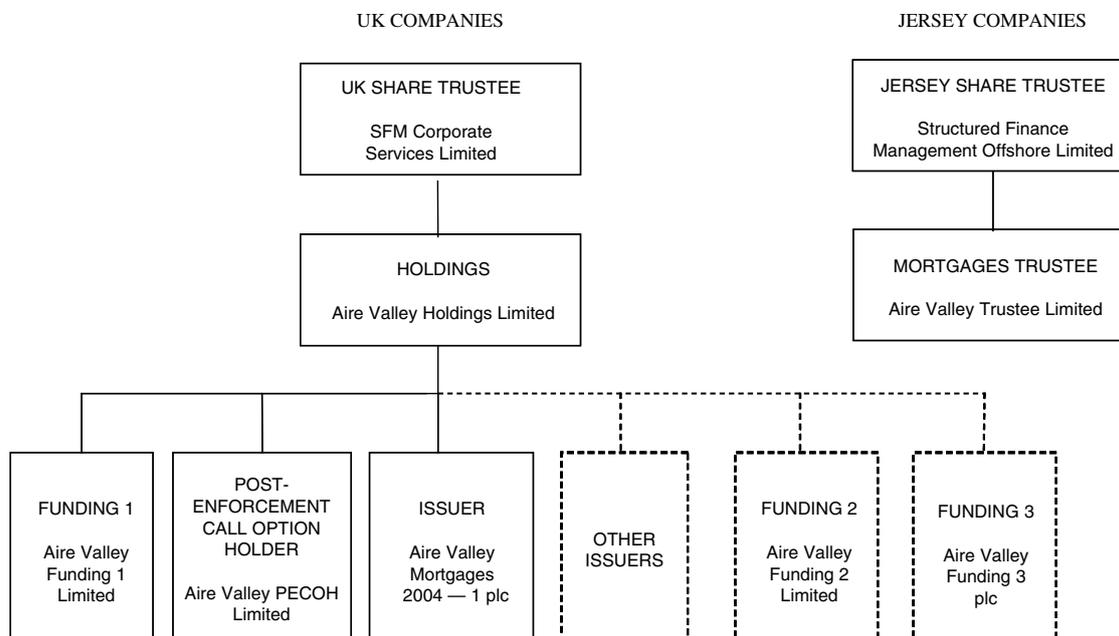
- (6) Funding 1 will use a portion of amounts received from its share of the Trust Property primarily to meet its obligations to pay interest, principal and other amounts due to each Programme Issuer under the Programme Intercompany Loan Agreements.

To the extent that Funding 1 has any excess income remaining, after paying all amounts that it owes to its creditors on a Funding 1 Payment Date, such excess will be applied to make Deferred Contributions to the Mortgages Trustee in respect of the Funding 1 Share of the Trust Property. The Mortgages Trustee will apply such Deferred Contributions to make payments of the Deferred Purchase Price to the Seller in respect of the sale from time to time of Loans and their Related Security pursuant to the terms of the Mortgage Sale Agreement.

- (7) The Issuer's obligations to pay principal and interest on the Notes will be funded primarily from the payments of principal and interest received from Funding 1 under the Intercompany Loan. For the avoidance of doubt, neither the Issuer nor the Noteholders will have any direct interest in the Trust Property, the Issuer's principal asset being its rights under the Intercompany Loan Agreement and the security relating thereto.
- (8) These transactions and their function in the overall transaction structure are described later in this document. They are included in this diagram to enable prospective investors to refer back to see where they fit into the overall transaction structure.

- (9) New Issuers may be established by Holdings from time to time and the proceeds of any New Notes issued by New Issuers will be on-lent to Funding 1 under the terms of New Intercompany Loan Agreements for any of the purposes described in paragraph (5). Your consent to the establishment of New Issuers and the terms of the New Notes and New Intercompany Loans will not be required nor will you have any right of review in respect thereof.

## 2. Ownership Structures



The above diagrams illustrate the ownership structures of the principal parties involved in the Programme, as follows:

- Each of the Funding Companies, the Issuer, the Other Issuers and the Post-Enforcement Call Option Holder is (and, in the case of New Issuers, will be) a wholly-owned subsidiary of Holdings.
- The entire issued share capital of Holdings is held on trust by the UK Share Trustee under the terms of a discretionary trust for charitable purposes.
- The entire issued share capital of the Mortgages Trustee is held on trust by the Jersey Share Trustee under the terms of a discretionary trust for charitable purposes.
- None of the Funding Companies, the Issuer, the Other Issuers, the Post-Enforcement Call Option Holder, Holdings, the UK Share Trustee, the Jersey Share Trustee or any of their directors (except for one director of each of the Funding Companies, the Issuer, the Other Issuers, the Post-Enforcement Call Option Holder, the Mortgages Trustee and Holdings) or employees are either owned, controlled, managed, directed or instructed, whether directly or indirectly, by the Seller or any member of the group of companies forming part of Bradford & Bingley. This will ensure, among other things, that the ownership structure and impact on investors are not linked to the credit of the Seller and that the Seller has no obligation to support the transaction financially, although the Seller may still have a connection with the transaction for other reasons (for example, in its capacity as the Servicer and Cash Manager).
- None of the entities shown above are affiliated or connected with Aire Valley Finance plc or Aire Valley Finance (No. 2) plc, special purpose vehicles that were incorporated to raise debt backed by loans sold by the Seller.
- Funding 2 and Funding 3 are not participants in the Programme. However, as Beneficiaries under the Mortgages Trust, it is expected that Funding 2 and/or Funding 3 will, in future, acquire a substantive share in the Trust Property. These financings will not involve Programme Issuers.

For a more detailed description of the parties to the Programme, see – *The Parties* and, in relation to the parties relating specifically to this issuance, see *The Supplement – The Parties to the Transaction*.

### 3. The Parties

- Issuer:** Details regarding the Issuer are set out in *The Supplement – The Parties to the Transaction* and – *The Issuer*.
- Seller:** Bradford & Bingley is a public limited company incorporated under the laws of England and Wales with registered number 3938288 which originates and acquires residential mortgage loans and conducts other banking and property related activities. The Seller will sell residential mortgage loans to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement.
- For a more detailed description of the Seller, see *Bradford & Bingley*.
- Mortgage Express:** Mortgage Express is a private unlimited company incorporated under the laws of England and Wales with registered number 2405490 which originates and acquires residential mortgage loans. Mortgage Express will sell residential mortgage loans to the Seller pursuant to the terms of the Intercompany Mortgage Sale Agreement and the Seller will on-sell those mortgage loans to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement.
- For a more detailed description of Mortgage Express, see *Bradford & Bingley*.
- Mortgages Trustee:** Aire Valley Trustee Limited is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 88218. The entire issued share capital of the Mortgages Trustee is held beneficially on trust by the Jersey Share Trustee under the terms of a discretionary trust for the benefit of one or more charities or for charitable purposes.
- For a more detailed description of the Mortgages Trustee, see *The Mortgages Trustee*.
- Funding 1:** Aire Valley Funding 1 Limited is a private limited company incorporated under the laws of England and Wales with registered number 05074932 and is a wholly-owned subsidiary of Holdings. Funding 1 has been established, *inter alia*, to acquire a joint and undivided beneficial interest with the Seller and the other Beneficiaries in the Trust Property pursuant to the Mortgages Trust Deed and to borrow funds under the Programme Intercompany Loan Agreements, as more fully described below.
- For a more detailed description of Funding 1, see *Funding 1*.
- Servicer:** On the Set-Up Date, Bradford & Bingley will be appointed as Servicer to service the Loans and their Related Security on behalf of the Mortgages Trustee and the Beneficiaries pursuant to the terms of the Servicing Agreement. Mortgage Express will be appointed as sub-servicer in respect of the Loans (other than Loans originated by the Seller, if any) and their Related Security in the Portfolio pursuant to a Sub-Servicing Agreement.
- For a more detailed description of the role of the Servicer, the Sub-Servicer, the terms of the Servicing Agreement and the Sub-Servicing Agreement, see *Summary of the Transaction Documents – Servicing Agreement* and – *Sub-Servicing Agreement*.
- Cash Manager:** On the Set-Up Date, Bradford & Bingley will be appointed as Cash Manager to provide cash management services to the Mortgages Trustee, the Seller, the Funding Companies and the Security Trustee pursuant to the Cash Management Agreement.
- For a more detailed description of the role of the Cash Manager and the terms of the Cash Management Agreement, see *Summary of the Transaction Documents – Cash Management Agreement*.

<b>Issuer Cash Manager:</b>	<p>On or before the Closing Date, a cash manager will be appointed to provide cash management services to the Issuer pursuant to the Issuer Cash Management Agreement. Details regarding the Issuer Cash Manager are set out in <i>The Supplement – The Parties to the Transaction</i>.</p> <p>For a more detailed description of the terms of the Issuer Cash Management Agreement, see <i>Summary of the Transaction Documents – Issuer Cash Management Agreement</i>.</p>
<b>Issuer Security Trustee:</b>	<p>The Bank of New York, acting through its offices at 48th Floor, One Canada Square, London E14 5AL, will hold the benefit of the security granted by the Issuer under the Issuer Deed of Charge and will be entitled to enforce the security granted in its favour under the Issuer Deed of Charge.</p> <p>For a more detailed description of the terms of the Issuer Deed of Charge, see <i>Summary of the Transaction Documents – Issuer Deed of Charge</i>.</p>
<b>Note Trustee:</b>	<p>On or before the Closing Date, a note trustee will be appointed to act on behalf of the holders of the Notes by the Issuer pursuant to a Note Trust Deed. Details regarding the Note Trustee are set out in <i>The Supplement – The Parties to the Transaction</i>.</p>
<b>Security Trustee:</b>	<p>The Bank of New York, acting through its offices at 48th Floor, One Canada Square, London E14 5AL, will hold the benefit of the security granted by Funding 1 under the Funding 1 Deed of Charge and will be entitled to enforce the security granted in its favour under the Funding 1 Deed of Charge.</p> <p>For a more detailed description of the terms of the Funding 1 Deed of Charge, see <i>Summary of the Transaction Documents – Funding 1 Deed of Charge</i>.</p>
<b>Principal Paying Agents and Agent Bank:</b>	<p>The paying agents will make payments on the Notes to the Noteholders. The Agent Bank will calculate the interest on the Notes. Details regarding the Principal Paying Agents and Agent Bank are set out in <i>The Supplement – The Parties to the Transaction</i>.</p>
<b>Registrar:</b>	<p>The Registrar will maintain a register in respect of the Notes. Details regarding the Registrar are set out in <i>The Supplement – The Parties to the Transaction</i>.</p>
<b>Transfer Agent:</b>	<p>Details regarding the Transfer Agent are set out in <i>The Supplement – The Parties to the Transaction</i>.</p>
<b>Funding 1 Swap Provider:</b>	<p>Bradford &amp; Bingley will act as Funding 1 Swap Provider pursuant to the terms of the Funding 1 Swap Agreement in respect of the possible variances between the rates of interest payable on the Loans in the Portfolio sold by the Seller to the Mortgages Trustee and the rates of interest payable by Funding 1 under the Programme Intercompany Loans.</p> <p>For a more detailed description of the Funding 1 Swap, see <i>Summary of the Transaction Documents – Funding 1 Swap Agreement</i>.</p>
<b>Liquidity Facility Provider:</b>	<p>Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International), London Branch, acting through its offices at Thames Court, One Queenhithe, London EC4V 3RL, will provide Funding 1 with the Liquidity Facility as more fully described under <i>Credit Structure – Liquidity Facility</i>.</p>
<b>Issuer Swap Providers:</b>	<p>The Issuer Swap Providers which will hedge certain interest rate, currency and/or other risks, in respect of amounts received by the Issuer under the Term Advances and amounts payable by the Issuer</p>

under the Notes pursuant to the terms of Issuer Swap Agreements to be entered into on or before the Closing Date between, *inter alios*, the relevant Issuer Swap Provider(s) and the Issuer.

Details regarding the Issuer Swap Providers are set out in *The Supplement – The Parties to the Transaction* and – *The Issuer Swap Providers*. For information relating to the Issuer Swap Agreements, see *The Supplement – The Issuer Swap Agreements*.

**Funding 1 Account Bank:** On the Set-Up Date, HSBC Bank plc will agree to act as Funding 1 Account Bank to Funding 1 pursuant to the terms of the Funding 1 Bank Account Agreement.

For a more detailed description of the Funding 1 Bank Account Agreement, see *Summary of the Transaction Documents – Funding 1 Bank Account Agreement*.

**Mortgages Trustee Account Bank:** On the Set-Up Date, HSBC Bank plc will agree to act as the Mortgages Trustee Account Bank to the Mortgages Trustee pursuant to the terms of the Mortgages Trustee Bank Account Agreement.

For a more detailed description of the Mortgages Trustee Bank Account Agreement, see *Summary of the Transaction Documents – Mortgages Trustee Bank Account Agreement*.

**Issuer Account Bank:** On or before the Closing Date, the Issuer Account Bank will be appointed to act as account bank to the Issuer. Details regarding the Issuer Account Bank are set out in *The Supplement – The Parties to the Transaction*.

For a more detailed description of the Issuer Bank Account Agreement, see *Summary of the Transaction Documents – Issuer Bank Account Agreement*.

**Start-Up Loan Provider:** On the Set-Up Date, Bradford & Bingley will act as Start-Up Loan Provider to Funding 1 pursuant to the terms of a Start-Up Loan Agreement.

For a more detailed description of the Start-Up Loan Agreement see *Summary of the Transaction Documents – Start-Up Loan Agreement* and for information relating to the credit support it provides, see *Credit Structure – Start-Up Loan*.

**Post-Enforcement Call Option Holder:** On the Closing Date, Aire Valley PECO Limited will agree to act as Post-Enforcement Call Option Holder in respect of the Notes (other than the Class A Notes) issued by the Issuer pursuant to the terms of a Post-Enforcement Call Option Agreement to be entered into between, *inter alios*, the Post-Enforcement Call Option Holder, the Note Trustee and the Issuer.

For a more detailed description of the Post-Enforcement Call Option Holder, see *The Post-Enforcement Call Option Holder* and for a more detailed description of the Post-Enforcement Call Option Agreement see *Summary of the Transaction Documents – Post-Enforcement Call Option Agreement*.

**Holdings:** Aire Valley Holdings Limited is a private limited company incorporated under the laws of England and Wales with registered number 05163624. For a more detailed description of Holdings, see *Holdings*.

**UK Share Trustee:** SFM Corporate Services Limited, having its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE, is a private limited company incorporated under the laws of England and Wales with registered number 03920255.

<b>Jersey Share Trustee:</b>	Structured Finance Management Offshore Limited, having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD, Channel Islands, is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 83135.
<b>Corporate Services Provider:</b>	Structured Finance Management Limited, having its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE, is a private limited company incorporated in England and Wales with registered number 03853947.
<b>Issuer Corporate Services Provider:</b>	Details regarding the Issuer Corporate Services Provider are set out in <i>The Supplement – The Parties to the Transaction</i> .
<b>Mortgages Trustee Corporate Services Provider:</b>	Structured Finance Management Offshore Limited, having its registered office at 47 Esplanade, St. Helier, Jersey JE1 0BD, is a private limited company with registered number 83135.
<b>Funding 2:</b>	<p>Aire Valley Funding 2 Limited is a private limited company incorporated under the laws of England and Wales with registered number 05165234 and is a wholly-owned subsidiary of Holdings. Funding 2 has been established, <i>inter alia</i>, to acquire a joint and undivided beneficial interest in the Trust Property with the Seller and the other Beneficiaries pursuant to the Mortgages Trust Deed and to raise funds through the issuance of short term debt. <b>Funding 2 has a nominal share of the Trust Property as at the date hereof. It may participate in future transactions that are not part of the Programme which are only briefly described in this document.</b></p> <p>See further <i>Summary of the Transaction Documents – Mortgages Trust Deed and Investment Considerations – Holdings has established other companies, Funding 2 and Funding 3, which are additional Beneficiaries under the Mortgages Trust</i> regarding the distributions that the Mortgages Trustee will make to Funding 2 and the role of Funding 2.</p>
<b>Funding 3:</b>	<p>Aire Valley Funding 3 plc is a public limited company incorporated under the laws of England and Wales with registered number 05154132 and is a wholly-owned subsidiary of Holdings. Funding 3 has been established, <i>inter alia</i>, to acquire a joint and undivided beneficial interest in the Trust Property with the Seller and the other Beneficiaries pursuant to the Mortgages Trust Deed and to raise funds through the issuance of debt. <b>Funding 3 has a nominal share of the Trust Property as at the date hereof. It may participate in future transactions that are not part of the Programme which are only briefly described in this document.</b></p> <p>See further <i>Summary of the Transaction Documents – Mortgages Trust Deed and Investment Considerations – Holdings has established other companies, Funding 2 and Funding 3, which are additional Beneficiaries under the Mortgages Trust</i> regarding the distributions that the Mortgages Trustee will make to Funding 3 and the role of Funding 3.</p>
<b>4. The Notes</b>	
<b>Summary of the Notes:</b>	The Issuer will issue the Notes on the Closing Date. See <i>The Supplement – Key Characteristics of the Notes</i> , and <i>– Transaction Features</i> and <i>– Terms and Conditions of the Notes</i> for information relating to the Notes being offered by the Issuer, including the principal amounts, rates of interest and ratings applicable to the Notes.
<b>Form and denomination of the Notes:</b>	The Dollar Notes will each be in denominations of US\$1,000 and US\$10,000 and integral multiples each thereof.

The Sterling Notes will each be in denominations of £1,000 and £10,000 and integral multiples each thereof.

The Euro Notes will each be in denominations of €500,000 plus integral multiples of €1,000.

The Notes issued by the Issuer will be constituted by the Note Trust Deed.

The Notes of any class sold to non-U.S. Persons in reliance on Regulation S will be represented by one or more Regulation S Global Certificates, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Regulation S Global Certificate may only be held through, and transfers thereof will only be effected through, records maintained by Euroclear or Clearstream, Luxembourg or their participants (as applicable) at any time. See *Book-Entry Clearance Procedures and Transfer Restrictions and Investor Representations*.

The Dollar Notes of any class sold in reliance on Rule 144A to persons who are QIBs acting for their own accounts or the accounts of other persons that are QIBs will be represented by one or more Rule 144A Global Certificates, which will be deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A Global Certificate may only be held through, and transfers thereof will only be effected through, records maintained by DTC or their participants (as applicable) at any time. The Rule 144A Global Certificates will bear a legend to the effect that such Rule 144A Global Certificates, or any interest therein, may not be transferred except to persons that are QIBs and only in compliance with the transfer restrictions set out in such legend. See *Book-Entry Clearance Procedures*.

No beneficial interest in a Rule 144A Global Certificate may be transferred to a person that takes delivery in the form of a beneficial interest in a Regulation S Global Certificate unless the transfer is to a non-U.S. Person in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Paying Agent and Agent Bank Agreement. No beneficial interest in a Regulation S Global Certificate representing Dollar Notes may be transferred during the Distribution Compliance Period to a person that takes delivery in the form of a beneficial interest in a Rule 144A Global Certificate unless the transfer is to a person that is a QIB in a transaction in reliance on Rule 144A and the transferor provides the Registrar with a written certification substantially in the form set out in the Paying Agent and Agent Bank Agreement. No beneficial interest in a Regulation S Global Certificate representing Sterling Notes or Euro Notes may be exchanged for beneficial interests in a Rule 144A Global Certificate. The Global Certificates will not be exchangeable for certificates in individual certificated form. The Notes will not be issued in bearer or definitive form. For more information, see *Transfer Restrictions and Investor Representations*.

**Relationship between the Notes and the Intercompany Loan:**

On the Closing Date, the Issuer will make an Intercompany Loan to Funding 1 in an amount equal to the gross proceeds of the issue of the Notes (after making appropriate currency exchanges under the Issuer Currency Swaps) under the terms of the Intercompany Loan Agreement. The Intercompany Loan will consist of separate Term Advances, as more fully described in *The Supplement – Transaction Features – The Term Advances*.

The proceeds of the different Series of Class A Notes will be used by the Issuer to make the corresponding Class A Term Advances to Funding 1; the proceeds of the different Series of Class B Notes will be used by the Issuer to make the corresponding Class B Term Advances to Funding 1; the proceeds of the different Series of Class C Notes will be used by the Issuer to make the corresponding Class C Term Advances to Funding 1; and the proceeds of the Class D Notes will be used to make the Class D Term Advance to Funding 1. As described below under – *Other Issuers*, New Issuers may be established to issue New Notes and these may include, among others, Class M Notes and/or Class E Notes, the proceeds of which will be used by New Issuers to make corresponding Class M Term Advances and/or Class E Term Advances to Funding 1.

The Issuer will repay, as applicable, the Class A Notes from payments made by Funding 1 under the corresponding Class A Term Advances, the Class B Notes from payments made by Funding 1 under the corresponding Class B Term Advances, the Class C Notes from payments made by Funding 1 under the corresponding Class C Term Advances and the Class D Notes from payments made by Funding 1 under the corresponding Class D Term Advance (in each case where the relevant Class of Notes is denominated in US dollars or euro, after making appropriate currency exchanges to US dollars or euro, as the case may be, under the relevant Issuer Currency Swaps). The ability of Funding 1 to make payments on the Intercompany Loan due to the Issuer will depend to a large extent on (a) Funding 1 receiving its share of collections on the Trust Property, which will in turn depend principally on the collections the Mortgages Trustee receives on the Loans and the Related Security in the Portfolio and the allocation of monies among the Beneficiaries and (b) the allocation of monies among any Other Intercompany Loans (which may also include Class M Term Advances and/or Class E Term Advances) made by Other Issuers to Funding 1.

See further *Summary of the Transaction Documents – Intercompany Loan Agreement, Cashflows of Funding 1 and The Supplement – Cashflows of the Issuer*.

**Payment and ranking of the Notes:**

Payments of interest on the Notes will be made from Issuer Revenue Receipts and payments of principal on the Notes will be made from Issuer Principal Receipts in accordance with the relevant priority of payments set out in *The Supplement – Cashflows of the Issuer*. Payments of interest and principal on lower ranking classes of Notes of any Series issued by the Issuer will be subordinated to the payment of interest and principal on higher ranking classes of Notes of any Series issued by the Issuer. For more information on the priority of payments to the Noteholders, see *The Supplement – Cashflows of the Issuer*.

Payments of interest and principal on the Class A Notes of each Series issued by the Issuer rank equally (but subject to the Scheduled Redemption Dates or Permitted Redemption Dates of each Series of Class A Notes of the Issuer). Payments of interest and principal on the Class B Notes of each Series issued by the Issuer rank equally (but subject to the Permitted Redemption Dates of each Series of Class B Notes of the Issuer). Payments of interest and principal on the Class C Notes of each Series issued by the Issuer rank equally (but subject to the Permitted Redemption Dates of each Series of Class C Notes of the Issuer). Analogous provisions will apply to any Class M Notes and/or Class E Notes of Other Issuers.

Unless an Asset Trigger Event or a Non-Asset Trigger Event (each as described in *Summary of the Transaction Documents – Mortgages Trust Deed*) has occurred or the Issuer Security or the Funding 1 Security has been enforced, then:

- as regards the Class A Notes of any Series, these will be redeemed, as applicable, (i) in full on the Scheduled Redemption Date, (ii) in part on specified Scheduled Redemption Dates according to the applicable redemption schedule (as described further under – *Scheduled Redemption of Class A Notes*) or (iii) in full or in part on each Note Payment Date starting with the Note Payment Date falling in June 2011; and
- as regards the lower ranking Notes of any particular Series, these will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the higher ranking Notes of the relevant Series have been redeemed in full (e.g. the Series 2 Class B Notes will be redeemed in full or in part on each Note Payment Date on or after the Note Payment Date on which the Series 2 Class A Notes have been redeemed in full).

Details of the expected principal payment profile of the Notes are set out in *The Supplement – Transaction Features – The Notes – Payment of the Notes*.

**Noteholders should note that the principal payment profile mentioned above could result in lower ranking Notes of the Issuer being repaid before higher ranking Notes of the Issuer.** For example, the Series 2 Class B Notes and the Series 2 Class C Notes of the Issuer could be repaid in full prior to principal payments being made on the Series 3 Class A Notes of the Issuer. If on any Note Payment Date, however, amounts are due and payable by the Issuer on a Series of the higher ranking Notes and amounts are also due and payable on any Series of lower ranking Notes, then payments of principal on the higher ranking Notes will rank ahead of payments of principal on the lower ranking Notes.

#### **Scheduled Redemption of Class A Notes:**

If not redeemed earlier, the Issuer will redeem the Notes on the relevant Final Maturity Date of the Notes. Funding 1 will seek to accumulate funds relating to principal payments on any of the Class A Term Advances of the Issuer that are:

- Bullet Term Advances over their respective Cash Accumulation Periods in order to repay those Bullet Term Advances as lump sum payments to the Issuer so that the Issuer can redeem the corresponding Class A Notes in full on the applicable Scheduled Redemption Date; and
- Controlled Amortisation Instalments over their respective Cash Accumulation Periods (if any), in order to repay those Controlled Amortisation Instalments on their Scheduled Repayment Dates so that the Issuer can redeem the corresponding Class A Notes by an amount equal to the relevant Controlled Amortisation Instalment on the applicable Scheduled Redemption Dates.

A Cash Accumulation Period in respect of a Bullet Term Advance or a Controlled Amortisation Instalment is the period of time estimated to be the number of months prior to the relevant Scheduled Repayment Date necessary for the Funding 1 Share of the payments of principal on the Loans to be at a sufficient level to repay that Bullet Term Advance or Controlled Amortisation Instalment to the Issuer so that the Issuer will be able to redeem

the corresponding Series of Notes in full on the relevant Scheduled Redemption Dates. A Cash Accumulation Advance is a Bullet Term Advance or a Controlled Amortisation Instalment which is within a Cash Accumulation Period.

The Cash Accumulation Period will be determined according to a formula described under *Summary of the Transaction Documents – Mortgages Trust Deed – Cash Management of Trust Property – Principal Receipts*.

To the extent that there are insufficient funds to redeem any relevant Series of Class A Notes of the Issuer on the applicable Scheduled Redemption Date, the shortfall will be redeemed on subsequent Note Payment Dates to the extent of Issuer Principal Receipts available therefor, until the relevant Series of Class A Notes of the Issuer are fully redeemed.

Cash Accumulation Periods may also apply to the obligations of the Other Issuers. Funding 1 will similarly seek to accumulate funds relating to principal payments on any Other Bullet Term Advances and Other Controlled Amortisation Instalments over their respective Cash Accumulation Periods.

Cash Accumulation Periods may also apply to the obligations of Funding 2 and Funding 3. Each Funding Company will seek to accumulate funds to meet its obligations in respect thereof. **If any Funding Company is in a Cash Accumulation Period, this will affect the moneys available to make payments on the Term Advances and hence the corresponding Classes of Notes. There is no assurance that the estimated weighted average lives of the Notes will not be affected if any Funding Company is in a Cash Accumulation Period.**

**No assurance can be given that Funding 1 will accumulate sufficient funds during the Cash Accumulation Period relating to any Bullet Term Advance or, as applicable, any Controlled Amortisation Instalment to enable it to repay the Class A Term Advance to the Issuer so that the corresponding Series of Class A Notes of the Issuer will be redeemed in its entirety or, as applicable, in the amounts specified as being Controlled Amortisation Instalments, on their respective Scheduled Redemption Dates. See *Investment Considerations – The yield to maturity of your Notes may be adversely affected by prepayments or redemptions on the Loans and Investment Considerations – The Issuer’s ability to redeem the Class A Notes on their Scheduled Redemption Dates may be affected by the rate of prepayment on the Loans.***

Details of the Class A Notes, their Final Maturity Dates and their Scheduled Redemption Dates are set out in *The Supplement – Transaction Features – The Notes* and information relating to the Cash Accumulation Advances made by the Issuer and any Other Issuers is set out in *The Supplement – Transaction Features – Table B*. If Funding 2 or Funding 3 issues Bullet Term Advances or Controlled Amortisation Instalments, brief details of the amounts and Scheduled Repayment Dates thereof will be available to Noteholders in the next applicable Investor Report.

**Optional redemption:**

On any Note Payment Date, the Issuer may, in accordance with Condition 7.3 of the Notes, redeem all (but not some only) of the Notes at their Principal Amount Outstanding in any of the following circumstances:

- (i) on the Step-Up Date and on any Note Payment Date thereafter;
- or

- (ii) on any Note Payment Date on which the aggregate Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date.

**Optional redemption for tax and other reasons:**

On any Note Payment Date, the Issuer may, in accordance with Condition 7.4 of the Notes, redeem all (but not some only) of the Notes at their Principal Amount Outstanding in any of the following circumstances:

- (i) in the event that any amount for or on account of tax will be required to be deducted or withheld from any payment due from the Issuer under the Notes or from Funding 1 under the Intercompany Loan (which deduction or withholding cannot be avoided by the Issuer or Funding 1, as the case may be, taking reasonable measures available to it (including, where appropriate, the substitution of the Issuer with a company incorporated in another jurisdiction)); or
- (ii) by reason of a change in law it has become unlawful for the Issuer to make, fund or allow to remain outstanding the Term Advances or any Term Advances to be made under the Intercompany Loan Agreement.

**Redemption or purchase following a Regulatory Event:**

The Issuer may on any Note Payment Date within the 12 month period after the later of: (i) the date the New Basel Capital Accord (as described in the new framework for the Accord published on 26th June, 2004) has been implemented in the United Kingdom, whether by rule of law, recommendation of best practice or by any other regulation, or (ii) the Note Payment Date falling in March 2009 redeem or purchase all (but not some only) of the Notes at the Specified Amount (as defined in Condition 7.6(e) of the Notes) in accordance with Condition 7.6 of the Notes, provided that (among other things) a Note Acceleration Notice has not been served on the Issuer and each Rating Agency has confirmed that its then current ratings of the remaining Notes or Programme Notes of Programme Issuers then outstanding would not be withdrawn, qualified or downgraded as a result of such redemption or repurchase.

**Termination of Issuer Swaps following redemptions:**

Any Notes that are redeemed or purchased at the option of the Issuer in any of the above circumstances will result in the early termination of the Issuer Swaps. The Issuer may, following such early termination, be obliged to make a termination payment to the relevant Issuer Swap Providers. See further *The Supplement – Terms and Conditions of the Notes* and – *The Issuer Swap Agreements*.

**Security granted by the Issuer:**

To secure the Issuer's obligations to the Noteholders and to the other Issuer Secured Creditors, the Issuer will grant security over all of its assets in favour of the Issuer Security Trustee. The Issuer Secured Creditors will be the Noteholders, the Issuer Security Trustee, the Note Trustee, the Agent Bank, the Issuer Cash Manager, the Issuer Account Bank, the Paying Agents, the Issuer Swap Providers, the Transfer Agent, the Registrar and the Issuer Corporate Services Provider. The Issuer Security Trustee will hold that security for the benefit of the Issuer Secured Creditors, including the Note Trustee. This means that the Issuer's obligations to its other Issuer Secured Creditors will be secured over the same assets that secure its obligations under the Notes. Except in very limited circumstances, only the Issuer Security Trustee will be entitled to enforce the Issuer Security. See further *Summary of the Transaction Documents – Issuer Deed of Charge* for more information on the Issuer Security and *The Supplement – Cashflows of the Issuer* for more information on the priority of payments following enforcement of the Issuer Security.

**The Issuer Swaps:**

To enable the Issuer to make payments on the Note Payment Dates in respect of each of the Dollar Notes, the Issuer will enter into the Issuer Dollar Currency Swap Agreements with the Issuer Dollar Currency Swap Provider. Under the Issuer Dollar Currency Swap Agreements, the Issuer will pay to the Issuer Dollar Currency Swap Provider the sterling amounts received on the Term Advances corresponding to each of the Dollar Notes and the Issuer Dollar Currency Swap Provider will pay to the Issuer amounts in US dollars that are equal to the amounts to be paid on the Dollar Notes.

To enable the Issuer to make payments on the Note Payment Dates in respect of the Euro Notes, the Issuer will enter into the Issuer Euro Currency Swap Agreements with the Issuer Euro Currency Swap Providers. Under the Issuer Euro Currency Swap Agreements, the Issuer will pay to the Issuer Euro Currency Swap Providers the sterling amounts received on the Term Advances corresponding to each of the Euro Notes and the Issuer Euro Currency Swap Providers will pay to the Issuer amounts in Euro that are equal to the amounts to be paid on the Euro Notes.

Details regarding the Issuer Currency Swap Providers and the Issuer Currency Swap Agreements are set out in *The Supplement – The Issuer Swap Providers* and – *The Issuer Swap Agreements*.

**Post-Enforcement Call Option Agreement:**

See *Summary of the Transaction Documents – Post-Enforcement Call Option Agreement* regarding the terms on which the Post-Enforcement Call Option Holder will agree to acquire the Notes (other than the Class A Notes) of any Series following the enforcement of the Issuer Security granted pursuant to the Issuer Deed of Charge.

**Rating of the Notes:**

See *The Supplement – Key Characteristics of the Notes* in relation to the ratings that are expected to be assigned to the Notes.

**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 judgement, circumstances in the future so warrant.**

**Withholding tax:**

Payments of interest and principal with respect to the Notes will be subject to any applicable withholding taxes and the Issuer will not be obliged to pay additional amounts in relation to the Notes. The applicability of any UK withholding tax is discussed under *United Kingdom Taxation*.

**Other tax considerations:**

Other tax considerations are set out under *United Kingdom Taxation*, *Jersey Taxation* and *United States Federal Income Taxation*.

**ERISA considerations:**

ERISA considerations are set out under *United States ERISA Considerations*.

**Selling restrictions:**

There are restrictions on the sale of the Notes and on the distribution of information in respect thereof. See *Subscription and Sale* and *Transfer Restrictions and Investor Representations*.

**5. The Term Advances****Summary of the Term Advances:**

See *The Supplement – Transaction Features – The Term Advances* and – *Table A* for information relating to the Term Advances including the principal amounts, rates of interest and Term Advance Ratings applicable to the Term Advances.

**Rating of the Term Advances:**

The Term Advance Rating for the Class A Term Advances will reflect the rating expected to be assigned to the Class A Notes by the Rating Agencies on the Closing Date. The Term Advance Rating for the Class B Term Advances will reflect the rating expected to be assigned to the Class B Notes by the Rating Agencies on the Closing Date. The

Term Advance Rating for the Class C Term Advances will reflect the rating expected to be assigned to the Class C Notes by the Rating Agencies on the Closing Date. The Term Advance Rating for the Class D Term Advances will reflect the rating expected to be assigned to the Class D Notes by the Rating Agencies on the Closing Date. As described below under – *Other Issuers*, Other Issuers may issue Other Notes and these may include Class M Notes and/or Class E Notes, the proceeds of which will be used by New Issuers to make corresponding Class M Term Advances and/or Class E Term Advances to Funding 1. Any such Class M Term Advances related Term Advance Rating will reflect the rating expected to be assigned to the Class M Notes of the New Issuer by the Rating Agencies on the relevant Closing Date. Any Class E Term Advances will not reflect any rating as the corresponding Class E Notes will be unrated.

**Use of proceeds:**

Funding 1 will apply an amount equal to the gross proceeds of the Term Advances for the purposes more fully described in *The Supplement – Transaction Features – The Term Advances – Use of Proceeds*.

**Payment of the Term Advances:**

Funding 1 will repay the Intercompany Loans and Other Intercompany Loans primarily from payments received from the Funding 1 Share of the Trust Property. Payments of interest on the Term Advances will be made from Funding 1 Available Revenue Receipts and payments of principal on the Term Advances will be made from Funding 1 Available Principal Receipts, in accordance with the relevant priority of payments set out in *Cashflows of Funding 1*. In certain circumstances, Funding 1 Principal Receipts will also be applied to pay interest on the Term Advances.

Prior to the occurrence of a Trigger Event or the service of an Intercompany Loan Acceleration Notice on Funding 1 or the service of a Note Acceleration Notice on each and every Programme Issuer, Funding 1 is generally required to repay principal on the Term Advances (after repaying amounts owed to the Liquidity Facility Provider, if any, and after replenishing the General Reserve Fund, if required) based on their respective Term Advance Ratings. This means that the Programme Term Advances with a higher Term Advance Rating will be repaid before Programme Term Advances with a lower Term Advance Rating. There are a number of exceptions to this priority of payments, as more fully described in the Rules set out in *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules*. In particular, it should be noted that although the Term Advances of the Issuer may have the same Term Advance Ratings as Other Term Advances, principal payments may be made earlier on Other Term Advances if their Scheduled Repayment Dates and Final Maturity Dates fall earlier or they otherwise become due and payable earlier.

Details of the expected principal payment profile of the Term Advances are set out in *The Supplement – Transaction Features – The Term Advances – Payment of the Term Advances*.

During the Cash Accumulation Period for any Programme Bullet Term Advance or Programme Controlled Amortisation Instalment, no amount will be paid on any Programme Term Advances (other than the Programme Class A Term Advances that are due and payable).

Whether Funding 1 will have sufficient funds to repay a Programme Term Advance on the applicable dates will depend on a number of factors (see *Investment Considerations – The yield to maturity of your Notes may be adversely affected by prepayments or redemptions on the*

*Loans and Investment Considerations – The Issuer’s ability to redeem the Class A Notes on their Scheduled Redemption Dates may be affected by the rate of prepayment on the Loans).*

*Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules sets out Rules as to repayment of principal on the Programme Term Advances depending on certain circumstances. In certain circumstances, repayment of the Programme Term Advances (including Programme Controlled Amortisation Instalments) will be deferred. Circumstances that affect payment on the Programme Term Advances include if:*

- there is a debit balance on certain Principal Deficiency Sub-Ledgers after application of Funding 1 Available Revenue Receipts on a Funding 1 Payment Date;
- the Adjusted General Reserve Fund Level is less than the General Reserve Fund Threshold;
- the percentage of Loans in the Portfolio in respect of which three or more Monthly Payments have been missed is more than 5 per cent. of the aggregate Current Balance of Loans in the Portfolio;
- the CPR is below certain thresholds prior to the Step-Up Date;
- the Step-Up Date occurs; and/or
- a Note Acceleration Notice is served on one or more (but not all) of the Programme Issuers.

The circumstances in which the Issuer can take action against Funding 1 if it does not make a repayment under the Intercompany Loan are limited, as further described in *Summary of the Transaction Documents – Intercompany Loan Agreement*.

**Security granted by Funding 1:**

To secure its obligations to the Issuer under the Intercompany Loan Agreement and to the other Funding 1 Secured Creditors, Funding 1 will, on the Set-Up Date, enter into a Funding 1 Deed of Charge with the Security Trustee, the Issuer and the other Funding 1 Secured Creditors.

Pursuant to the terms of the Funding 1 Deed of Charge, Funding 1 will grant security over all of its assets in favour of the Security Trustee. The Security Trustee will hold that security for the benefit of the Funding 1 Secured Creditors. This means that Funding 1’s obligations to the Issuer under the Intercompany Loan Agreement and to the other Funding 1 Secured Creditors will be secured over the same assets. Except in very limited circumstances, only the Security Trustee will be entitled to enforce the Funding 1 Security. See further *Summary of the Transaction Documents – Funding 1 Deed of Charge* for more information on the Funding 1 Security and *Cashflows of Funding 1* for more information on the priority of payments following enforcement of the Funding 1 Security.

**Funding 1 Swap:**

Borrowers will make payments under the Loans in sterling. Some of the Loans in the Portfolio carry variable rates of interest and some of the Loans pay interest at a fixed rate of interest. These interest rates do not necessarily match the floating rate of interest payable on the Intercompany Loan. On the Set-Up Date, Funding 1 will enter into a swap documented under the Funding 1 Swap Agreement to hedge against these potential interest rate mismatches as further described in *Summary of the Transaction Documents – Funding 1 Swap Agreement*.

**Liquidity Facility:**

On the Set-Up Date, Funding 1 will enter into the Liquidity Facility Agreement with the Liquidity Facility Provider and the Security Trustee, pursuant to which the Liquidity Facility Provider will agree

to make available to Funding 1 the Liquidity Facility to make eligible payments on the Term Advances and to pay certain Senior Expenses in certain circumstances, as further described in *Credit Structure – Liquidity Facility*.

## 6. Other Issuers:

The Programme is structured to allow for Other Issuers, each of which will be a wholly-owned subsidiary of Holdings, to issue Other Notes and on-lend all or part of the equivalent gross issue proceeds by way of Other Intercompany Loans to Funding 1. Noteholders will be informed of any New Issuers and New Intercompany Loans in the next Investor Report available after the date of such issue. *The Supplement* contains details of any Previous Issuers, Previous Intercompany Loans and Previous Notes, if any.

Funding 1's obligations under any Other Intercompany Loans will be secured by the same security that secures the Intercompany Loan of the Issuer. If New Issuers are established to issue New Notes to Noteholders, one of the conditions precedent to that issue is that the ratings of the Notes will not be downgraded, withdrawn or qualified by the Rating Agencies as a result of that issue; however, your consent will not be required for the establishment of New Issuers and the related transactions, nor will you have any right of review in respect thereof. Funding 1 will use the proceeds of Other Intercompany Loans for the purposes more fully described in *Summary of the Transaction Documents – Intercompany Loan Agreement – Other Intercompany Loan Agreements*.

All Programme Notes issued from time to time by any Programme Issuer will be secured ultimately over the Funding 1 Share of the Trust Property and will be subject to the ranking described in the following paragraphs.

Funding 1 will apply amounts it receives from its share in the Trust Property to pay amounts it owes under the Programme Term Advances without distinguishing when the interest in the Trust Property was acquired or when the Programme Term Advances were made. Funding 1's obligations to pay interest and principal to the Programme Issuers on their respective Programme Term Advances will rank either equally with, ahead of or after each other, primarily depending on the relative Term Advance Rating of each Programme Term Advance. See above – *Payment of the Term Advances*.

As Funding 1 enters into Other Intercompany Loan Agreements, it will also, if required, enter into Other Funding 1 Swaps with either the Funding 1 Swap Provider or a different Funding 1 swap provider in order to address the potential mismatch between the variable rates or fixed rates paid by Borrowers on the Loans and the LIBOR-based rate of interest paid by Funding 1 on the Other Intercompany Loan. Each Other Funding 1 Swap and the Funding 1 Swap will rank without any order of priority between themselves, but in proportion to the amounts due and, in each case, ahead of payments on the Class A Term Advances, as described further in *Summary of the Transaction Documents – Funding 1 Swap Agreement*.

As Funding 1 enters into Other Intercompany Loan Agreements, it will, if required, simultaneously enter into Other Start-Up Loan Agreements with the Start-Up Loan Provider or Other Start-Up Loan Providers, which will provide for the costs and expenses of the issue of the Other Notes and, if required by the Rating Agencies in order to support the Rating of the Programme Notes, for extra amounts to be credited to the General Reserve Fund or, as applicable, Additional Reserve Funds.

In addition, as regards liquidity facilities in respect of Other Term Advances, Funding 1 will, if required, either increase the amount of the Liquidity Facility with the Liquidity Facility Provider or will enter into a New Liquidity Facility Agreement with a New Liquidity Facility Provider, as described further under *Credit Structure – Other Liquidity Facilities*.

Pursuant to its obligations under the listing rules of the UK Listing Authority, if an Other Issuer is established to issue Other Notes, then the Issuer will notify or procure that notice is given of that Other Issuer to you.

## **7. The Portfolio:**

The Portfolio will comprise the Loans and their Related Security sold by the Seller to the Mortgages Trustee from time to time pursuant to the Mortgage Sale Agreement. As at the Closing Date, the Loans in the Portfolio will consist of the Initial Loans secured over residential properties in England, Wales, Scotland and Northern Ireland which are subject to variable or fixed rates of interest and which entitle Borrowers to make flexible payments through the Choices facility. For a description of the characteristics of the Loans which will on the Closing Date and may in the future form part of the Portfolio from time to time see *The Loans* and for statistical information relating to Loans forming part of the Provisional Portfolio as at the Closing Date, see *The Supplement – Characteristics of the Provisional Portfolio*.

Following the Closing Date, the Portfolio may also include New Loans sold by the Seller to the Mortgages Trustee on Sale Dates in connection, *inter alia*, with New Notes issued by Other Issuers or with any debt raised by Funding 2 or Funding 3 in accordance with the terms of the Mortgage Sale Agreement. These New Loans may include Loans with characteristics not included in the Provisional Portfolio or New Loan Types. The sale of New Loans to the Mortgages Trustee will increase the total size of the Trust Property. Depending on the circumstances, the increase in the Trust Property may result in an increase in the Seller Share, the Funding 1 Share, the Funding 2 Share or the Funding 3 Share of the Trust Property.

References to a sale of Loans and their Related Security in this document will include references to the sale by the Seller of New Loans and their Related Security to the Mortgages Trustee pursuant to the Mortgage Sale Agreement.

The Mortgages Trustee will fund the Initial Purchase Price and the Deferred Purchase Price payable to the Seller in consideration for the Loans and their Related Security sold to the Mortgages Trustee from time to time pursuant to the Mortgage Sale Agreement from Initial Contributions and Deferred Contributions made by Funding 1 or, as applicable, any other Funding Company under the terms of the Mortgages Trust Deed.

Under the terms of the Mortgage Sale Agreement, the sale of Loans and their Related Security will be subject to certain conditions precedent and the Seller will provide the Mortgages Trustee with certain representations and warranties in respect of such Loans. The Seller will be required to repurchase Loans in certain circumstances and will be responsible for funding future drawings in respect of Loans with flexible features. In addition, if Loans become the subject of a Product Switch or an Extension Advance, these Loans must comply with certain criteria as of a specified date in order for the Loans to remain in the Portfolio. For a more detailed description of the terms of the Mortgage Sale Agreement in *Summary of the Transaction Documents – Mortgage Sale Agreement*.

The Servicer will service the Loans in the Portfolio under the terms of the Servicing Agreement, as more fully described under *Summary of the Transaction Documents – Servicing Agreement*.

## 8. The Trust Property:

Pursuant to the terms of the Mortgages Trust Deed, the Mortgages Trustee will hold the Portfolio and other Trust Property on bare trust for the Beneficiaries. Each Beneficiary has a joint and undivided interest in the Trust Property. The Trust Property includes the Portfolio and amounts derived from the Loans in the Portfolio, increases in the Current Balance of the Loans in certain circumstances, Contributions made by the Beneficiaries and amounts on deposit in the Mortgages Trustee GIC Account, as more fully described in *Summary of the Transaction Documents – Mortgages Trust Deed – The Trust Property*.

On each monthly Distribution Date, the Cash Manager will distribute capital and income generated by the Trust Property to the Beneficiaries according to their respective shares of the Trust Property and according to the Mortgages Trust Revenue Priority of Payments and the Mortgages Trust Principal Priority of Payments more fully described in *Cash Management of Trust Property – Revenue Receipts and Cash Management of Trust Property – Principal Receipts* in the section entitled *Summary of the Transaction Documents – Mortgages Trust Deed*. It is expected that the distribution of funds from the Mortgages Trust to Funding 1 in accordance with the Mortgages Trust Deed will enable Funding 1 to meet its obligations under the Programme Term Advances and the other transactions forming part of the Programme.

Each Beneficiary's share of the Trust Property as at the Closing Date is set out in *The Supplement – Transaction Features – The Mortgages Trust*; however, such shares will fluctuate depending on a number of factors, including, *inter alia*, the sale of New Loans, the making of Contributions by Beneficiaries to the Mortgages Trustee, the Mortgages Trustee making Distributions, Borrowers exercising certain rights in respect of their Loans (for instance, making Cash Withdrawals or Underpayments or taking a Payment Holiday or making a further drawing) or the Seller making Extension Advances to a Borrower. In addition, the size of the Trust Property will be adjusted and the Current Balance of the Loans in the Trust Property will be reduced or increased depending on certain circumstances. The Cash Manager is therefore required to recalculate each Beneficiary's share of the Trust Property on, as applicable, Trust Calculation Dates, Sale Dates and Further Contribution Dates, as more fully described in *Summary of the Transaction Documents – Mortgages Trust Deed – Fluctuation of Shares in the Trust Property, – Adjustments to the Trust Property and – Additions to and reductions from the Trust Property*.

The Seller Share of the Trust Property includes an amount called the Minimum Seller Share, calculated in the manner described in *Summary of the Transaction Documents – Mortgages Trust Deed – Minimum Seller Share*. The Minimum Seller Share as at the Closing Date is set out in *The Supplement – Transaction Features – The Mortgages Trust*.

Under the terms of the Mortgages Trust Deed, a Beneficiary may make Contributions to the Mortgages Trustee which will increase (except in the case of Deferred Contributions made by any Funding Company) that Beneficiary's share of the Trust Property, as more fully described in *Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trustee*.

## INVESTMENT CONSIDERATIONS

*The following is a summary of certain investment considerations of which prospective Noteholders should be aware. This summary is not intended to be exhaustive, and prospective Noteholders should also read the detailed information set out elsewhere in this document prior to making an investment decision. Additional investment considerations relating specifically to certain transactions of the Issuer are set out in The Supplement – Additional Investment Considerations.*

### **You cannot rely on any person other than the Issuer to make payments on the Notes**

The Notes will not represent an obligation or be the responsibility of Bradford & Bingley or any of its affiliates, including Mortgage Express, the Managers, the Mortgages Trustee, the Note Trustee, the Issuer Security Trustee, the Security Trustee or any other party to the transaction other than the Issuer.

### **The Issuer has limited resources available to it to make payments on the Notes**

The Issuer's ability to make payments of principal and interest on the Notes and to pay its operating and administrative expenses will depend primarily on the payments being received by it under the Intercompany Loan. In addition, the Issuer will rely on the Issuer Swaps to provide payments on the Notes which are not denominated in sterling (or Notes, if any, which carry a fixed rate of interest).

Funding 1 will enter into the Liquidity Facility which will be available (subject to satisfying certain conditions precedent) to pay certain amounts due and payable on the Term Advances made by the Issuer. Funding 1 may, with the consent of the Liquidity Facility Provider, amend the Liquidity Facility Agreement or enter into Other Liquidity Facilities from time to time in respect of its obligations under Other Term Advances.

Unless an Additional Reserve Fund is established by Funding 1 for the Issuer (as set out, if applicable, in *The Supplement – Transaction Features – Credit Structure*), the Issuer will not have any other significant sources of funds available to meet its obligations under the Notes and/or any other payments ranking in priority to the Notes.

### **Funding 1 is not obliged to make payments on the Term Advances if it does not have enough money to do so, which could adversely affect payments on your Notes**

Funding 1's ability to pay amounts payable on the Programme Term Advances (including the Term Advances) will depend upon:

- Funding 1 receiving enough funds from its share in the Trust Property on or before each Funding 1 Payment Date;
- Funding 1 receiving the required funds from the Funding 1 Swap Provider;
- Funding 1 receiving any amounts from the Liquidity Facility Provider;
- the amount of funds credited to the General Reserve Fund (as described in *Credit Structure – General Reserve Fund*);
- any amount of funds credited to Additional Reserve Funds, if any (as described in *Credit Structure – Additional Reserve Funds* and, if applicable, in *The Supplement – Transaction Features – Credit Structure*); and
- the allocation of funds between Other Term Advances provided by any of the Other Issuers (as described in *Cashflows of Funding 1*).

According to the terms of the Mortgages Trust Deed, the Mortgages Trustee is obliged to pay to Funding 1 the Funding 1 Share Percentage of Revenue Receipts by crediting those amounts to the Funding 1 GIC Account on each Distribution Date. The Mortgages Trustee is obliged to pay to Funding 1 the Funding 1 Share Percentage of Principal Receipts on the Loans by crediting those amounts to the Funding 1 GIC Account as and when required pursuant to the terms of the Mortgages Trust Deed.

Funding 1 will be obliged to pay amounts due and payable to the Programme Issuers under the Programme Intercompany Loans only to the extent that it has moneys for such purposes after making higher ranking payments. See *Cashflows of Funding 1 – Distribution of Funding 1 Available Revenue Receipts* and *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts*.

If there is a shortfall between the amounts payable by Funding 1 to the Issuer under the Intercompany Loan Agreement and the amounts payable by the Issuer on the Notes, you may not, depending on what other sources of funds are available to the Issuer and to Funding 1, receive the full amount of interest and/or principal and/or other amounts which would otherwise be payable on your Notes.

**Failure by Funding 1 to meet its obligations under the Intercompany Loan Agreement would adversely affect the ability of the Issuer to make payments on your Notes**

If on any Funding 1 Payment Date (including the Final Repayment Date) of any Programme Intercompany Loan, there would not be sufficient Funding 1 Available Revenue Receipts to satisfy in full the aggregate amount of interest (including interest on unpaid interest) due on any Term Advance, there shall instead be payable on such Funding 1 Payment Date, by way of interest (including interest on unpaid interest) on each affected Term Advance, only a *pro rata* share of the Funding 1 Available Revenue Receipts.

If on any Funding 1 Payment Date (including the Final Repayment Date) of any Programme Intercompany Loan, there would not be sufficient Funding 1 Available Principal Receipts to satisfy in full the aggregate amount of principal due on any Term Advance, there shall instead be payable on such Funding 1 Payment Date, by way of principal on each affected Term Advance, only a *pro rata* share of the Funding 1 Available Principal Receipts.

Any shortfall in the payment of interest, principal and other amounts under the Funding Intercompany Loan shall be payable on the next Funding 1 Payment Date that Funding 1 has moneys for that purpose (subject to the terms of the Funding 1 Deed of Charge). Any shortfall in interest payable by Funding 1 on a Term Advance shall itself accrue interest at the same rate as that payable on the applicable Term Advance.

No Intercompany Loan Event of Default shall occur as a result of a failure by Funding 1 to pay interest and/or principal due and payable on a Programme Intercompany Loan on any date if Funding 1 does not have sufficient moneys for that purpose. If there is a shortfall in interest and/or principal payments on a Programme Intercompany Loan, you may not receive the full amount of interest and/or principal and/or other amounts which would otherwise have been due and payable on the applicable Notes outstanding. Accordingly, there may be a Note Event of Default with no corresponding Intercompany Loan Event of Default.

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

The only remedy for recovering amounts on the Notes is through the enforcement of the Issuer Security. The Issuer does not have any recourse to the assets of Funding 1 unless Funding 1 has also defaulted on its obligations under the Intercompany Loan and the Funding 1 Security has been enforced.

If the security created as required by the Issuer Deed of Charge is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest and/or other amounts due on your Notes.

**The Security Trustee, the Issuer Security Trustee and/or the Note Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests**

Pursuant to the terms of the Funding 1 Deed of Charge, the Issuer Deed of Charge and the Note Trust Deed, the Security Trustee, the Issuer Security Trustee and/or the Note Trustee may, without the consent or sanction of the Funding 1 Secured Creditors, the Issuer Secured Creditors and/or the Noteholders, concur with any person in making or sanctioning any modifications to the Transaction Documents:

- which in the opinion of the Security Trustee and/or the Issuer Security Trustee are not materially prejudicial to the interests of the Funding 1 Secured Creditors or the Issuer Secured Creditors respectively in which respect the Security Trustee or, as the case may be, the Issuer Security Trustee may (without further enquiry) rely upon the consent in writing of any Funding 1 Secured Creditor or Issuer Secured Creditor (other than Noteholders) respectively as to the absence of material prejudice to the interests of such Funding 1 Secured Creditor or Issuer Secured Creditor (as the case may be); or, if the Security Trustee or Issuer Security Trustee is

not of the opinion in relation to any such Funding 1 Secured Creditor or Issuer Secured Creditor or any such Funding 1 Secured Creditor or Issuer Secured Creditor (other than Noteholders) acting reasonably, as the case may be, has informed the Security Trustee or, as the case may be, the Issuer Security Trustee in writing that such modification will be materially prejudicial to its interests, such Funding 1 Secured Creditor or Issuer Secured Creditor, respectively has given its written consent to such modification; provided in all cases that the Security Trustee or Issuer Security Trustee has not been informed in writing by any Funding 1 Secured Creditor or Issuer Secured Creditor (other than Noteholders) respectively acting reasonably that such Funding 1 Secured Creditor or, as the case may be, Issuer Secured Creditor will be materially prejudiced thereby (other than a Funding 1 Secured Creditor or, as the case may be, Issuer Secured Creditor who has given its written consent as aforesaid), and/or in the opinion of the Note Trustee such modification will not be materially prejudicial to the interests of the Noteholders or, if it is not of that opinion, the Noteholders have sanctioned such modification by way of an Extraordinary Resolution; or

- which in the opinion of the Security Trustee, the Issuer Security Trustee and/or the Note Trustee is made to correct a manifest error or an error which is, in the opinion of the Security Trustee, the Issuer Security Trustee and/or the Note Trustee, proven or is of a formal, minor or technical nature.

In determining whether a modification to a Transaction Document is materially prejudicial to the interests of the Funding 1 Secured Creditors, the Issuer Secured Creditors or the Noteholders, the Security Trustee, the Issuer Security Trustee and/or the Note Trustee (as applicable) will have regard to confirmations from each of the Rating Agencies that the then current ratings of the Programme Notes would not be downgraded, withdrawn or qualified and any other confirmation which it considers, in its sole and absolute discretion, is necessary and/or appropriate.

In addition, the Security Trustee will give its consent to any modifications to the Transaction Documents that are requested by Funding 1 or the Cash Manager, provided that Funding 1 or the Cash Manager certifies to the Security Trustee in writing that such modifications are required in order to accommodate:

- (i) the entry by Funding 1 into Other Intercompany Loan Agreements, and/or the issue of new types of Notes by New Issuers, and/or the addition of other relevant creditors to the transaction;
- (ii) an increase in the Funding 2 Share and/or the Funding 3 Share of the Trust Property above a nominal amount;
- (iii) the issue of debt by Funding 2 or Funding 3;
- (iv) the sale of New Loan Types to the Mortgages Trustee;
- (v) changes to be made to the General Reserve Fund Required Amount, the manner in which the General Reserve Fund is funded, the establishment of Additional Reserve Funds and/or the manner in which the Additional Reserve Funds are funded;
- (vi) changes to be made to the definitions of Asset Trigger Event and Non-Asset Trigger Event; and
- (vii) the inclusion of an Additional Liquidity Facility Agreement in the circumstances described in *Credit Structure – Additional Liquidity Facility*,

and provided further that:

- in respect of the matters listed in paragraphs (i) to (iv), the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (vii), the Security Trustee has previously received written confirmation from each of the Rating Agencies that as a result of the relevant modifications the then current ratings of the Programme Notes will not be downgraded, withdrawn or qualified.

The modifications required to give effect to the matters listed in paragraphs (i) to (vii) above may include, among other matters, amendments to the provisions of the Mortgages Trust Deed and the Funding 1 Deed of Charge relating to the allocation of and entitlement to monies. There can be no assurance that the effect of the modifications to the Transaction Documents will not ultimately adversely affect your interests. Any modifications to the documents described above will require the actual consent of the Liquidity Facility Provider and each of the Issuer Swap Providers (in respect only of amendments to any document to which they are a party), as applicable, such consent not to

be unreasonably withheld and to be deemed given if no written response (affirmative or negative) is given within ten Business Days after the written request for consent is sent to each such party.

**It is expected that the Series 1 Class A Notes will be redeemed before the Series 2 Notes, and so on**

It is expected that, in respect of the Notes issued by the Issuer:

- the Series 1 Class A Notes will be redeemed in full prior to the redemption of the Series 2 Notes and the Series 3 Notes; and
- the Series 2 Notes will be redeemed in full prior to the redemption of the Series 3 Notes.

This means, among other things, that the Series 2 Class B Notes and the Series 2 Class C Notes are expected to be redeemed before the Series 3 Class A Notes, even though the Series 3 Class A Notes have a higher rating than the Series 2 Class B Notes and the Series 2 Class C Notes.

However, there can be no assurance that the Series 1 Class A Notes will be redeemed in full before the Series 2 Notes and the Series 3 Notes or that the Series 2 Notes will be redeemed in full before the Series 3 Notes. In each case, redemption of the Notes ultimately depends on, among other things, repayment and redemptions on the Loans and whether the relevant Class of Notes is then due and payable. In particular, if on any Note Payment Date amounts are due and payable in respect of the Class A Notes of any Series and amounts are due and payable in respect of the Class B Notes of any Series, the Class C Notes of any Series and/or the Class D Notes of the Issuer, then payments of principal will be made on the Class A Notes in priority to payments of principal on the Class B Notes, the Class C Notes and the Class D Notes. Similarly, if on any Note Payment Date, amounts are payable in respect of the Class B Notes of any Series of the Issuer, the Class C Notes of any Series and the Class D Notes of the Issuer, then payments of principal will be made on the Class B Notes in priority to payments of principal on the Class C Notes and the Class D Notes. Similarly, if on any Note Payment Date, amounts are payable in respect of the Class C Notes of any Series of the Issuer, then payments of principal will be made on the Class C Notes in priority to payments of principal on the Class D Notes. There can be no assurance that these subordination rules will protect the holders of any Class of Notes from all risk of loss. See *The Supplement – Maturity and Prepayment Considerations in relation to the Notes*.

**There may be conflicts between your interests and the interests of any of the other Issuer Secured Creditors and the interests of the other Issuer Secured Creditors may prevail over your interests**

The Issuer Deed of Charge requires the Issuer Security Trustee to consider the interests of each of the Issuer Secured Creditors in the exercise of all of its powers, trusts, authorities, duties and discretions, but requires the Issuer Security Trustee, in the event of a conflict between your interests and the interests of any of the other Issuer Secured Creditors, to consider only your interests. In certain circumstances, the Issuer Security Trustee can make amendments to the documents without your prior consent, as described in – *The Security Trustee and/or the Issuer Security Trustee and/or the Note Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests*.

**There may be a conflict between the interests of the holders of Class A Notes, the holders of Class B Notes, the holders of Class C Notes, and the holders of the Class D Notes, and the interests of other classes of Noteholders may prevail over your interests**

The Note Trust Deed and the Conditions of the Notes will provide that the Note Trustee is to have regard to the interests of the holders of all the classes of Notes. There may be circumstances, however, where the interests of one class of the Noteholders conflicts with the interests of another class or classes of the Noteholders. The Note Trust Deed will provide that where, in the sole opinion of the Note Trustee, there is such a conflict, then:

- the Note Trustee is to have regard only to the interests of the Class A Noteholders in the event of a conflict between the interests of the Class A Noteholders on the one hand and the Class B Noteholders, the Class C Noteholders and/or the Class D Noteholders on the other hand;
- the Note Trustee is to have regard only to the interests of the Class B Noteholders in the event of a conflict between the interests of the Class B Noteholders on the one hand and the Class C Noteholders and/or the Class D Noteholders on the other hand; and
- the Note Trustee is to have regard only to the interests of the Class C Noteholders in the event of a conflict between the interests of the Class C Noteholders on the one hand and the Class D Noteholders on the other hand.

**There may be a conflict between the interests of the holders of each Series of the Class A Notes, the holders of each Series of the Class B Notes and the holders of each Series of the Class C Notes, and the interests of other Series of Noteholders may prevail over your interests**

There may also be circumstances where the interests of the Class A Noteholders of one Series of the Notes conflict with the interests of the Class A Noteholders of another Series of the Notes. Similarly, there may be circumstances where the interests of the Class B Noteholders of one Series of the Notes conflict with the interests of the Class B Noteholders of another Series of the Notes or the interests of the Class C Noteholders of one Series of the Notes conflict with the interests of the Class C Noteholders of another Series of the Notes.

The Note Trust Deed and the terms of the Notes will provide that where, in the sole opinion of the Note Trustee, there is such a conflict, then a resolution directing the Note Trustee to take any action must be passed at separate meetings of the holders of each Series of the Class A Notes, or, as applicable, each Series of the Class B Notes or each Series of the Class C Notes. A resolution may only be passed at a single meeting of the Noteholders of each Series of the relevant class if the Note Trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions will apply in relation to requests in writing from holders of a specified percentage of the Principal Amount Outstanding of the Notes of each class within each Series (the Principal Amount Outstanding being converted into sterling for the purposes of making the calculation). You should note that, as a result of repayments of principal first to the Series 1 Class A Notes, then to the Series 2 Notes and then to the Series 3 Notes of the Issuer, the Principal Amount Outstanding of each Series of the Notes of the Issuer will change after the Closing Date.

**There may be a conflict of interests between the Issuer and Other Issuers and the interests of the Other Issuers may prevail over the interests of the Issuer**

All Programme Issuers will share in the Funding 1 Security. The Security Trustee will exercise its rights under the Funding 1 Deed of Charge only in accordance with directions given by each of the Programme Issuer or Programme Issuers that has or have the highest ranking outstanding Programme Term Advances at that time (which may or may not include the Issuer), provided that the Security Trustee is indemnified and/or secured to its satisfaction.

If the Security Trustee receives conflicting directions, it will follow the directions given by the Programme Issuer whose Outstanding Principal Amount of its Programme Term Advance with the highest Term Advance Rating is the greatest. If the Issuer is not in the group representing such Programme Term Advance, then such Issuer's interests may not prevail. This could ultimately cause a reduction in the payments you receive on your Notes.

**Holdings has established other companies, Funding 2 and Funding 3, which are additional Beneficiaries under the Mortgages Trust**

Holdings has established separate entities, Funding 2 and Funding 3, which may raise debt from time to time and use the proceeds thereof to increase the Funding 2 Share or, as applicable, the Funding 3 Share of the Trust Property. However, any such increase will be subject to obtaining prior written confirmation from each of the Rating Agencies that the then current ratings of the Programme Notes outstanding at that time will not be withdrawn, downgraded or qualified as a result of Funding 2 or Funding 3 acquiring an interest in the Trust Property beyond the nominal interest they will acquire on the Set-Up Date.

As Beneficiaries, the Seller and the Funding Companies each have a joint and undivided interest in the Trust Property but their entitlement to the proceeds from the Trust Property is in proportion to their respective shares of the Trust Property. However, if either Funding 2 or Funding 3 has a Cash Accumulation Requirement at a time when Funding 1 has no Cash Accumulation Requirement, then Funding 2 and/or (as applicable) Funding 3 will receive Principal Receipts from the Mortgages Trustee in priority to Funding 1. In addition, if any Funding Company is in a Cash Accumulation Period this will affect the amount of Principal Receipts payable to Funding 1 and the ability of Funding 1 to repay the Programme Pass-Through Term Advances.

On each Distribution Date, the Mortgages Trustee will distribute Revenue Receipts and Principal Receipts to the Beneficiaries, subject to the terms of the Mortgages Trust Deed.

There may be conflicts of interest between each of the Funding Companies, in which case the Mortgages Trustee will, pursuant to the Controlling Beneficiary Deed, follow the directions given by the Funding Company that has the largest share of the Trust Property. The interests of Funding 2

and/or Funding 3 may therefore prevail over the interests of Funding 1, which may adversely affect your interests.

**Other Term Advances may rank ahead of the Term Advances as to payment, and accordingly Other Notes may rank ahead of the Notes as to payment**

It is likely that Holdings will establish Other Issuers to issue Other Notes to Other Noteholders. The proceeds of each Other Issue has been or, as applicable, will be used by the Other Issuer to make an Other Intercompany Loan to Funding 1. Funding 1 has or, as applicable, will use the proceeds of the Other Intercompany Loan to:

- pay to the Mortgages Trustee Funding 1's Initial Contribution for the Funding 1 Share in respect of any New Loans to be sold by the Seller to the Mortgages Trustee;
- pay to the Mortgages Trustee a Further Contribution to increase the Funding 1 Share of the Trust Property;
- further fund the General Reserve Fund or, if applicable, an Additional Reserve Fund; and/or
- refinance (in whole or in part) one or more of the existing Programme Intercompany Loans outstanding at that time (if the Intercompany Loan to Funding 1 is refinanced, you could be repaid early).

See *The Supplement – Previous Notes* for information regarding Previous Notes issued by Previous Issuers, if any.

Funding 1 will apply amounts it receives from its share of the Trust Property to pay interest and fees and repay principal on the then existing Programme Intercompany Loans, without regard to when the Programme Intercompany Loans were made.

The payment and security priorities of the Notes relative to each other as set out in the Issuer Deed of Charge and the Issuer Cash Management Agreement will not be affected as a result of the issue of Other Notes by any Other Issuer, because that other issue has been or, as applicable, will be separately documented. However, Funding 1 may be required to pay to Other Issuers amounts owing under Other Term Advances ahead of or *pari passu* with amounts owing to the Issuer on the Term Advances, depending on the Term Advance Rating, the Scheduled Repayment Dates of those Other Term Advances (in respect of principal) and other Rules regarding the payment of interest and the repayment of principal by Funding 1, as described in *Summary of Programme – Other Issuers*. If this is the case, then the Other Noteholders will be paid before you.

If Holdings establishes New Issuers to make New Intercompany Loans to Funding 1, you will not have any right of prior review or consent with respect to those New Intercompany Loans or the corresponding issuance by New Issuers of New Notes. Similarly, the terms of the Funding 1 Transaction Documents (including the Mortgage Sale Agreement, the Mortgages Trust Deed, the Cash Management Agreement, the Funding 1 Deed of Charge, the definitions of the Trigger Events and the criteria for the sale of New Loans to the Mortgages Trustee) may be amended to reflect the New Issue. Your consent to these changes will not be required or requested. There can be no assurance that these changes will not affect the cashflows available to pay amounts due on your Notes. See – *The Security Trustee and/or the Issuer Security Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests* above.

However, before issuing New Notes, a New Issuer will be required to satisfy a number of conditions, including:

- obtaining prior written confirmation from each of the Rating Agencies that the then current ratings of the Programme Notes outstanding at that time will not be withdrawn, downgraded or qualified as a result of the New Issue;
- providing written certification to the Security Trustee that no Intercompany Loan Event of Default under any of the Programme Intercompany Loan Agreements outstanding at that time has occurred which has not been remedied or waived and that no Intercompany Loan Event of Default under any of the Programme Intercompany Loan Agreements will occur as a result of the issue of the New Notes; and
- providing written certification to the Security Trustee that no principal deficiency is recorded on the Principal Deficiency Ledger in relation to the Programme Term Advances outstanding at that time.

**Other creditors will share in the same security granted by Funding 1 to the Security Trustee, and this may adversely affect payments on your Notes**

If Funding 1 enters into a New Intercompany Loan Agreement, then if required it will also enter into a New Start-Up Loan Agreement with the Start-Up Loan Provider or a New Start-Up Loan Provider and the Security Trustee.

If required by the Rating Agencies in order to support the Rating of the Programme Notes, Funding 1 will use part of the proceeds of the New Start-Up Loan to fund further the General Reserve Fund or, if applicable, Additional Reserve Funds. Similarly, if necessary, Funding 1 will also enter into a New Funding 1 Swap with either the Funding 1 Swap Provider or a New Funding 1 Swap Provider and the Security Trustee. Similarly, Funding 1 will, if required, amend the Liquidity Facility Agreement to increase the size of the Liquidity Facility (provided that the Liquidity Facility Provider consents thereto) or will enter into a New Liquidity Facility Agreement with a New Liquidity Facility Provider.

The New Issuer, any New Start-Up Loan Provider, any New Funding 1 Swap Provider and any New Liquidity Facility Provider will become party to the Funding 1 Deed of Charge pursuant to a Deed of Accession and will be entitled to share in the security granted by Funding 1 for each Programme Issuer's benefit (and the benefit of the other Funding 1 Secured Creditors) under the Funding 1 Deed of Charge. In addition, the liabilities owed to the Liquidity Facility Provider and the Funding 1 Swap Provider which are secured by the Funding 1 Deed of Charge may increase each time that Funding 1 enters into a New Intercompany Loan Agreement (if, for instance, the commitment amount of the Liquidity Facility increases). These factors could ultimately cause a reduction in the payments you receive on your Notes. Your consent to the requisite changes to the Transaction Documents will not be sought (see – *The Security Trustee and/or the Issuer Security Trustee and/or the Note Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests* above). There may be conflicts between the Issuer and any New Issuers, and the Issuer's interests may not prevail, which may adversely affect payments on the Notes.

**The yield to maturity of your Notes may be adversely affected by prepayments or redemptions on the Loans**

The yield to maturity of the Notes of each Class will be affected by the amount and timing of payment of principal on the Loans and the price paid by the Noteholders of each Class of Notes.

The yield to maturity of the Notes of each Class may be adversely affected by a higher or lower than anticipated rate of prepayments on the Loans. The factors affecting the rate of prepayment on the Loans are described in – *The Issuer's ability to redeem the Class A Notes on their Scheduled Redemption Dates may be affected by the rate of prepayment on the Loans* and – *The occurrence of Trigger Events and enforcement of the Issuer Security may adversely affect the Scheduled Redemption Dates of the Class A Notes*.

No assurance can be given that Funding 1 will accumulate sufficient funds during the Cash Accumulation Period relating to each Programme Bullet Term Advance and/or each Programme Controlled Amortisation Instalment to enable it to repay these Term Advances to the Programme Issuers (including the Issuer) so that the corresponding classes of Notes will be redeemed on their Scheduled Redemption Dates. During the Cash Accumulation Period for the relevant Programme Bullet Term Advances and Programme Controlled Amortisation Instalments, repayments of principal will not be made on the lower ranking Programme Term Advances. This means that, during a Cash Accumulation Period, there will be no corresponding repayments of principal on the lower ranking Notes of the Programme Issuers.

The extent to which sufficient funds are saved by Funding 1 during a Cash Accumulation Period or received by it from its share in the Mortgages Trust for application on a Scheduled Repayment Date will depend on whether the actual principal prepayment rate of the Loans is the same as the assumed principal prepayment rate. If Funding 1 is not able to save enough money during a Cash Accumulation Period or does not receive enough money from its share in the Mortgages Trust for application on a Scheduled Repayment Date to repay the Class A Term Advances and, if (in respect of the Bullet Term Advances or, where applicable, Controlled Amortisation Instalments) it is unable to make a drawing on the General Reserve Fund (or, if applicable, an Additional Reserve Fund) to make good the shortfall so that the Issuer can redeem the Class A Notes of the corresponding Series on their respective Scheduled Redemption Date(s), then Funding 1 will be required to pay to the Issuer on those Scheduled Redemption Dates only the amount that it has actually saved or received.

Any shortfall will be deferred and paid on subsequent Funding 1 Payment Dates when Funding 1 has money available to make the payment. In these circumstances, there will be a variation in the yield to maturity of the relevant class of Notes.

**The Issuer's ability to redeem the Class A Notes on their Scheduled Redemption Dates may be affected by the rate of prepayment on the Loans**

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. For instance, prepayments on the Loans may be due to the Borrowers refinancing their Loans and sales of Mortgaged Properties by the Borrowers (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 the Related Security because, for example, one of the Loans does not materially comply with the representations and warranties in the Mortgage Sale Agreement, then the payment received by the Mortgages Trustee will have the same effect as a prepayment of all of the Loans under that Mortgage Account. Because these factors are not within the Issuer's control or the control of Funding 1 or the Mortgages Trustee, the Issuer cannot give any assurances as to the level of prepayments that the Portfolio may experience.

Variation in the rate of prepayments of principal on the Loans may affect each class of Notes differently depending upon amounts already repaid by Funding 1 to the Issuer under the Intercompany Loan and whether a Trigger Event has occurred, or a Loan is subject to a Product Switch or an Extension Advance or the security granted by the Issuer under the Issuer Deed of Charge has been enforced. If prepayments on the Loans occur less frequently than anticipated, then there may not be sufficient funds available to redeem the Class A Notes in full on their respective Scheduled Redemption Dates.

**The Issuer's ability to redeem the Pass-Through Term Advances may be affected by credits made to the Cash Accumulation Ledger**

Prior to the occurrence of a Trigger Event, the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice, on each Funding 1 Payment Date, Funding 1 will repay (after making requisite payments to make good a Funding 1 Revenue Deficit Amount, to repay principal amounts due to the Funding 1 Liquidity Facility Provider and to replenish the General Reserve Fund) the Class A Term Advances which are then due and payable of each Programme Issuer until each of those Class A Term Advances is fully repaid. Funding 1 will then make a credit towards the Cash Accumulation Ledger to meet Funding 1's Cash Accumulation Liability. This payment will be made before any payments are made on any Class B Term Advances, Class M Term Advances (if any), Class C Term Advances, Class D Term Advances or Class E Term Advances (if any) of any Programme Issuer. If credits made to the Cash Accumulation Ledger occur more frequently than anticipated, there may not be sufficient funds available to redeem the Pass-Through Term Advances.

**As New Loans are sold to the Mortgages Trustee, the characteristics of the Trust Property may change from those existing at the Closing Date, and those changes may adversely affect payments on your Notes**

There is no guarantee that any New Loans sold to the Mortgages Trustee will have the same characteristics as the Loans in the Portfolio as at the Closing Date. In particular, New Loans may have payment characteristics that differ from those of the Loans in the Portfolio as at the Closing Date. The ultimate effect of this could be to delay or reduce the payments you receive on your Notes. However, any New Loans will be required to meet the conditions described in *Summary of the Transaction Documents – Mortgage Sale Agreement – Conditions for sale of Initial Loans and New Loans*. See further – *The Security Trustee and/or the Issuer Security Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests*.

**The Seller may change the Lending Criteria relating to Loans that are subsequently sold to the Mortgages Trustee, which could affect the characteristics of the Trust Property and which may adversely affect payments on your Notes**

Each of the Loans sold to the Mortgages Trustee by the Seller will have been originated in accordance with the Lending Criteria of the Seller or the relevant Originator at the time of

origination. The current Lending Criteria of Mortgage Express as Originator are set out in the section *The Loans – Characteristics of the Loans – Lending Criteria*. These Lending Criteria consider a variety of factors such as a potential Borrower's credit history, employment history and status and repayment ability, as well as the value of the Mortgaged Property to be mortgaged. In the event of the sale of any New Loans and their Related Security to the Mortgages Trustee, the Seller will warrant that (i) such New Loans and their Related Security as were originated by it, were originated in accordance with the Seller's Lending Criteria applicable at the time of their origination and (ii) such New Loans and their Related Security as were originated by any Originator, were originated in accordance with the relevant Originator's Lending Criteria applicable at the time of their origination. However, the Seller and each Originator retain the right to revise their Lending Criteria from time to time, so the Lending Criteria applicable to any Loan at the time of its origination may not be or have been the same as those set out in the section *The Loans – Characteristics of the Loans – Lending Criteria*.

If New Loans that have been originated under revised Lending Criteria are sold to the Mortgages Trustee, the characteristics of the Trust Property could change. This could lead to a delay or a reduction in the making of payments on your Notes.

**The Seller has adopted procedures relating to investigations and searches for remortgages which could affect the characteristics of the Trust Property and which may adversely affect payments on your Notes**

The Seller does not require a solicitor or a licensed conveyancer or (in Scotland) a qualified conveyancer to conduct a full investigation of the title to a Mortgaged Property in all cases. Where the Borrower is remortgaging, there may be a more limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor conducting a full investigation of the title to a Mortgaged Property. Mortgaged Properties which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the Mortgaged Properties not being accepted as security for a Loan had such matters been revealed. However, to mitigate against this risk search indemnity insurance is obtained in respect of such Mortgaged Properties. The introduction of Loans secured by such Mortgaged Properties into the Trust Property could result in a change of the characteristics of the Trust Property. This could lead to a delay or a reduction in the payments received on your Notes.

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

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

Prepayments may also be affected by the characteristics of the Loans. Mortgage Express offers mortgages which incorporate a flexible payment option allowing Borrowers to make Overpayments, Underpayments, take Payment Holidays or make Cash Withdrawals. Any Overpayment will be applied against the Loan to reduce the Current Balance of the Loan. Any Cash Withdrawal, Underpayment or Payment Holiday will increase the Current Balance of the Loan. These flexible payment options mean that the amount of Monthly Payments made by Borrowers may fluctuate from time to time, see *The Loans – Characteristics of the Loans*.

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

Further, the mortgage loan industry in the United Kingdom is highly competitive. This competitive environment may affect the rate at which the Seller and/or an Originator originates new loans and may also affect the repayment rate of the Seller's and/or an Originator's existing Borrowers.

The principal source of income for repayment of the Notes by the Issuer is the Intercompany Loan. The principal source of income for repayment by Funding 1 of the Intercompany Loan is its interest in the Loans held on trust by the Mortgages Trustee for Funding 1, the Seller and the other Beneficiaries. If the timing and payment of the Loans is adversely affected by any of the risks described in this section, then the payments on the Notes could be reduced or delayed.

**The occurrence of Trigger Events and enforcement of the Issuer Security may adversely affect the Scheduled Redemption Dates of the Class A Notes**

Unless a Trigger Event has occurred or the Issuer Security has been enforced in accordance with the terms of the Issuer Deed of Charge, payments of principal will occur on the Class A Notes no earlier than their respective Scheduled Redemption Dates.

If a Trigger Event occurs or the Issuer Security is enforced in accordance with the Issuer Deed of Charge prior to the Scheduled Redemption Dates for the Class A Notes, then the classes of Notes outstanding will not be repaid on their Scheduled Redemption Dates but will be repaid on each Note Payment Date from monies received from Funding 1 on the Class A Term Advances of the corresponding Series as described in the following three investment considerations.

**If an Asset Trigger Event occurs, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates**

When an Asset Trigger Event has occurred, the Mortgages Trustee will distribute Principal Receipts to the Beneficiaries *pari passu* and *pro rata* according to their percentage shares of the Trust Property (that is, the Funding 1 Share Percentage, the Funding 2 Share Percentage, the Funding 3 Share Percentage and the Seller Share Percentage). When an Asset Trigger Event has occurred, after making higher ranking payments, Funding 1 will repay:

- *first, pari passu* and *pro rata*, the Class A Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class A Term Advances is fully repaid;
- *then, pari passu* and *pro rata*, the Class B Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class B Term Advances is fully repaid;
- *then, pari passu* and *pro rata*, the Class M Term Advances (if any) in respect of the Intercompany Loan of each Programme Issuer, until each of those Class M Term Advances is fully repaid;
- *then, pari passu* and *pro rata*, the Class C Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class C Term Advances is fully repaid;
- *then, pari passu* and *pro rata*, the Class D Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class D Term Advances is fully repaid; and
- *finally, pari passu* and *pro rata*, the Class E Term Advances (if any) in respect of the Intercompany Loan of each Programme Issuer, until each of those Class E Term Advances is fully repaid.

If an Asset Trigger Event occurs, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates, and there is a risk that they will not be repaid by their Final Maturity Dates.

**If a Non-Asset Trigger Event occurs, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates**

If a Non-Asset Trigger Event has occurred but an Asset Trigger Event has not occurred, the Mortgages Trustee will distribute all Principal Receipts to each of the Funding Companies *pari passu* and *pro rata* according to the Funding 1 Proportion, the Funding 2 Proportion and the Funding 3 Proportion), until the Funding 1 Share, the Funding 2 Share and the Funding 3 Share of the Trust Property is zero. When a Non-Asset Trigger Event has occurred, after making higher ranking payments, Funding 1 will repay:

- *first*, the Class A Term Advances with the earliest Final Repayment Date, then to repay the Class A Term Advance with the next earliest Final Repayment Date, and so on until the Class A Term Advances in respect of the Intercompany Loan of each Programme Issuer are fully repaid;
- *then, pari passu* and *pro rata*, the Class B Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class B Term Advances is fully repaid;

- *then, pari passu and pro rata*, the Class M Term Advances (if any) in respect of the Intercompany Loan of each Programme Issuer, until each of those Class M Term Advances is fully repaid;
- *then, pari passu and pro rata*, the Class C Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class C Term Advances is fully repaid;
- *then, pari passu and pro rata*, the Class D Term Advances in respect of the Intercompany Loan of each Programme Issuer, until each of those Class D Term Advances is fully repaid; and
- *finally, pari passu and pro rata*, the Class E Term Advances (if any) in respect of the Intercompany Loan of each Programme Issuer, until each of those Class E Term Advances is fully repaid.

If a Non-Asset Trigger Event occurs, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates, and there is a risk that they will not be repaid by their Final Maturity Dates.

In these circumstances, a Noteholder will not receive interest on the Series 1 Class A Notes on the expected Note Payment Dates.

**There may be a delay in payment of interest on Series 1 Class A Notes on the occurrence of a Trigger Event or enforcement of the Issuer Security**

After the occurrence of a Trigger Event or enforcement of the Issuer Security, the interest payments on any Series 1 Class A Notes will no longer be payable monthly (if applicable), but will be payable quarterly.

**If the Issuer Security is enforced, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates**

If the Issuer Security is enforced, then the Mortgages Trustee will distribute funds in the manner described in *Cashflows of Funding 1*. In these circumstances, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates and there is also a risk that those Class A Notes may not be repaid by their Final Maturity Dates.

**In limited circumstances, Loans subject to Product Switches and Extension Advances will be repurchased by the Seller from the Mortgages Trustee, which will affect the prepayment rate of the Loans, and this may affect the yield to maturity of your Notes**

Loans subject to Product Switches and Extension Advances will only be repurchased if (i) as at the date of such Product Switch or Extension Advance, the relevant Loan does not materially comply with the representations and warranties set out in the Mortgage Sale Agreement, and/or (ii) as of the next following Trust Calculation Date, the relevant Loan does not comply with the conditions precedent applicable to such Loan, as described in *Summary of the Transaction Documents – Mortgage Sale Agreement – Conditions for Product Switches and Extension Advances*. If the Seller is required to repurchase any such Loans and their Related Security from the Mortgages Trustee the repurchase price will be equal to the Current Balance of those Loans on the Trust Calculation Date immediately following the date of such Product Switch or Extension Advance.

See further *Summary of the Transaction Documents – Mortgage Sale Agreement – Product Switches and Extension Advances* as to the circumstances in which a Loan will be subject to a Product Switch or Extension Advance.

The yield to maturity of your Notes may be affected by the repurchase of Loans subject to Product Switches.

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

The ratings assigned by S&P and Fitch to each class of Notes address the likelihood of full and timely payment to Noteholders of all payments of interest on each Note Payment Date under that class of Notes in accordance with the terms of the Transaction Documents and the Conditions of the Notes. The ratings also address the likelihood of “ultimate” payment of principal on the Final Maturity Date of each class of Notes. The ratings assigned by Moody’s to each class of Notes address the expected loss in proportion to the initial class principal amount of such class and express Moody’s opinion that the structure allows for timely payment of interest and ultimate payment of principal at

par on or before the rated final legal maturity date. The expected ratings of each class of Notes on the Closing Date are set out in *The Supplement – Key Characteristics of the Notes*. Any Rating Agency may lower its Rating, qualify or withdraw its Rating if, in the sole judgment of the Rating Agency, the credit quality of the Notes has declined or is in question. If any Rating assigned to the Notes is lowered, qualified or withdrawn, the market value of the Notes may be reduced. A change to the ratings assigned to each class of Notes will not affect the relevant Term Advance Ratings assigned to each relevant Term Advance under the Intercompany Loan.

### **Principal payments on the Programme Original Pass-Through Term Advances and the Controlled Amortisation Instalments are subject to certain Rules**

There will be circumstances in which payment of principal on the Notes will be deferred in accordance with the Rules described in *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules*.

### **You may not be able to sell your Notes**

There currently is no secondary market for your Notes. The Managers expect, but are not obliged, to make a market in the Notes. If no secondary market develops, you may not be able to sell your Notes prior to maturity. The Issuer cannot offer any assurance that a secondary market will develop or, if one does develop, that it will continue.

### **The Mortgages Trustee Account Bank or the Funding 1 Account Bank may cease to satisfy certain criteria which may adversely affect the rate of interest receivable on the Mortgages Trustee GIC Account or the Funding 1 GIC Account**

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

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

Certain of the Loans in the Portfolio may pay a variable rate of interest for a period of time that may be linked to the Seller Variable Rate or linked to an interest rate other than the Seller Variable Rate, such as a rate offered by a basket of UK mortgage lenders or a rate that tracks the Bank of England Base Rate. Other Loans pay a fixed rate of interest for a period of time. Funding 1 will receive interest on the Variable Rate Loans based on the Seller Variable Rates.

To provide a hedge against the rates of interest payable on the Loans in the Portfolio and the rate of interest payable by Funding 1 on the Intercompany Loan, Funding 1 will enter into the Funding 1 Swap Agreement. If Funding 1 fails to make timely payments under the Funding 1 Swap, it will have defaulted under the Funding 1 Swap.

The Funding 1 Swap Provider is obliged only to make payments under the Funding 1 Swap if and for so long as Funding 1 makes payments under the same. If the Funding 1 Swap Provider is not obliged to make payments, or defaults in its obligation to make payments under the Funding 1 Swap, Funding 1 will be exposed to the variance between the rates of interest payable on the Loans and the rate of interest payable by it under the Intercompany Loans unless a replacement Funding 1 Swap is entered into. If the Funding 1 Swap terminates, Funding 1 may as a result be obliged to make a termination payment to the Funding 1 Swap Provider. Any variance between the rates of interest payable on the Loans and the rate of interest payable by Funding 1 under the Intercompany Loan and any termination payment payable by it to the Funding 1 Swap Provider may adversely affect the ability of Funding 1 to meet its obligations under the Intercompany Loan Agreement (see also – *Failure by Funding 1 to meet its obligations under the Intercompany Loan Agreement would adversely affect the ability of the Issuer to make payments on your Notes*).

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

The Issuer is a party to contracts with a number of third parties that have agreed to provide services in relation to its Notes. For example, the Issuer Swap Providers have agreed to provide their respective Issuer Swaps, the Issuer Corporate Services Provider has agreed to provide corporate services and the Paying Agents and the Agent Banks have agreed to provide payment and calculation services in connection with the Notes. In the event that any of these parties were to fail to perform their obligations under the respective agreements to which they are a party, you may be adversely affected.

**The Issuer may be unable to pay, in full or at all, interest due on its Notes if there is a revenue or principal deficiency**

If, on any Funding 1 Payment Date, there is a Funding 1 Revenue Deficit Amount (i.e. Revenue Receipts available to Funding 1 (including the General Reserve Fund) are insufficient to pay interest on certain Programme Term Advances and other Senior Expenses of Funding 1), then Funding 1 may use Principal Receipts on the Loans received by it in the Mortgages Trust to make up the Funding 1 Revenue Deficit Amount.

Funding 1 may only apply Funding 1 Principal Receipts towards covering a revenue shortfall on:

- the Programme Class B Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class B Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class B Term Advances;
- the Programme Class M Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class M Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class M Term Advances;
- the Programme Class C Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class C Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class C Term Advances; and
- the Programme Class D Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class D Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class D Term Advances.

Funding 1 will also be obliged to record on the same Principal Deficiency Ledger any Losses on the Loans which cause a principal deficiency. Losses and Funding 1 Principal Receipts used to cover a Funding 1 Revenue Deficit Amount will be debited to the Principal Deficiency Sub-Ledger of the Programme Term Advances with the lowest Term Advance Rating (excluding for this purpose the Class E Term Advances) until the Principal Deficiency Ledger balance is equal to the Outstanding Principal Amount of those Programme Term Advances. Losses and Funding 1 Principal Receipts used to meet Funding 1 Revenue Deficit Amounts will thereafter be debited to the Principal Deficiency Sub-Ledger of the Programme Term Advance with the next lowest Term Advance Rating. Losses and Funding 1 Principal Receipts used to meet Funding 1 Revenue Deficit Amounts will continue to be allocated in this manner until an amount is debited to the Class A Principal Deficiency Sub-Ledger, at which point an Asset Trigger Event will occur.

If Funding 1 uses Funding 1 Principal Receipts to help reduce a Funding 1 Revenue Deficit Amount or if Losses occur on the Loans, this will reduce the amount of Funding 1 Principal Receipts available to repay the Programme Term Advances.

However, it is expected that any principal deficiencies of this sort will be recouped from subsequent excess Revenue Receipts and amounts standing to the credit of the General Reserve Fund. The excess Revenue Receipts will be applied first to cover any principal deficiency in respect of the Programme Term Advances with the highest Term Advance Rating (at the Closing Date, these include the Class A Term Advances), and then the Programme Term Advances with the next highest-ranking Term Advance Rating, and so on down to the Programme Term Advances with the lowest Term Advance Rating.

If there are insufficient funds available because of revenue or principal deficiencies, then one or more of the following consequences may occur:

- the interest and other net income of Funding 1 may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the Term Advances;
- there may be insufficient funds to repay the principal due and payable on any of the Term Advances prior to their Final Repayment Dates unless the other net income of Funding 1 is sufficient, after making other prior ranking payments, to reduce any principal deficiency in respect of the Term Advance;
- if the amount of principal deficiencies exceeds the Outstanding Principal Amount of any of the relevant Term Advances (and the principal deficiencies cannot be covered by the other income of Funding 1), then the Issuer may not receive the full principal amount of any or all of the relevant Term Advances and, accordingly, you may not receive the full principal amount due or payable on the relevant class of Notes; and/or
- the Issuer may be unable to pay, in full or at all, interest due on the Notes.

For more information on income and principal deficiencies, see *Credit Structure – Principal Deficiency Ledger*.

### **The Seller Share of the Trust Property does not provide credit enhancement for the Notes**

Any Losses from Loans included in the Trust Property will be allocated to the Funding Companies and the Seller proportionally on each Distribution Date in accordance with the Funding 1 Share Percentage, the Funding 2 Share Percentage, the Funding 3 Share Percentage and the Seller Share Percentage of the Trust Property. The Seller Share of the Trust Property therefore does not provide credit enhancement for the Notes.

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

After enforcement of the Funding 1 Security as a result of delivery of an Intercompany Loan Acceleration Notice under any Programme Intercompany Loan (as described in *Summary of Transaction Documents – Funding 1 Deed of Charge*), the Security Trustee may, but shall not be obliged to, sell the Funding 1 Share of the Trust Property. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the Programme Intercompany Loan Agreements.

None of the Issuer, Funding 1 or the Mortgages Trustee will have recourse to the Seller or any Originator of the Loans, other than in respect of a breach of warranty under the Mortgage Sale Agreement.

The Issuer, the Mortgages Trustee, Funding 1, the Note Trustee, the Issuer Security Trustee and the Security Trustee will not undertake any investigations, searches or other actions on any Loan or its Related Security and each of them will rely instead on the warranties given in the Mortgage Sale Agreement by the Seller.

If any of the warranties made by the Seller (a) in the case of each Loan in the Portfolio, was materially untrue on the date that Loan was sold to the Mortgages Trustee or (b) in the case of each New Loan, is materially untrue on the date that New Loan is sold to the Mortgages Trustee, then the Seller will be required to remedy the breach within 20 London Business Days of the Seller becoming aware of the same or of receipt by it of a notice from the Mortgages Trustee.

If the Seller fails to remedy the breach within 20 London Business Days, then the Seller will be required to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security on the immediately following Trust Calculation Date at their Current Balance as of the date of repurchase. There can be no assurance that the Seller will have the financial resources to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security. However, if the Seller does not repurchase those Loans and their Related Security when required, then the Seller Share of the Trust Property will be deemed to be reduced by an amount equal to the Current Balance of those Loans.

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

**There can be no assurance that a Borrower will repay principal at the end of the term on an interest-only Loan, which may adversely affect repayments on the Notes**

Each Loan in the Portfolio is repayable either on a principal repayment basis or an interest-only basis. Of the Loans in the Provisional Portfolio as at 3rd August, 2004, approximately 74 per cent. of the Loans (by number) are interest-only Loans. For interest-only Loans, because the principal is repaid in a lump sum at the maturity of the Loan, it is the responsibility of the Borrower to have an Investment Plan in place to assist the Borrower ensure that funds will be available to repay the principal at the end of the term. The Seller does not verify that a repayment mechanism is in place and does not take security over these repayment mechanisms. The Borrower is also recommended to take out a life insurance policy in relation to the Loan but, as with repayment mechanisms, the Seller does not take security over these life insurance policies or verify that they are in place.

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

The proceeds from an investment plan or other investment may be insufficient to cover the repayment of principal of the Loan. There can be no assurance that the Borrower will have the funds required to repay the principal at the end of the term. If a Borrower cannot repay the Loan and a loss occurs on the Loan, then this may affect repayments of principal on the Notes if that loss cannot be cured by application of excess Funding 1 Available Revenue Receipts.

**There may be risks associated with the fact that the Mortgages Trustee has no legal title to the Loans and their Related Security, which may adversely affect payments on the Notes**

The sale by the Seller to the Mortgages Trustee of the English Loans and their Related Security and the Northern Irish Loans and their Related Security on the Closing Date will take effect in equity only. The sale by the Seller to the Mortgages Trustee of the Scottish Loans and their Related Security on the Closing Date will be given effect by Scottish Declarations of Trust by the Seller and each relevant Originator (and any sale of Scottish Loans and their Related Security in the future will be given effect by further Scottish Declarations of Trust) by which the beneficial interest in the Scottish Loans and their Related Security will be transferred to the Mortgages Trustee. In each case this means that legal title to the Loans in the Trust Property remains with the Seller or, as applicable, the relevant Originator, but the Mortgages Trustee has all the other rights and benefits relating to ownership of each Loan and its Related Security (which rights and benefits are subject to the trust in favour of the Beneficiaries). The Mortgages Trustee has the right to demand that the Seller give it legal title to the Loans and the Related Security in the circumstances described in *Summary of the Transaction Documents – Mortgage Sale Agreement – Transfer of legal title to the Mortgages Trustee* (or, pursuant to the Intercompany Mortgage Sale Agreement in cases where the Loans were not originated by the Seller, to demand that the Seller require the Originator to transfer to the Seller legal title and then to demand that the Seller transfer to the Mortgages Trustee legal title to such Loans and their Related Security). Until then no notice of the sale of the English Loans and their Related Security or the Northern Irish Loans and their Related Security or the Scottish Loans and their Related Security will be given to any Borrower or application made to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English Loans and their Related Security or application made to the Registers of Northern Ireland to register its equitable interest in the Northern Irish Loans and their Related Security or steps will be taken to complete or perfect its title to the Scottish Loans and their Related Security. For more information on the Scottish Loans and their Related Security see *Material Legal Aspects of the Loans and the Related Security – Scottish Loans*.

Because the Mortgages Trustee has not obtained legal title to the Loans or their Related Security, there are the following risks to the Trust Property:

- first, if the Seller wrongly sold a Loan to another person which has already been sold to the Mortgages Trustee, and that person acted in good faith and did not have notice of the interests of the Mortgages Trustee or the Beneficiaries in the Loan, then she or he might obtain good title to the Loan, free from the interests of the Mortgages Trustee and the Beneficiaries. If this occurred then the Mortgages Trustee would not have good title to the affected Loan and its Related Security and it would not be entitled to payments by a Borrower in respect of that Loan. This may affect the ability of the Issuer to make payments on the Notes; and

- second, the rights of the Mortgages Trustee and the Beneficiaries may be subject to the rights of the Borrowers against the Seller or, as applicable, an Originator, such as the rights of set-off (see in particular *Set-off risks in relation to FlexAbility Mortgages, Choices Loans, further drawdowns under Buy-to-Let Loans and delayed cashbacks may adversely affect the funds available to the Issuer to repay the Notes*) which occur in relation to transactions or deposits made between some Borrowers and the Seller or, as applicable, the relevant Originator, and the rights of Borrowers to redeem their Mortgages by repaying the Loan directly to the Seller or, as applicable, the relevant Originator. If these rights are exercised, the Mortgages Trustee may receive less money than anticipated from the Loans, which may affect the ability of the Issuer to make payments on the Notes.

However, if a Borrower exercises any set-off rights, then an amount equal to the amount set off will reduce the total amount of the Seller Share of the Trust Property only, and the Minimum Seller Share has been sized in an amount expected to cover this risk, although there can be no assurance that it will. If the Minimum Seller Share is exhausted, then the amount of any set-offs would be applied to reduce the Share of the Trust Property of each Funding Company in accordance with its Funding Proportion.

Once notice has been given to Borrowers of the transfer of the Loans and their Related Security to the Mortgages Trustee, independent set-off rights which a Borrower has against the Seller or, as applicable, an Originator will crystallise (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller or, as applicable, an Originator) and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under transaction set-off (which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice.

**Set-off risks in relation to FlexAbility Mortgages, Choices Loans, further drawdowns under Buy-to-Let Loans and delayed cashbacks may adversely affect the funds available to the Issuer to repay the Notes**

As described in – *There may be risks associated with the fact that the Mortgages Trustee has no legal title to the Loans and their Related Security, which may adversely affect payments on the Notes*, the Seller will make, and in the future may make, an equitable assignment of the Loans and their Related Security or in the case of Scottish Loans, a transfer of the beneficial interest in the Loans and their Related Security, to the Mortgages Trustee, with legal title being retained by the Seller or, as applicable, the relevant Originator. Therefore, the rights of the Mortgages Trustee may be subject to the direct rights of the Borrowers against the Seller or, as applicable, the relevant Originator, including rights of set-off existing prior to notification to the Borrowers of the sale of the Loans. Set-off rights (including analogous rights in Scotland) may occur if, for example, the Seller or, as applicable, the relevant Originator fails to advance to a Borrower a drawing under a FlexAbility Mortgage, a Buy-to-Let Loan or a Choices Loan when the Borrower is entitled to draw additional amounts under a FlexAbility Mortgage, a Buy-to-Let Loan or a Choices Loan or if the Seller or, as applicable, the relevant Originator fails to pay to a Borrower any delayed cashback which the Seller or, as applicable, the relevant Originator had agreed to pay to that Borrower after completion of the relevant Loan. You should note, however, that the Seller and Mortgage Express do not currently offer delayed cashbacks, but either of them or any other Originator may offer products in the future with those features and those loans may be assigned to the Mortgages Trustee.

If the Seller or, as applicable, the relevant Originator fails to advance the drawing or pay the delayed cashback, then the relevant Borrower may set off any damages claim (or analogous rights in Scotland) arising from the Seller's or, as applicable, the relevant Originator's breach of contract against the Seller's or relevant Originator's (and, as assignee or holder of the beneficial interest in the Loans and their Related Security, the Mortgages Trustee's) claim for payment of principal and/or interest under the Loan as and when it becomes due. These set-off claims will constitute transaction set-off as described in the immediately preceding risk factor.

The amount of the claim in respect of a drawing will, in many cases, be the cost to the Borrower of finding an alternative source of finance (although in the case of FlexAbility Mortgages, Buy-to-Let Loans or Choices Loans which are governed by Scottish law, it is possible, though regarded as unlikely, that the Borrower's rights of set-off could extend to the full amount of the additional drawing). The Borrower may obtain a loan elsewhere, in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the Borrower is unable

to obtain an alternative loan, he or she may have a claim in respect of other losses arising from the Seller's or, as applicable, the relevant Originator's breach of contract where there are special circumstances communicated by the Borrower to the Seller or, as applicable, the relevant Originator at the time the mortgage was taken out or which otherwise were reasonably foreseeable.

In respect of a delayed cashback, the claim is likely to be in an amount equal to the amount due under the delayed cashback together with interest and expenses and consequential losses (if any).

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

The exercise of set-off rights by Borrowers would reduce the incoming cashflow to the Mortgages Trustee during the exercise. However, the amounts set off will be applied to reduce the Seller Share of the Trust Property only.

Further, there may be circumstances in which:

- a Borrower might seek to argue that any Loan or Extension Advance is wholly or partly unenforceable by virtue of non-compliance with the CCA; or
- certain drawings may rank behind liens created by a Borrower after the date upon which the Borrower entered into its mortgage with the Seller.

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

The Seller will be appointed on the Set-Up Date by the Mortgages Trustee and Funding 1 as Servicer to service the Loans in the Portfolio. If the Servicer breaches the terms of the Servicing Agreement, then the Mortgages Trustee, Funding 1 and/or the Security Trustee will be entitled to terminate the appointment of the Servicer and appoint a new servicer in its place.

There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any substitute servicer would be required to be authorised under the FSMA once mortgage lending becomes a regulated activity. The ability of a substitute servicer to perform fully the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

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

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

The practice of Mortgage Express, as Originator, in relation to buildings insurance is described under *The Loans – Characteristics of the Loans – Insurance policies*. As described in that section, no assurance can be given that Funding 1 will always receive the benefit of any claims made under any applicable insurance contracts. This could reduce the Principal Receipts allocated to Funding 1 according to the Funding 1 Share Percentage and could adversely affect the Issuer's ability to redeem the Notes. You should note that buildings insurance is renewed annually.

**Regulatory changes by the Office of Fair Trading, the Financial Services Authority and other regulatory authorities may have an impact on the Seller, the Issuer, the Servicer, and/or the Loans and may adversely affect the Issuer's ability to make payments when due on the Notes.**

***Consumer Credit Regulation***

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 the enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take actions when necessary with regard to the mortgage market in the United Kingdom.

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

Any Loan or Extension Advance might be wholly or partly regulated by the CCA or be treated as such because of technical rules on:

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

Any credit agreement that is wholly or partly regulated by the CCA or is to be treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and procedures of credit agreements, and (in so far as will be 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 to be treated as such, it is unenforceable against the borrower: (a) without an order of the OFT, if requirements as to licensing of lenders and brokers are not met; (b) totally, if the form to be signed by the borrower is not signed by the borrower personally or omits or mis-states a “prescribed term”; or (c) without a court order in other cases and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability by the lender.

A court order under Section 126 of the CCA is necessary to enforce a Mortgage securing a Loan or Extension Advance to the extent that it is regulated by the CCA or to be treated as such. In dealing with such application, the court has the power, if it appears just to do so, to amend a Loan or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

### ***Consumer Credit Reform***

In July 2001, the United Kingdom Department of Trade and Industry (the **DTI**) published a consultation paper on modernising the CCA, which invited views on which aspects of the CCA are to be reviewed. The DTI has since published consultation papers on specific aspects of the CCA to be reviewed including, in March 2002, on the financial limit and exempt agreements under the CCA.

In November 2002, the DTI announced its intention that a credit agreement will be regulated by the CCA where, for credit agreements made after this change is implemented: (a) the borrower is or includes an individual, save for partnerships of four or more partners; (b) irrespective of the amount of credit (although in July 2003, the DTI announced its intention that the financial limit will remain for certain business-to-business lending); and (c) the credit agreement is not an exempt agreement. If this change is implemented, then any Loan or Extension Advance originated or changed such that a new contract is entered into after this time, other than a regulated mortgage contract under the FSMA (as defined below) or other exempt agreement under the CCA, will be regulated by the CCA. Such Loan or Extension Advance will have to comply with requirements as to licensing of lenders and brokers, documentation and procedures of credit agreements and (in so far as will be applicable) pre-contract disclosure and if it does not comply, it will be unenforceable against the Borrower as described in – *Consumer Credit Regulation*.

In December 2003, the DTI published a White Paper proposing amendments to the CCA and to secondary legislation made under it. In June 2004, secondary legislation was made on: (a) amending requirements as to documentation of credit agreements, coming into force on 31st May, 2005, or 31st August, 2005 for agreements given to the borrower for signature but not made before 31st May, 2005; (b) pre-contract disclosure, coming into force on 31st May, 2005; and (c) replacing the formula for calculating the maximum amount payable on early settlement with a formula more favourable to the borrower, coming into force on 31st May, 2005 for new agreements, or 31st May, 2007 or 31st May, 2010 (depending on the term of the agreement) for agreements existing before 31st May, 2005. Draft amendments to the CCA are expected at the end of 2004 and may include: (a) removing the financial limit, save for certain business-to-business lending; (b) strengthening the licensing regime; (c) reforming

the law on extortionate credit; and (d) introducing alternative dispute resolution procedures outside the courts for consumer credit agreements. Further amendments to the CCA and further secondary legislation made under it are expected at an unspecified time.

Under the Mortgage Sale Agreement, the Seller will be obliged to repurchase any Loan that is wholly or partly regulated or to be treated as such under the CCA if a court or other competent authority or any ombudsman makes any determination that such Loan was not originated in compliance with the CCA and in respect of which it has no jurisdiction or refuses to make an enforcement order.

### ***Mortgage Regulation***

In the United Kingdom the FSMA regulates a wide range of financial activities under a single statutory-based regime. The FSMA is not yet in full effect and will be brought into effect in stages. The first stage (known as **N2**) came into effect on 1st December, 2001. Mortgage regulation will come into effect at a later stage (known as **N(M)**) on 31st October, 2004.

FSMA applies to any “regulated activity”. After N(M) the following four activities: (i) entering into as the lender; (ii) administering; (iii) arranging; and (iv) advising on, a “regulated mortgage contract”, will be regulated activities. Agreeing to carry on any of the activities will also be a regulated activity.

A mortgage loan contract will be a regulated mortgage contract if, at the time it is entered into: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal charge on land (other than timeshare accommodation) in the UK or a standard security in Scotland; and (c) at least 40 per cent. of that land is used or is intended to be used, as or in connection with a dwelling by the borrower or (in case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.

The main effect of the introduction of mortgage regulation is that each entity carrying on a regulated activity with respect to regulated mortgage contracts will be required to hold authorisation and permission from the FSA to carry on that activity. Generally, each financial promotion relating to a regulated mortgage contract will have to be issued or approved by a person holding authorisation and permission from the FSA unless an exemption applies. If requirements as to authorisation of the originator and brokers or as to the issue and approval of advertisements are not complied with, the regulated mortgage contract will be unenforceable against the borrower except with approval of a court.

The Seller and each other Originator will be required to hold authorisation and permission to enter into and to administer and, where applicable, to advise on regulated mortgage contracts. Subject to any exemption, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise on regulated mortgage contracts. Failure to comply with requirements as to authorisation and as to issue and approval of advertisements are criminal offences in the UK.

The Issuer and Mortgages Trustee do not propose to be authorised persons under the FSMA. The Issuer and Mortgages Trustee will not require authorisation in order to acquire legal or beneficial title to a regulated mortgage contract. From N(M), the Issuer and Mortgages Trustee will 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, however, the Issuer and Mortgages Trustee will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement administrator having the required FSA authorisation and permission. In addition, from N(M) no variations will be made to the Loans and no Extension Advances or Product Switches will be made under the Loans, where it will result in the Issuer and/or Mortgages Trustee arranging, advising on, administering or entering into a regulated mortgage contract or agreeing to carry on any of these activities, if the Issuer and/or Mortgages Trustee would be required to be authorised under the FSMA to do so.

In October 2003, the FSA published a policy statement containing its final conduct of business rules (which were slightly amended in February 2004). These rules set out in the Mortgages: Conduct of Business Sourcebook (**MCOB**) cover conduct of business requirements for authorised persons. These rules provide for, *inter alia*, certain pre-origination matters, such as financial promotions and draft pre-application illustrations, start of contract disclosures, post-sale disclosures (annual statements), contract changes, charges, arrears and repossessions. The MCOB comes into force on N(M). Final rules for Prudential and other requirements for mortgage firms and insurance intermediaries were introduced in January 2004. Also in January 2004, the FSA made rules regulating and extending the appointed representatives regime, which currently applies to investment businesses, to cover mortgages

and general insurance. The above rules will take effect on N(M) in respect of mortgages and on 14th January, 2005 in respect of general insurance.

So as to avoid dual regulation once the new regulatory regime applies, all mortgages regulated under the FSMA will not be covered by the CCA. This carve-out only affects mortgages entered into after N(M) and mortgages entered into before N(M) but subsequently changed such that a new contract is entered into on or after N(M) and constitutes a regulated mortgage contract. Before that date, the CCA will continue to be the relevant legislation. A court order under Section 126 of the CCA will, however, also be necessary to enforce a mortgage securing a regulated mortgage contract that would, apart from the carve-out, be regulated by the CCA or be treated as such.

### ***Distance Marketing***

In the United Kingdom, the Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31st 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 will not be cancellable under these regulations. Any other credit agreement will be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. The borrower may send notice of cancellation under these regulations at any time before the end of the 14th day after the day on which the cancellable agreement is made or, if later, the borrower receives the last of 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 sending notice of cancellation; (b) the borrower is liable to pay interest or any early repayment charge or other charge for credit under the cancelled agreement, only if the borrower received certain prescribed information at the prescribed time and if other conditions are met; and (c) any security is to be treated as never having had effect for the cancelled agreement.

### ***Non-Status Lending Guidelines for Lenders and Brokers***

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

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

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

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

No assurance can be given that additional regulations from the OFT, the FSA or any other regulatory authority will not arise with regard to the mortgage market in the United Kingdom generally, the Seller's or any Originator's particular sector in that market or specifically in relation to

the Seller or any Originator. Any such action or developments or compliance costs may have a material adverse effect on the Loans, the Seller, any Originator, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

### ***Self-regulation***

In the United Kingdom, self-regulation of mortgage business exists under the Mortgage Code (the **CML Code**) issued by the CML. The Seller and Mortgage Express currently subscribe to the CML Code. Membership of the CML and compliance with the CML Code are voluntary. The CML Code sets out minimum standards of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30th April, 1998 MCOB lenders who subscribe to the CML Code may not accept mortgage business introduced by intermediaries who are not registered with (before 1st November, 2000) the Mortgage Code Register of Intermediaries or (on and after 1st November, 2000) the Mortgage Code Compliance Board.

In March 2001, the European Commission published a Recommendation to member states urging their lenders to subscribe to the code issued by the European Mortgage Federation (the **EMF Code**). On 26th July, 2001 the CML decided to subscribe to the code collectively on behalf of its members. Lenders had until 30th September, 2002 to implement the EMF Code, an important element of which is provision to consumers of a European Standardised Information Sheet (an **ESIS**) similar to the pre-application illustration proposed by the FSA. However, United Kingdom lenders generally are not in a position to begin to provide an ESIS to consumers until N(M). The CML has discussed this with the European Commission and the European Mortgage Federation. While compliance with the EMF Code is voluntary, if the EMF Code is not effective, the European Commission is likely to see further pressure from consumer bodies to issue a directive on mortgage credit or to extend its proposal for a directive on consumer credit to all mortgage credit.

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

In September 2002, the European Commission published a proposal for a directive of the European Parliament and of the Council on the harmonisation of the laws, regulations and administrative provisions of the member states concerning credit for consumers and surety agreements entered into by consumers. In its original form, the proposal does not include a threshold amount for regulated agreements (unlike the existing Directive 87/102/EEC, as amended, which provides that (subject to certain exceptions) credit agreements not exceeding €20,000 are regulated by such Directive) and requires specified requirements to be met in respect of certain mortgage loan products (including new credit agreements for further drawings under certain flexible mortgages and for further advances and amortisation tables for repayment mortgages). If the proposal comes into force in its original form, mortgage loans which do not comply with these requirements may be unenforceable. Significantly, in its original form, the proposal provides that it does not apply retrospectively (subject to certain exceptions including in respect of new drawings or Extension Advances made in respect of existing agreements) and does not apply to residential mortgage loans except those which include an equity release component.

There has been significant opposition from the European Parliament to the original form of the proposed directive. On 13th February, 2004, the Committee of Legal Affairs and the Internal Market published the European Parliament's amendments to the proposed draft. These amendments provide that (subject to certain exceptions) credit agreements not exceeding €100,000 will be regulated, but that the proposed directive will not apply to any credit agreement secured by a mortgage on land, and will not apply to any credit agreement originated before national implementing legislation comes into force. On 20th April, 2004, the European Parliament voted on its first reading on the proposed directive. The European Commission is expected to publish a further re-drafted form of the proposed directive later in the year which, it is understood, will include equity release. There are some differences in opinion as to the extent to which mortgage loans should be included in the scope of the proposed directive, which may be substantially amended before it is ultimately brought into effect.

The proposal is unlikely to come into force before 2006 as the co-decision procedure of the European Parliament and of the Council, from the publication of the proposal to the coming into force of the new consumer credit directive, is likely to take at least two years, and member states will then have a further two years in which to bring national implementing legislation into force. The DTI is currently in consultation with consumer and industry organisations in relation to this proposal.

Until the final text of the directive is decided and the details of the United Kingdom implementing legislation are published, it is not certain what effect the adoption and implementation of the directive would have on the Loans, the Seller, any Originator, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

**Regulations in the United Kingdom could lead to some terms of the Loans being unenforceable, which may adversely affect payments on the Notes**

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

- a consumer may challenge a term in an agreement on the basis that it is “unfair” within the UTCCR and therefore not binding on the consumer; and
- the OFT and any “qualifying body” within the UTCCR (such as the FSA) may seek to enjoin or (in Scotland) interdict a business from relying on unfair terms.

The UTCCR will not generally affect core terms which define the main subject matter of the contract, such as the borrower's obligation to repay the principal, but may affect terms that are not considered to be core terms, such as the lender's power to vary the interest rate.

For example, if a term permitting the lender to vary the interest rate (as the Servicer will be permitted to do) is found to be unfair, the borrower will not be liable to pay the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Mortgages Trustee, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such non-recovery, claim or set-off may adversely affect the Issuer's ability to make payments on the 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 contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be regarded as unfair under the UTCCR unless the lender, (i) notifies the affected borrower in writing at least 30 days before the rate change, and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. Each of the Seller and Mortgage Express has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the Loans or its business. The guidance note has been withdrawn from the OFT website and is currently under review by the OFT and the FSA. The FSA has agreed with the OFT to take responsibility for the enforcement of the UTCCR in mortgage agreements. It is expected that the FSA will issue guidance on interest variation terms shortly.

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the United Kingdom's Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation and a final report, together with a bill on unfair terms, is expected in Autumn 2004. The Law Commissions have a duty under Section 3 of the United Kingdom'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 the legislation should not affect core terms in so far as they are not substantially different from what the borrower should reasonably expect and are transparent. It is too early to tell how the proposals, if enacted, would affect the Loans.

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

### **Decisions of the Ombudsman could lead to some terms of the Loans being varied, which may adversely affect payments on the Notes**

Under the FSMA, the Financial Ombudsman Service is required to make decisions on, *inter alia*, complaints relating to the activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account, *inter alia*, law and guidance. 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.

The Financial Ombudsman Service may order a money award to a Borrower, which may adversely affect the value at which the Loans in the Portfolio could be realised and accordingly the ability of the Issuer to meet its obligations under the Notes.

### **Tax payable by Funding 1 or the Issuer may adversely affect the Issuer's ability to make payments on the Notes**

Funding 1 and the Issuer will generally be subject to UK corporation tax, currently at a rate of 30 per cent., on the profit reflected in their respective profit and loss accounts as increased by the amount of any non-deductible expenses or losses. If the tax payable by Funding 1 or the Issuer is greater than expected because, for example, non-deductible expenses or losses are greater than expected or because Funding 1 or the Issuer becomes subject to an unexpected tax liability, the funds available to make payments on the Notes will be reduced and this may adversely affect the Issuer's ability to make payments on the Notes.

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

In the event that amounts due under the Notes are subject to withholding tax, the Issuer will not be obliged to pay additional amounts in relation thereto. The Issuer may, in certain circumstances, redeem the Notes (as described in Condition 7.4 of the Notes). The applicability of any UK withholding tax under current English law is discussed under *United Kingdom Taxation – Withholding Tax*.

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

If the United Kingdom joins the European Monetary Union prior to the maturity of the Notes, the Issuer cannot assure you that this would not 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 any Notes denominated in sterling may become payable in euro, (b) applicable provisions of law may allow or require the Issuer to re-denominate such 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 pounds sterling used to determine the rates of interest on such Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect you. It cannot be said what effect, if any, adoption of the euro by the United Kingdom will have in relation to the Notes.

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

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

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

Significant changes to the United Kingdom insolvency regime have recently been enacted, including the Insolvency Act 2000. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days, for the purposes of putting together a company voluntary

arrangement, with the option for creditors to extend the moratorium for a further two months. A “small” company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £5.6 million, (ii) its balance sheet total is not more than £2.8 million, and (iii) the number of employees is not more than 50. Whether or not a company is a “small” company may change from period to period and consequently no assurance can be given that the Issuer, the Mortgages Trustee or Funding 1 will not, at any given time, be determined to be a “small” company. The United Kingdom Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for “small” companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of Noteholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include: (i) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a capital market arrangement (as defined in the secondary legislation) under which a party has incurred or when the agreement was entered into was expected to incur a debt of at least £10 million and which involves the issue of a capital market investment (also defined, but generally, a rated, listed or traded bond), and (ii) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in foreign currency) of at least £10 million. While the Issuer, the Mortgages Trustee and Funding 1 are expected to fall within one of the exceptions, there is no guidance as to how the legislation will be interpreted and the Secretary of State for Trade and Industry may by regulation modify the exception. No assurance can be given that any modification of the exceptions will not be detrimental to the interest of Noteholders. Correspondingly, if any of the Issuer, the Mortgages Trustee or Funding 1 is determined to be a “small” company and does not fall within one of the exceptions, then certain actions in respect of the Issuer, the Mortgages Trustee and Funding 1 may, for a period, be prohibited by the imposition of a moratorium.

If the Issuer and/or the Mortgages Trustee and/or Funding 1 is determined to be a “small” company and determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the Issuer Security by the Issuer Security Trustee or the enforcement of the Funding 1 Security by the Security Trustee may, for a period, be prohibited by the imposition of a moratorium.

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

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

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

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

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

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, Section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a "prescribed part" of the company's "net property" available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company's net property is defined as the amount of the chargor's property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the liquidation or administration. The prescribed part is defined in The Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

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

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

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

Your beneficial ownership of the Notes will only be recorded in book-entry form with DTC, Euroclear or Clearstream, Luxembourg. The Global Notes will not be exchanged for definitive Notes. The lack of Notes in physical form could, among other things:

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

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

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

**Proposed changes to the Basel Capital Accord and the risk-weighted asset framework may result in changes to the risk-weighting of your Notes or permit the redemption or purchase your Notes**

The Basel Committee on Banking Supervision has issued proposals for reform of the 1988 Capital Accord and has proposed a framework which places enhanced emphasis on market discipline and sensitivity to risk. The third consultative paper on the New Basel Capital Accord was issued on 29th April, 2003, with the consultation period ending on 31st July, 2003. The Committee announced on 11th May, 2004 that it has achieved consensus on the remaining issues and published the text of the new framework on 26th June, 2004. This text will serve as the basis for national rule-making and approval processes to continue and for banking organisations to complete their preparations for implementation of the New Basel Capital Accord. The Committee confirmed that it is currently intended that the various approaches under the New Basel Capital Accord will be implemented in stages, some from year-end 2006, the most advanced at year-end 2007. Consequently, you should consult your own advisers as to the consequences to and effect on you of the proposed implementation of the New Basel Capital Accord.

The Issuer may, under certain circumstances relating to implementation of the New Basel Capital Accord in the United Kingdom, as described in Condition 7.6 of the Notes, require you to sell your Notes to the Issuer or may redeem the Notes.

## SUMMARY OF THE TRANSACTION DOCUMENTS

*The following section contains a summary of the material terms of the Transaction Documents. The summary does not purport to be complete and is subject to the provisions of the relevant Transaction Document.*

### **Mortgage Sale Agreement**

The Mortgage Sale Agreement sets out and provides for, *inter alia*, the following:

- the sale of Initial Loans and their Related Security by the Seller to the Mortgages Trustee on the Closing Date;
- the sale of New Loans and their Related Security by the Seller to the Mortgages Trustee after the Closing Date;
- the representations and warranties to be given by the Seller in relation to the Initial Loans, New Loans and their Related Security;
- the repurchase by the Seller of Loans in the Portfolio and their Related Security where the Seller has materially breached any of its representations and warranties in respect of the Loans or their Related Security or, in certain circumstances, any Loan which is the subject of a Product Switch or an Extension Advance;
- the making of future drawings to Borrowers in respect of Choices Loans, FlexAbility Loans and Buy-to-Let Loans and the making of Extension Advances to Borrowers, with respect to Loans in the Trust Property; and
- the circumstances for the transfer of legal title to the Loans to the Mortgages Trustee.

Any sale of Loans referred to in this document will, in relation to Scottish Loans, be effected by a Scottish Declaration of Trust by the Seller, or by any other Originator with the consent of the Seller, in favour of the Mortgages Trustee.

The terms of the Mortgage Sale Agreement may be amended after the Closing Date, for instance as and when New Issuers are established, New Loan Types are added to the Mortgages Trust or Funding 2 and/or Funding 3 acquire more than a nominal interest in the Trust Property. **The prior consent of Noteholders will not be sought in relation to any of the proposed amendments to the Mortgage Sale Agreement, provided that (amongst other things) the Rating Agencies previously confirm that the ratings of the Programme Notes will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a Noteholder** (see *Investment Considerations – The Security Trustee and/or the Issuer Security Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests*).

### ***Sale of Loans and their Related Security***

The Seller will sell to the Mortgages Trustee, on and after the Closing Date, the Loans and Related Security comprising the Portfolio from time to time. The sale of the English Loans and Northern Irish Loans and their respective Related Security will (until transfer of legal title) take effect in equity only. The Seller will (until transfer of legal title) transfer the beneficial interest only in the Scottish Loans and their Related Security, by way of a Scottish Declaration of Trust or Scottish Declarations of Trust executed on the relevant Sale Date. The transfer of legal title to Loans and their Related Security may not occur or, if it does occur, will not ever occur until a later date (see – *Transfer of legal title to the Mortgages Trustee*). Any references to a sale of Loans and their Related Security in this document will include references to the sale by the Seller of New Loans and their Related Security to the Mortgages Trustee pursuant to the Mortgage Sale Agreement.

Each portfolio of Loans and their Related Security so sold will form part of the Trust Property to be held on trust by the Mortgages Trustee for, as applicable, Funding 1 (as to the Funding 1 Share), Funding 2 (as to the Funding 2 Share), Funding 3 (as to the Funding 3 Share) and the Seller (as to the Seller Share) in accordance with the terms of the Mortgages Trust Deed.

The consideration for the sale of Loans and their Related Security will consist of:

- the Initial Purchase Price, representing a cash payment payable on the Closing Date by the Mortgages Trustee to the Seller for the sale to the Mortgages Trustee of the relevant Loans and their Related Security. The Initial Purchase Price is set out in *The Supplement – Transaction Features – The Mortgages Trust*;

- to the extent that the Initial Purchase Price is less than the aggregate Outstanding Principal Balance of the Loans to be transferred on any Sale Date, the consideration payable for the shortfall shall be a corresponding increase in the Seller Share of the Trust Property; and
- the Deferred Purchase Price, representing a cash payment payable after the Closing Date by the Mortgages Trustee to the Seller as further consideration for the sale of the relevant Loans and their Related Security in accordance with the provisions of the Mortgage Sale Agreement and the Mortgages Trust Deed (see further – *Payment of Purchase Price* below).

### ***Payment of Purchase Price***

Payment of the Initial Purchase Price will be paid by the Mortgages Trustee out of funds received by the Mortgages Trustee from the Initial Contribution contributed by a Funding Company pursuant to the terms of the Mortgages Trust Deed.

Payments of the Deferred Purchase Price will be made by the Mortgages Trustee out of funds received by way of Deferred Contributions contributed by a Funding Company from time to time. Upon receipt of such a Deferred Contribution, the Mortgages Trustee will pay an amount equal to such Deferred Contribution to the Seller as Deferred Purchase Price for the sale of the Loans to the Mortgages Trustee. Funding 1 is only required to make Deferred Contributions out of excess income to which it is entitled in accordance with and subject to the relevant Funding 1 Priority of Payments, as set out in – *Mortgages Trust Deed – Cash Management of Trust Property – Revenue Receipts*.

In accordance with and pursuant to the terms of the Mortgage Sale Agreement, an amount equal to any Early Repayment Charge which is paid by a Borrower whose Loan is at such time in the Portfolio will be paid by the Mortgages Trustee to the Seller as Deferred Purchase Price upon receipt of such Early Repayment Charge.

### ***Conditions for sale of Initial Loans and New Loans***

The sale of Initial Loans, New Loans and their Related Security to the Mortgages Trustee on the relevant Sale Date will be subject to certain conditions being satisfied, including the following:

- (a) no event of default under the Transaction Documents (or event of default under the transaction documents of Funding 2 and/or Funding 3) shall have occurred which is continuing as at the relevant Sale Date;
- (b) the Principal Deficiency Ledger (or, in the case of Funding 2 and Funding 3, their respective principal deficiency ledger) does not have a debit balance as at the most recent Funding 1 Payment Date after applying all Funding 1 Available Revenue Receipts on that Funding 1 Payment Date;
- (c) the Mortgages Trustee is not aware that as a result of the purchase of the New Loans on the relevant Sale Date the then current ratings by the Rating Agencies of the Programme Notes then outstanding would be downgraded, withdrawn or qualified;
- (d) as at the relevant Sale Date, the Seller has not received any notice that the short term, unsecured, unguaranteed and unsubordinated debt obligations of the Seller are not rated at least P-2 by Moody's, A-3 by S&P and F2 by Fitch at the time of, and immediately following, the sale of New Loans to the Mortgages Trustee;
- (e) in the case of a New Loan, the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Seller are, at the time of, and immediately following the sale of the New Loans to the Mortgages Trustee, either:
  - (i) rated no lower than P-1 by Moody's; or
  - (ii) in the event that the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Seller are rated below P-1 by Moody's but are rated no lower than P-2 by Moody's then:
    - (A) the Seller has, on such Sale Date, delivered a solvency certificate to, *inter alios*, the Mortgages Trustee in form and substance satisfactory to Moody's; and
    - (B) where:
      - (i) the aggregate Current Balance of New Loans sold to the Mortgages Trust following the later of:
        - (1) the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Seller falling below P-1 by Moody's; or

- (2) any previous audit of New Loans pursuant to this paragraph, exceeds 20 per cent. of the Current Balance of all Loans in the Mortgages Trust at such time; or
- (ii) 12 months has passed since:
  - (1) the short term, unsecured, unsubordinated and unguaranteed debt obligations of the Seller falling below P-1 by Moody's; or
  - (2) any previous audit of New Loans pursuant to this paragraph, an audit has been performed on both (x) any New Loans to be sold to the Mortgages Trust on such Sale Date and (y) all New Loans which have been sold to the Mortgages Trust subsequent to the audit referred to in (B)(ii)(2) above;
- (f) as at the relevant Sale Date, the aggregate Current Balance of Loans in the Mortgages Trust, in respect of which the aggregate amount In Arrears is more than three times the Monthly Payment, is less than 5 per cent. of the aggregate Current Balance of the Loans in the Mortgages Trust;
- (g) the aggregate amount In Arrears in respect of all the Loans in the Mortgages Trust, as a percentage of the gross interest due on all Loans during the immediately preceding 12 months, does not exceed 2 per cent. (or such other percentage as the Rating Agencies confirm is sufficient in order to maintain the then current ratings of the Programme Notes);
- (h) except where a Funding Company makes an Initial Contribution to the Mortgages Trustee, the proceeds of which will be applied by the Mortgages Trustee to purchase New Loans, the aggregate Current Balance (excluding Accrued Interest and amounts In Arrears) of New Loans transferred in any one Funding 1 Interest Period must not exceed 15 per cent. of the aggregate Current Balance of Loans (excluding Accrued Interest and amounts In Arrears) in the Mortgages Trust as at the beginning of that Funding 1 Interest Period;
- (i) the sale of New Loans on the relevant Sale Date does not result in the product of the WAFF and WALs for the Loans comprised in the Mortgages Trust after such purchase calculated on such Sale Date (in the same way as for the Initial Loans comprised in the Mortgages Trust as at the Closing Date (or as agreed by the Servicer and the Rating Agencies from time to time)) exceeding the product of the WAFF and WALs for the Loans comprised in the Mortgages Trust calculated on the most recent closing date, plus 0.25 per cent;
- (j) the yield of the Loans in the Mortgages Trust together with the yield of the New Loans to be sold to the Mortgages Trustee on the relevant Sale Date is at least 0.90 per cent. (for the first year after the Closing Date), 0.70 per cent. (for the second year after the Closing Date) and 0.60 per cent. (for the third year after the Closing Date and for the period thereafter) greater than LIBOR for three-month sterling deposits as at the previous Funding 1 Payment Date, after taking into account the average yield on the Loans which are Variable Rate Loans and Fixed Rate Loans and the margins on the Funding 1 Swap(s), in each case as at the relevant Sale Date;
- (k) the sale of New Loans on the relevant Sale Date does not result in the Loan-to-Value Ratio of the Loans and the New Loans, after application of the LTV Test on the relevant Sale Date, exceeding the Loan-to-Value Ratio (based on the LTV Test), as determined in relation to the Loans comprised in the Trust Property on the Closing Date, plus 0.25 per cent.;
- (l) the sale of New Loans on the relevant Sale Date does not result in the Loans (other than Fixed Rate Loans) that (i) after taking into account the Funding 1 Swap will yield less than LIBOR plus 0.60 per cent. as at the relevant Sale Date and (ii) have more than two years remaining on their incentive period, accounting for more than 15 per cent. of the aggregate Current Balance of Loans comprised in the Trust Property;
- (m) the sale of the New Loans on the relevant Sale Date does not result in the Fixed Rate Loans which have more than one year remaining on their incentive period accounting for more than 50 per cent. of the aggregate Current Balance of Loans comprised in the Trust Property;
- (n) no sale of New Loans may occur, if, as at the relevant Sale Date, the Step-Up Date in respect of any Programme Note issued and still outstanding has been reached and such Programme Note has not been redeemed in full. For the avoidance of doubt, this prohibition on the sale of New Loans to the Mortgages Trustee shall remain in effect only for so long as any such

Programme Note remains outstanding and, upon its redemption, the sale of New Loans to the Mortgages Trustee may be resumed in accordance with the terms of the Mortgage Sale Agreement;

- (o) as at the Sale Date the Adjusted General Reserve Fund Level is equal to or greater than the General Reserve Fund Threshold;
- (p) if the sale of Loans would include the sale of New Loan Types to the Mortgages Trustee, then the Security Trustee has previously received written confirmation from each of the Rating Agencies that the then current ratings of the Programme Notes then outstanding will not be downgraded, withdrawn or qualified as a result of such sale of New Loan Types;
- (q) each New Loan and its Related Security complies in all material respects at the relevant Sale Date with the representations and warranties set out in the Mortgage Sale Agreement, which are summarised in – *Representations and warranties*;
- (r) the Funding 1 Swap Agreement (or the relevant interest rate hedge agreements of Funding 2 and Funding 3) has been modified if and as required (or, if appropriate, Funding 1 has entered into a New Funding 1 Swap Agreement) to hedge against the interest rates payable in respect of such New Loans and the floating rate of interest payable on the relevant Programme Intercompany Loans or the relevant debt obligations of Funding 2 or Funding 3; and
- (s) no Trigger Event has occurred on or before the relevant Sale Date.

In the Mortgage Sale Agreement, the Seller promises to use all reasonable endeavours to offer to sell to the Mortgages Trustee, and the Mortgages Trustee promises to use all reasonable endeavours to acquire from the Seller and hold in accordance with the terms of the Mortgages Trust Deed, until the earlier of the Funding 1 Payment Date falling in June 2011 (or such later date as may be notified by the Funding Companies to the Seller) and the occurrence of a Trigger Event, sufficient New Loans and their Related Security so that the aggregate Current Balance of Loans comprised in the Mortgages Trust is not less than the Minimum Trust Size. The Minimum Trust Size is set out in *The Supplement – Transaction Features – The Mortgages Trust*. Funding 1 may notify the Seller to increase or decrease the Minimum Trust Size. However, the Seller is not obliged to sell to the Mortgages Trustee, and the Mortgages Trustee is not obliged to acquire, New Loans and their Related Security if, in the opinion of the Seller, such sale would adversely affect the business of the Seller. For so long as Funding 2 and Funding 3 maintain a nominal interest in the Trust Property under the terms of the Mortgages Trust Deed, Funding 1 may at any time, without the consent of Funding 2 and Funding 3, notify the Seller to increase or decrease the Minimum Trust Size. If and when Funding 2 or Funding 3 acquire more than a nominal interest in the Trust Property in accordance with the terms of the Mortgages Trust Deed, then any one of the Funding Companies may at any time with the prior written consent of the other Funding Companies and subject to written confirmation from the Rating Agencies that the then current ratings of the Programme Notes will not be downgraded, withheld or qualified as a result of such increase or decrease, notify the Seller of any increase or decrease in the Minimum Trust Size or any amendment to the period in which the covenant of the Seller shall apply.

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

The Mortgage Sale Agreement contains representations and warranties to be given by the Seller to the Mortgages Trustee, each Funding Company and the Security Trustee in relation to each Loan and its Related Security sold to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement. None of the Mortgages Trustee, Funding 1, the Note Trustee, the Issuer Security Trustee, the Security Trustee or the Issuer will make or will cause to be made on its behalf any enquiries, searches or investigations in respect of the Loans and their Related Security. Instead, each is relying entirely on the representations and warranties by the Seller contained in the Mortgage Sale Agreement. The representations and warranties in relation to each Loan and its Related Security are made on the Sale Date that the relevant Loan (including each New Loan) together with its Related Security) is sold to the Mortgages Trustee. The parties to the Mortgage Sale Agreement may, with the prior written consent of the Security Trustee (which consent will be given if the Rating Agencies confirm in writing that the then current ratings of the Programme Notes will not be downgraded, withdrawn or qualified as a result of such waiver or amendment), waive or amend the representations and warranties in the Mortgage Sale Agreement. The material representations and warranties include:

- each Loan was originated by the Seller or any other Originator in pounds sterling and is denominated in pounds sterling (or was originated and is denominated in euro if the euro has been adopted as the lawful currency of the UK);

- each Loan in the Portfolio will be made not earlier than 1st January, 1986;
- the final maturity date of each Loan is no later than 20th September, 2064;
- no Loan has a Current Balance of more than £500,000;
- prior to the making of each advance under a Loan the Lending Criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions made on a case by case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- other than with respect to Monthly Payments, no Borrower is or has, since the date of execution of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Loan or its Related Security and accordingly no steps have been taken by the Seller or the relevant Originator to enforce any Related Security;
- the total amount of interest or principal In Arrears, together with any fees, commissions and premiums payable at the same time as that interest payment or principal repayment, on any Loan is not on the relevant Sale Date in respect of any Loan, nor has been during the 12 months immediately preceding the relevant Sale Date, more than the amount of the Monthly Payment then due;
- all of the Borrowers are natural legal persons and were aged 18 years or older at the date of execution of the Mortgage or are limited liability companies incorporated in England and Wales, Scotland or Northern Ireland;
- at least two Monthly Payments have been made in respect of each Loan;
- the whole of the Current Balance on each Loan is secured by the relevant Mortgage;
- each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) standard security over the relevant Mortgaged Property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland or Registers of Northern Ireland which where required have been made and are pending and in relation to such cases the Seller is not aware of any notice or any other matter that would prevent such registration or recording;
- all of the Mortgaged Properties are located in England, Wales, Scotland or Northern Ireland;
- not more than 12 months prior to the execution of each Mortgage, the Seller or the relevant Originator received a valuation report on the relevant Mortgaged Property (or another form of report concerning the valuation of the relevant Mortgaged Property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- the benefit of all valuation reports and certificates of title which were provided to the Seller or the relevant Originator not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the Mortgages Trustee without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
- prior to the taking of each Mortgage (other than a remortgage), the Seller, or, as applicable, the relevant Originator (a) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Mortgaged Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller, or, as applicable, the relevant Originator in accordance with the instructions which the Seller, or, as applicable, the relevant Originator issued to the relevant solicitor or licensed conveyancer or (in Scotland) qualified conveyancer as are set out in the case of English Loans in the CML's Lenders' Handbook for England & Wales (or, for mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's or, as applicable, the relevant Originator's Mortgage Practice Notes) and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or, for Scottish Mortgages taken before the CML's Lenders' Handbook for Scotland was adopted in 2000, the Seller's or, as applicable, the relevant Originator's Mortgage Practice Notes) and, in the case of Northern Irish Loans, the CML's Lenders Handbook for Northern Ireland (or, for Northern Irish Mortgages taken before the CML's Lenders Handbook for Northern Ireland was adopted in 2004, the Seller's or, as applicable, the relevant Originator's Mortgage Practice Notes) or other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender and (b)

received a certificate of title from such solicitor or licensed conveyancer or (in Scotland) qualified conveyancer relating to such Mortgaged Property, the contents of which would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;

- building insurance cover for each Mortgaged Property is available under a policy arranged by the Borrower, or a policy arranged by the Seller or, where the Loan was not originated by the Seller, the relevant Originator, or a policy arranged by the relevant landlord or the properties in possession cover;
- the Seller has good title to, and is the absolute unencumbered legal and beneficial (in the case of those Loans originated by the Seller) or (where the Loan was not originated by the Seller, but acquired from the relevant Originator) beneficial owner of, all property, interests, rights and benefits agreed to be sold by the Seller to the Mortgages Trustee under the Mortgage Sale Agreement;
- the Seller or, as applicable, the relevant Originator has, since the making or acquisition of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such Loan; and
- there are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or to perform the obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence.

If New Loan Types are to be sold to the Mortgages Trustee, then the representations and warranties in the Mortgage Sale Agreement will be modified as required to accommodate these New Loan Types. Your prior consent to the requisite amendments will not be sought, provided that the conditions for the sale of New Loan Types to the Mortgages Trustee have been satisfied.

#### ***Repurchase of Loans under a Mortgage Account***

Save with respect to Product Switches and Extension Advances (as to which see – *Product Switches and Extension Advances* below), under the Mortgage Sale Agreement, if a Loan does not materially comply on the Sale Date with the representations and warranties made under the Mortgage Sale Agreement:

- (A) the Seller will be required to remedy the breach within 20 London Business Days of the Mortgage Trustee giving written notice of the breach to the Seller; or
- (B) if the breach is not remedied within the 20 London Business-Day period then, at the direction of the Mortgages Trustee (with the prior written consent of the Security Trustee and each of the other parties to the Mortgage Sale Agreement), the Mortgages Trustee will require the Seller to purchase the Loan under the relevant Mortgage Account and its Related Security from the Mortgages Trustee at a price equal to its Current Balance as of the immediately following Trust Calculation Date.

The Seller will also be required to repurchase the Loan under any Mortgage Account and its Related Security if a court or other competent authority or any ombudsman makes any determination in respect of that Loan and its Related Security that:

- (A) any term which relates to the recovery of interest under the standard documentation applicable to that Loan and its Related Security is unfair; or
- (B) the interest payable under any Loan is to be set by reference to the Seller Variable Rate (and not that of the Seller's or the relevant Originator's successors or assigns or those deriving title from them); or
- (C) the variable margin above the Bank of England Base Rate under any other Loan must be set by the Seller or the relevant Originator (rather than its successors or assigns or those deriving title from them); or
- (D) the interest payable under any Loan is to be set by reference to an interest rate other than that set or purported to be set by either the Servicer or the Mortgages Trustee as a result of the Seller having more than one Variable Mortgage Rate.

If the Seller fails to pay the consideration due for the repurchase (or otherwise fails to complete the repurchase), then (under the terms of the Mortgages Trust Deed) the Seller Share of the Trust Property shall be deemed to be reduced by an amount equal to that consideration.

### ***Drawings under FlexAbility Loans, Choices Loans and Buy-to-Let Loans***

The Seller will be solely responsible for funding all future and committed drawings by a Borrower in respect of any FlexAbility Loans, Choices Loans and Buy-to-Let Loans in the Trust Property. The amount of the Seller Share of the Trust Property will increase by the amount of the drawing.

Neither the Mortgages Trustee nor any Funding Company will advance funds to the Seller and/or the relevant Originator and/or the Borrower for the purposes of funding any drawings under a FlexAbility Loan, a Choices Loan or a Buy-to-Let Loan in any circumstances.

### ***Product Switches and Extension Advances***

A Loan will be subject to a Product Switch if the Borrower and the Seller or, as applicable, the Originator agree or the Servicer offers a variation in the financial terms and conditions applicable to the relevant Loan other than:

- any variation agreed with a Borrower to control or manage arrears on the Loan;
- any variation in the maturity date of the Loan unless, while the Intercompany Loan is outstanding, it is extended beyond 20th September, 2064;
- any variation imposed by statute;
- any variation of the rate of interest payable in respect of the Loan where that rate is offered to the Borrowers of more than 10 per cent. by Current Balance of Loans in the Trust Property in any Funding 1 Interest Period; or
- any variation in the frequency with which the interest payable in respect of the Loan is charged.

A Loan will be subject to an Extension Advance if the Borrower and the Servicer (on behalf of the Seller or, as applicable, the Originator) agree to a variation in the financial terms and conditions applicable to the relevant Loan by way of increase of the original principal amount of the Loan.

If the Servicer (on behalf of the Seller or, as applicable, the Originator) agrees to any request regarding a Product Switch or Extension Advance and if the Loan which is the subject of the Product Switch or Extension Advance is in the Portfolio at such time, the Seller will agree pursuant to the terms of the Mortgage Sale Agreement that the Loan will:

- as at the date of such Product Switch or Extension Advance, materially comply with the representations and warranties set out in the Mortgage Sale Agreement which are described earlier in this section under – *Representations and warranties*; and
- as of the next following Trust Calculation Date, comply with each of the relevant conditions set forth under – *Conditions for Product Switches and Extension Advances*.

If the Loan, following such Product Switch or Extension Advance, does not comply as required above, the Seller will be required to repurchase such Loan under the relevant Mortgage Account and its Related Security from the Mortgages Trustee at a price equal to its Current Balances on the Trust Calculation Date immediately following the date of such Product Switch or Extension Advance being made.

The Seller will be solely responsible for funding an Extension Advance and the Seller Share of the Trust Property will increase by an amount equal to the advance made to the Borrower. Neither the Mortgages Trustee nor any Funding Company may themselves advance funds to the Seller and/or the relevant Originator and/or the Borrower for the purposes of funding an Extension Advance in any circumstances.

### ***Conditions for Product Switches and Extension Advances***

In order for any Loan which has been the subject of a Product Switch or an Extension Advance to remain in the Mortgages Trust, the following conditions (which may be varied or waived by the Mortgages Trustee (subject to the prior notification by the Rating Agencies that the then current Ratings of any Programme Notes will not be downgraded, withdrawn or qualified as a result of such variation or waiver)) must be complied with, as of the Trust Calculation Date immediately following the Product Switch or the making of the Extension Advance:

- (a) no event of default under the Transaction Documents shall have occurred which is continuing as at the relevant Trust Calculation Date;

- (b) as at the relevant Trust Calculation Date, the aggregate Current Balance of Loans in the Mortgages Trust, in respect of which the aggregate amount In Arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans in the Mortgages Trust;
- (c) the aggregate of amounts In Arrears in respect of the Loans in the Mortgages Trust, as a percentage of the gross interest due on all Loans in the Mortgages Trust during the immediately preceding 12 months does not exceed 2 per cent. or such other percentage acceptable to the Rating Agencies in order to maintain the current ratings of the Programme Notes;
- (d) as a result of the relevant Product Switch and/or Extension Advance remaining in the Mortgages Trust, on the relevant Trust Calculation Date, the Loans (other than Fixed Rate Loans) that (i) after taking into account the Funding 1 Swap will yield less than Sterling-LIBOR plus 0.60 per cent. as at the relevant Trust Calculation Date and (ii) have more than two years remaining on their incentive period, will not account for more than 15 per cent. of the aggregate Current Balance of Loans comprised in the Trust Property;
- (e) as at the relevant Trust Calculation Date the Adjusted General Reserve Fund Level is equal to or greater than the General Reserve Fund Threshold;
- (f) the Mortgages Trustee is not aware that the then current ratings of the Programme Notes then outstanding would be downgraded, withdrawn or qualified as a result of the relevant Product Switch and/or Extension Advance remaining in the Mortgages Trust;
- (g) each Loan and its Related Security which is the subject of a Product Switch or an Extension Advance materially complies at the date of such Product Switch or, as the case may be, Extension Advance with the representations and warranties set out in the Mortgage Sale Agreement, which are described earlier in this section in – *Representations and warranties*;
- (h) as a result of the relevant Product Switch and/or Extension Advance remaining in the Mortgages Trust, on the relevant Trust Calculation Date, the product of the WAFF and WALs for the Loans comprised in the Mortgages Trust after such Product Switch and/or Extension Advance calculated on such Trust Calculation Date (in the same way as for the Initial Loans comprised in the Mortgages Trust as at the Closing Date (or as agreed by the Servicer and the Rating Agencies from time to time)) will not exceed the product of the WAFF and WALs for the Loans comprised in the Mortgages Trust calculated on the Closing Date, plus 0.25 per cent.;
- (i) the yield of the Loans in the Mortgages Trust on the relevant Trust Calculation Date is at least 0.90 per cent. (for the first year after the Closing Date), 0.70 per cent. (for the second year after the Closing Date) and 0.60 per cent. (for the third year after the Closing Date and for the period thereafter) greater than LIBOR for three-month sterling deposits as at the previous Funding 1 Payment Date, after taking into account the average yield on the Loans which are Variable Rate Loans and Fixed Rate Loans and the margins on the Funding 1 Swap(s), in each case as at the relevant Trust Calculation Date;
- (j) as a result of the relevant Product Switch and/or Extension Advance remaining in the Mortgages Trust, on the relevant Trust Calculation Date, the Loan-to-Value Ratio of the Loans, after application of the LTV Test on the relevant Trust Calculation Date, does not exceed the Loan-to-Value Ratio (based on the LTV Test), as determined in relation to the Loans comprised in the Trust Property on the Closing Date, plus 0.25 per cent.;
- (k) as a result of the relevant Product Switch and/or Extension Advance remaining in the Mortgages Trust, on the relevant Trust Calculation Date, the Fixed Rate Loans which have more than one year remaining on their incentive period do not account for more than 50 per cent. of the aggregate Current Balance of Loans comprised in the Trust Property;
- (l) if the making of a Product Switch and/or Extension Advance would result in a New Loan Type being included in the Mortgages Trust, then the Security Trustee has previously received written confirmation from each of the Rating Agencies that the then current ratings of the Programme Notes then outstanding will not be downgraded, withdrawn or qualified as a result of the Loans which were subject to a Product Switch and/or Extension Advance remaining in the Mortgages Trust;
- (m) the Funding 1 Swap Agreement has been modified if and as required (or, if appropriate, Funding 1 has entered into a New Funding 1 Swap Agreement) to hedge against the interest rates payable in respect of such Product Switches and/or Extension Advances and the floating rate of interest payable on the relevant Programme Intercompany Loans; and

- (n) no Trigger Event has occurred on or before the relevant Trust Calculation Date.

***Transfer of legal title to the Mortgages Trustee***

Each sale of English Loans and Northern Irish Loans and their respective Related Security to the Mortgages Trustee will be made by way of equitable assignment. Each sale of Scottish Loans and their Related Security to the Mortgages Trustee will be made by way of Scottish Declarations of Trust under which the beneficial interest in such Scottish Loans will be transferred to the Mortgages Trustee. In relation to Scottish Loans, references in this document to the sale of Loans are to be read as references to the making of such Scottish Declarations of Trust. This means that legal title to the Loans and their Related Security will remain with the Seller or, where the Loans have been originated by an Originator, the relevant Originator, until legal assignments or assignments are delivered by the Seller or the relevant Originator to the Mortgages Trustee and notice of such assignments or assignments is given to the Borrowers. Legal assignment or assignment of the Loans and their Related Security (including, where appropriate, their registration or recording in the relevant property register) to the Mortgages Trustee will be deferred and will only take place, if at all, in the limited circumstances described below. See *Investment Considerations – There may be risks associated with the fact that the Mortgages Trustee has no legal title to the Loans and their Related Security, which may adversely affect payments on the Notes.*

Legal assignment or assignment of the Loans and their Related Security to the Mortgages Trustee will be completed within 20 London Business Days of receipt of written notice from the Mortgages Trustee, the Funding Companies and/or the Security Trustee requesting that the Seller take such actions. The Mortgages Trustee, each Funding Company and the Security Trustee have each undertaken that they will not make such a request unless any of the following events occur:

- (a) the service of an Intercompany Loan Acceleration Notice in relation to any Programme Intercompany Loan or a Note Acceleration Notice in relation to the Notes of any Programme Issuer or any enforcement notice under the terms of indebtedness of Funding 2 or Funding 3;
- (b) the Seller and/or an Originator being required to perfect the Mortgages Trustee's legal title to the Mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority of which the Seller or an Originator is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller or Originator, as applicable, to comply;
- (c) it becoming necessary by law to take actions to perfect legal title to the Mortgages;
- (d) the security under the Funding 1 Deed of Charge or any material part of that security being, in the reasonable opinion of the Security Trustee, in jeopardy and the Security Trustee deciding to take action to reduce materially that jeopardy or the security under the deeds of charge of Funding 2 or Funding 3 or any material part of that security being, in the reasonable opinion of the Security Trustee, in jeopardy and the secured creditors thereunder deciding to take action to reduce materially that jeopardy;
- (e) unless otherwise agreed with the Security Trustee, the termination of the Seller's role as Servicer under the Servicing Agreement, unless the Rating Agencies provide prior confirmation that the then current ratings of the Programme Notes will not be downgraded, withdrawn or qualified as a result of such termination;
- (f) the Seller or any Originator requesting perfection by serving notice on the Mortgages Trustee, the Funding Companies and the Security Trustee;
- (g) the occurrence of an Insolvency Event in relation to the Seller or an Originator; and
- (h) the latest Final Repayment Dates of the Programme Intercompany Loans where any Programme Intercompany Loan has not been discharged in full.

Pending completion of the transfer, the right of the Mortgages Trustee to exercise the powers of the legal owner of the Mortgages will be secured or, in relation to Scottish Loans, supported by an irrevocable power of attorney granted by the Seller and, where applicable, the relevant Originator in favour of the Mortgages Trustee, Funding 1 and the Security Trustee.

If the Seller ceases to have a long term unsecured, unsubordinated and unguaranteed credit rating by Fitch of at least BBB- and by Moody's of at least Baa3, or ceases to have a short term unsecured unsubordinated and unguaranteed credit rating by S&P of at least A-3 (unless Fitch, Moody's and S&P confirm in writing to the Mortgages Trustee, the Funding Companies, the Security Trustee and each Programme Issuer that the then current ratings of the Programme Notes will not be downgraded,

withdrawn or qualified), the Seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the Loans to the Borrowers but will not be required to complete any other steps necessary to perfect legal title to the Loans in favour of the Mortgages Trustee.

The title deeds and customer files relating to the Loans are currently held by or to the order of the Seller or by solicitors or licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Loans and their Related Security. The Seller will undertake that as of the Closing Date all the title deeds and customer files relating to the Loans in the Portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the Mortgages Trustee.

### ***Reasonable, Prudent Mortgage Lender***

Reference in the documents to the Seller and/or an Originator and/or the Servicer acting to the standard of a **Reasonable, Prudent Mortgage Lender** means the Seller and/or an Originator and/or the Servicer, as applicable, acting in accordance with the standards of a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales, Scotland and/or Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

### ***Governing law***

The Mortgage Sale Agreement will be principally governed by English law, but will contain certain Scots law and Northern Irish law provisions. The Scottish Declarations of Trust will be governed by Scots law.

### **Intercompany Mortgage Sale Agreement**

The Seller, the Originator, the Mortgages Trustee, Funding 1 and the Security Trustee will enter into the **Intercompany Mortgage Sale Agreement** on the Set-Up Date, pursuant to which Loans originated or acquired by the Originator will be sold from time to time to the Seller. The Seller may further sell such Loans and their Related Security to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement. The sale to the Seller of Scottish Loans originated or acquired by the Originator will be effected by means of Scottish declarations of trust by the Originator in favour of the Seller. However, such a declaration or declarations of trust will only be entered into where the relevant Scottish Loan is sold on by the Seller to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement and a Scottish Declaration of Trust is entered into pursuant thereto.

The Intercompany Mortgage Sale Agreement will be principally governed by English law, but will contain certain Scots law and Northern Irish law provisions.

### **Mortgages Trust Deed**

#### ***General legal structure***

The Mortgages Trust will be a trust constituted under English law, with the Mortgages Trustee as trustee, for the benefit of the Seller and each of the Funding Companies as Beneficiaries. The Mortgages Trust will be constituted for the Programme described in this document and for the future financings by any New Issuers, Funding 2 and Funding 3.

This section describes the material terms of the Mortgages Trust, including how the Cash Manager (on behalf of the Mortgages Trustee) distributes money to each of the Funding Companies and the Seller.

The terms of the Mortgages Trust Deed may be amended as and when New Issuers are established, New Loan Types are added to the Mortgages Trust or Funding 2 and/or Funding 3 acquires more than a nominal interest in the Trust Property. Such amendments may affect the timing of payments on the Notes. **The prior consent of Noteholders will not be sought in relation to any of the proposed amendments to the Mortgages Trust Deed, provided (*inter alia*) that the Rating Agencies confirm that the ratings of the Programme Notes will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a Noteholder** (see *Investment Considerations – The Security Trustee and/or the Issuer Security Trustee and/or the Note Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests*).

#### ***The Trust Property***

Under the terms of the Mortgages Trust Deed to be entered into prior to the Set-Up Date between the Mortgages Trustee, each Funding Company and the Seller, the Mortgages Trustee will hold all of

the Trust Property on trust absolutely for Funding 1 (as to the Funding 1 Share), for Funding 2 (as to the Funding 2 Share), for Funding 3 (as to the Funding 3 Share) and for the Seller (as to the Seller Share). The **Trust Property** is:

- the sum of £100 settled by Structured Finance Management Offshore Limited on trust on the date of the Mortgages Trust Deed;
- the Initial Loans and their Related Security sold to the Mortgages Trustee by the Seller on the Closing Date;
- any New Loans and their Related Security sold to the Mortgages Trustee by the Seller after the Closing Date;
- any increase in the Current Balance of a Loan due to Borrowers making Underpayments or taking Payment Holidays under any FlexAbility Loan or Choices Loan or making further drawings under a Buy-to-Let Loan;
- any increase in the Current Balance of a Loan due to a Borrower making Cash Withdrawal or being granted an Extension Advance;
- any Revenue Receipts and Principal Receipts on the Loans in the Portfolio;
- any Contribution paid by any Funding Company or the Seller to the Mortgages Trustee, for application in accordance with the terms of the Mortgages Trust Deed, but only up to the time of such application;
- any other amounts received under or in respect of the Loans and their Related Security on or after the relevant Sale Date (excluding Third Party Amounts), including the proceeds of any sale of the Loans and their Related Security and any other proceeds of sale of any other Trust Property;
- rights under the insurance policies that are assigned to the Mortgages Trustee or which the Mortgages Trustee has the benefit of; and
- amounts on deposit (and interest earned on those amounts) in the Mortgages Trustee GIC Account;

less

- any actual Losses in relation to the Loans and any actual reductions occurring in respect of the Loans as described in paragraph (1) of – *Adjustments to Trust Property* below;
- distributions of Revenue Receipts and Principal Receipts made from time to time to the Beneficiaries of the Mortgages Trust; and
- Refinancing Distributions and/or Special Distributions made from time to time to the Beneficiaries of the Mortgages Trust.

### ***Contributions to the Mortgages Trust***

Pursuant to the terms of the Mortgages Trust Deed, each of the Beneficiaries may contribute certain assets to the Mortgages Trust (each a **Contribution**). A Contribution may be made to the Mortgages Trust by way of an Initial Contribution, a Refinancing Contribution, a Further Contribution, a Seller Contribution or a Deferred Contribution.

An **Initial Contribution** is a Contribution by way of cash payable, pursuant to the terms of the Mortgages Trust Deed, by a Funding Company to the Mortgages Trustee for the purposes of enabling the Mortgages Trustee to fund the payment of the Initial Purchase Price owed by the Mortgages Trustee, pursuant to the terms of the Mortgage Sale Agreement, to the Seller in respect of any Loans and their Related Security sold to the Mortgages Trustee from time to time.

A **Refinancing Contribution** is a Contribution by way of cash payable, pursuant to the terms of the Mortgages Trust Deed, by a Beneficiary to the Mortgages Trustee. A Refinancing Contribution made by a Beneficiary will increase the share of that Beneficiary in the Trust Property by a corresponding amount. The Mortgages Trustee will allocate and pay amounts received as a Refinancing Contribution to make a Refinancing Distribution to the Funding Company specified by the Beneficiary that made the Refinancing Contribution. The recipient's share in the Trust Property will be reduced accordingly (see further – *Refinancing Distributions*). A Refinancing Contribution is a Contribution made by any one of the Beneficiaries (other than a Deferred Contribution) while any indebtedness loan of any of the other Funding Companies is outstanding, and such Beneficiary elects, in its sole discretion, to designate all or part of that Contribution as a Refinancing Contribution in relation to the recipient Funding Company. The amount of any Refinancing Contribution cannot exceed the aggregate principal amount of all debt obligations of the Funding Companies then outstanding.

A **Further Contribution** is a Contribution (excluding any Initial Contribution or Deferred Contribution but including a Refinancing Contribution and a Seller Contribution) by way of cash payable pursuant to the terms of the Mortgages Trust Deed by a Beneficiary to the Mortgages Trustee to increase the share of that Beneficiary in the Trust Property. Upon receipt of a Further Contribution (other than in respect of a Further Contribution which is also a Refinancing Contribution or a Seller Contribution) made by a Funding Company, the Mortgages Trustee will pay an amount equal to such Further Contribution to the Seller on the date such Further Contribution is made (whether or not such date is a Distribution Date) by way of a Special Distribution (the payment of such Special Distribution will decrease the Seller Share of the Trust Property by an equal amount).

A **Seller Contribution** is a Contribution by way of cash payable pursuant to the terms of the Mortgages Trust Deed by the Seller to the Mortgages Trustee to increase the share of the Seller in the Trust Property. A Seller Contribution will be in an amount equal to the unpaid interest element otherwise due under any Choices Loan or FlexAbility Loan which is subject to an authorised Underpayment or Payment Holiday.

A **Deferred Contribution** is a Contribution by way of cash payable pursuant to the terms of the Mortgages Trust Deed, by a Funding Company and in respect of the share of that Funding Company in the Trust Property for the purposes of enabling the Mortgages Trustee to fund the payment of Deferred Purchase Price (including in respect of Early Repayment Charges) owed by the Mortgages Trustee, pursuant to the terms of the Mortgage Sale Agreement, to the Seller in respect of the Portfolio.

### ***Fluctuation of Shares in the Trust Property***

Under the terms of the Mortgages Trust Deed, none of the Beneficiaries will be entitled to particular Loans and their Related Security separately from the other Beneficiaries. Rather, each of them has a joint and undivided interest in all of the Loans and their Related Security constituting the Trust Property from time to time.

The approximate shares of each Beneficiary in the Trust Property at the Closing Date are set out in *The Supplement – Transaction Features – The Mortgages Trust*.

The shares of each Beneficiary in the Trust Property will fluctuate depending on a number of factors, including:

- the allocation of Principal Receipts on the Loans to each of the Beneficiaries;
- Losses arising on the Loans;
- the sale of New Loans and their Related Security to the Mortgages Trustee;
- the capitalisation of arrears in respect of any Loan;
- any of the Beneficiaries increasing its beneficial interest in, and hence its share of, the Trust Property by making Contributions (excluding, in respect of the Funding Companies, Deferred Contributions) to the Mortgages Trustee in accordance with the terms of the Mortgages Trust Deed;
- the Mortgages Trustee making any Special Distributions or Refinancing Distributions to any Beneficiary on a Distribution Date; and
- the Seller or Originator making an Extension Advance to a Borrower or a Borrower exercising any right to make a Cash Withdrawal, Underpayment or take a Payment Holiday under a Choices Loan or a FlexAbility Loan or a Borrower making any further drawing under a Buy-to-Let Loan.

### ***Dates for recalculation of the share of each Beneficiary***

The Cash Manager will calculate the then current share of each of the Beneficiaries in the Trust Property on:

- (a) the tenth day of each calendar month (or if such a day is not a London Business Day, the next succeeding London Business Day) and the day on which the Mortgages Trust is terminated (each such date, a **Trust Calculation Date**) and the period from (and including) the fourth day of each calendar month to (but excluding) the fourth day of the next calendar month or as applicable, the date of termination of the Mortgages Trust, a **Trust Calculation Period**;
- (b) the date of sale of any New Loans to the Mortgages Trustee (each such date, a **Sale Date**); and

- (c) the date that any of the Beneficiaries makes a Further Contribution to the Mortgages Trust (each such date, a **Further Contribution Date**).

The reason for the recalculation of the share of each Beneficiary on a Sale Date or Further Contribution Date is so as to determine the percentage share of each Beneficiary in the Trust Property which will reflect the addition of New Loans and their Related Security or a Further Contribution (as the case may be) to the Trust Property. When the Cash Manager recalculates the relevant shares and share percentages of each Beneficiary on a Trust Calculation Date, that recalculation will apply for the then current Trust Calculation Period. However, if during such Trust Calculation Period the Seller sells New Loans to the Mortgages Trustee or a Further Contribution is made, the recalculation made by the Cash Manager on that Sale Date or Further Contribution Date (as applicable) will only apply from that Sale Date or Further Contribution Date to the earlier to occur of the end of that then current Trust Calculation Period, the next Sale Date and Further Contribution Date. The portion of a Trust Calculation Period that is less than a full Trust Calculation Period is called an **Interim Trust Calculation Period**.

The percentage share that each Beneficiary has in the Trust Property will determine that Beneficiary's entitlement to Revenue Receipts and Principal Receipts from the Loans in the Trust Property and also the allocation of Losses arising on the Loans for each Trust Calculation Period or Interim Trust Calculation Period, as applicable. The method of determining those percentage shares is as set out below.

**Distribution Date** means the day falling two London Business Days after the immediately preceding Trust Calculation Date being the date that the Mortgages Trustee will distribute Principal Receipts and Revenue Receipts to the Beneficiaries.

***Funding 1 Share of Trust Property – Trust Calculation Date recalculation***

On each Trust Calculation Date (also referred to in this section as the **Relevant Trust Calculation Date**), the interest of Funding 1 in the Trust Property (the **Funding 1 Share**) is recalculated to take effect for the then current Trust Calculation Period or related Interim Trust Calculation Period in accordance with the following formulae:

- The Funding 1 Share of the Trust Property will be an amount equal to:

$$A - B - C + D + E + F$$

- The percentage share of Funding 1 (the **Funding 1 Share Percentage**) in the Trust Property will be an amount equal to:

$$\frac{A - B - C + D + E + F}{G} \times 100$$

in the latter case, expressed as a percentage and rounded upwards to five decimal places, where:

A = the amount of the Funding 1 Share in the Trust Property as determined on the immediately preceding Trust Calculation Date or, as the case may be, the applicable Closing Date;

B = the sum of (i) the amount of any Principal Receipts on the Loans to be distributed to Funding 1 on the Distribution Date immediately following the Relevant Trust Calculation Date and (ii) any Refinancing Distribution to be made to Funding 1 on such Distribution Date;

C = the amount of Losses sustained on the Loans in the immediately preceding Trust Calculation Period and the amount of any reductions occurring in respect of the Loans as described in paragraphs (1) to (4) in – *Adjustments to Trust Property* below, in each case allocated to Funding 1 in the Trust Calculation Period ending on the Relevant Trust Calculation Date;

D = the amount of any Initial Contribution paid by Funding 1 to the Mortgages Trustee during the immediately preceding Trust Calculation Period in respect of the Funding 1 Share of any New Loans sold by the Seller to the Mortgages Trustee during such Trust Calculation Period (the **New Trust Property**);

E = the amount of any Further Contribution paid by Funding 1 to the Mortgages Trustee during the immediately preceding Trust Calculation Period to increase the Funding 1 Share of the Trust Property;

F = the amount of any Capitalised Arrears which have been allocated to Funding 1 in the immediately preceding Trust Calculation Period;

G = the aggregate Current Balance of all the Loans in the Trust Property as at the Relevant Trust Calculation Date after making or provisioning for the distributions, allocations and additions referred to in **B, C, D, E** and **F** and after taking account of:

- the sale, if any, of New Loans during the immediately preceding Trust Calculation Period or on the Relevant Trust Calculation Date;
- any distribution of Principal Receipts to any of the Beneficiaries;
- the amount of any Losses or capitalised arrears to be allocated to the Beneficiaries;
- the amount of any increase in the Current Balances due to capitalisation of insurance premiums due by Borrowers;
- the adjustments referred to in paragraphs (1) to (4) in – *Adjustments to Trust Property* below; and
- the amount of any other additions or subtractions to the Trust Property (including any subtractions made to the Trust Property resulting from Overpayments made by Borrowers and/or any additions to the Trust Property resulting from Borrowers making Cash Withdrawals or Underpayments or taking Payment Holidays under a Choices Loan or a FlexAbility Loan or the Seller making Extension Advances to a Borrower or a Borrower making further drawdowns under a Buy-to-Let Loan during the immediately preceding Trust Calculation Period, as described below in – *Additions to and reductions from the Trust Property*).

***Funding 2 Share and Funding 3 Share of Trust Property – Trust Calculation Date recalculation***

The share of Funding 2 in the Trust Property (the **Funding 2 Share**) and the percentage share of Funding 2 in the Trust Property (the **Funding 2 Share Percentage**) will be recalculated on each Trust Calculation Date in the same way that the Funding 1 Share and the Funding 1 Share Percentage are recalculated in the above section (*Funding 1 Share of Trust Property – Trust Calculation Date recalculation*), except that references to Funding 1 are to be read as references to Funding 2.

The share of Funding 3 in the Trust Property (the **Funding 3 Share**) and the percentage share of Funding 3 in the Trust Property (the **Funding 3 Share Percentage**) will be recalculated on each Trust Calculation Date in the same way that the Funding 1 Share and the Funding 1 Share Percentage are recalculated in the above section (*Funding 1 Share of Trust Property – Trust Calculation Date recalculation*), except that references to Funding 1 are to be read as references to Funding 3.

***Funding 1 Share of Trust Property – Sale Date and Further Contribution Date recalculations***

On each Sale Date and Further Contribution Date, the Funding 1 Share in the Trust Property will be recalculated for the related Interim Trust Calculation Period, for the sole purpose of calculating the distributions to be made from the Trust Property on the immediately succeeding Distribution Date, in accordance with the following formula:

- (i) the then current Funding 1 Share of the Trust Property will be an amount equal to:

$$A + D$$

- (ii) the current Funding 1 Share Percentage of the Trust Property will be an amount equal to:

$$\frac{A + D}{G} \times 100$$

expressed as a percentage and rounded upwards to five decimal places,

where:

A = the size of the Funding 1 Share of the Trust Property as determined on the later of the Trust Calculation Date, Sale Date or, as applicable, Further Contribution Date immediately preceding the relevant Trust Calculation Date, Sale Date or, as applicable, Further Contribution Date;

D = (a) the amount of any Initial Contribution paid by Funding 1 to the Mortgages Trustee on such Sale Date in respect of the Funding 1 Share of any New Trust Property or, as the case may be, (b) an amount equal to the Further Contribution paid by Funding 1 to the Mortgages Trustee on such Further Contribution Date; and

G = the sum of:

- (i) the aggregate Current Balance of all of the Loans in the Trust Property as at the immediately preceding Trust Calculation Date; and
- (ii) the aggregate Current Balance of the New Loans sold to the Mortgages Trustee after the immediately preceding Trust Calculation Date including the New Loans sold to the Mortgages Trustee on such Sale Date.

***Funding 2 Share and Funding 3 Share of Trust Property – Sale Date and Further Contribution Date recalculations***

The Funding 2 Share of the Trust Property and the Funding 2 Share Percentage in the Trust Property will be recalculated on each Sale Date and Further Contribution Date in the same way that the Funding 1 Share and the Funding 1 Share Percentage are recalculated in the above section (*Funding 1 Share of Trust Property – Sale Date and Further Contribution Date recalculations*), except that references to Funding 1 are to be read as references to Funding 2.

The Funding 3 Share of the Trust Property and the Funding 3 Share Percentage in the Trust Property will be recalculated on each Sale Date and Further Contribution Date in the same way that the Funding 1 Share and the Funding 1 Share Percentage are recalculated in the above section (*Funding 1 Share of Trust Property – Sale Date and Further Contribution Date recalculations*), except that references to Funding 1 are to be read as references to Funding 3.

***Adjustments to Trust Property***

If any of the following events occurs during a Trust Calculation Period, then the aggregate Current Balance of the Loans in the Trust Property will be reduced or deemed to be reduced for the purposes of the calculation of **G** above with respect to the relevant Sale Date or, as applicable, Further Contribution Date recalculation and the Trust Calculation Date recalculation:

- (1) any Borrower exercises a right of set-off so that the amount of principal and interest owing under a Loan is reduced but no corresponding payment is received by the Mortgages Trustee. In this event, the aggregate Current Balance of the Loans in the Trust Property will be reduced by an amount equal to the amount of that set-off; and/or
- (2) a Loan or its Related Security (i) does not materially comply with the representations and warranties contained in the Mortgage Sale Agreement or (ii) is the subject of a Product Switch or an Extension Advance which does not comply with the relevant conditions for remaining in the Trust Property (and in each case the Seller fails to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security to the extent required by the terms of the Mortgage Sale Agreement). In this event, the aggregate Current Balance of the Loans in the Trust Property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the Current Balance of the relevant Loan or Loans under the relevant Mortgage Account; and/or
- (3) the Seller would be required to repurchase a Loan and its Related Security as required by the terms of the Mortgage Sale Agreement, but the Loan and its Related Security is not capable of being repurchased. In this event, the aggregate Current Balance of the Loans in the Trust Property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the Current Balance of the relevant Loan or Loans under the relevant Mortgage Account; and/or
- (4) the Seller breaches any other material warranty under the Mortgage Sale Agreement and/or (for so long as the Seller is the Servicer) the Servicing Agreement, which will also be grounds for terminating the appointment of the Servicer. In this event, the aggregate Current Balance of the Loans in the Trust Property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the resulting loss (if any) incurred by the Beneficiaries.

The reductions or deemed reductions set out in paragraphs (1) to (4) above will be made on the relevant Trust Calculation Date, first to the Seller's Share (including the Minimum Seller Share) of the Trust Property, and thereafter will be made to each Funding 1 Share, Funding 2 Share and Funding 3 Share of the Trust Property, *pro rata* according to the then current Funding Proportion thereof.

Any sums that are subsequently recovered by the Mortgages Trustee in connection with a reduction or deemed reduction of the Trust Property under paragraphs (1) to (4) above will constitute a Revenue Receipt under the relevant Loan. Such Revenue Receipt will be allocated to each of the Funding Companies according to the then current Funding Proportion thereof (but only if and to the extent

that the related reductions were applied against the Funding 1 Share, the Funding 2 Share and the Funding 3 Share of the Trust Property) and thereafter will belong to the Seller.

**Funding 1 Proportion** means, on a Distribution Date, Sale Date, Further Contribution Date or Funding 1 Payment Date, an amount equal to:

$$\frac{A}{A + B + C}$$

**Funding 2 Proportion** means, on a Distribution Date, Sale Date, Further Contribution Date or Funding 1 Payment Date, an amount equal to:

$$\frac{B}{A + B + C}$$

**Funding 3 Proportion** means, on a Distribution Date, Sale Date, Further Contribution Date or Funding 1 Payment Date, an amount equal to:

$$\frac{C}{A + B + C}$$

in each case where:

A = The Funding 1 Share on that date;

B = The Funding 2 Share on that date; and

C = The Funding 3 Share on that date.

**Funding Proportion** means each of the Funding 1 Proportion, the Funding 2 Proportion and the Funding 3 Proportion.

### ***The Weighted Average Share Percentages***

On any Trust Calculation Date where the Seller has sold New Loans to the Mortgages Trustee or a Beneficiary has made a Further Contribution during the immediately preceding Trust Calculation Period, the Cash Manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding Distribution Date) the weighted average of the current Funding 1 Share Percentage, Funding 2 Share Percentage, Funding 3 Share Percentage and Seller Share Percentage in respect of each Interim Trust Calculation Period occurring in that immediately preceding Trust Calculation Period. The calculation will be based on the amount of the Revenue Receipts and the Principal Receipts received and the Losses sustained during each of the preceding Interim Trust Calculation Periods.

### ***The Weighted Average Funding 1 Share Percentage***

The **Weighted Average Funding 1 Share Percentage** for any such Trust Calculation Date will be equal to:

- (a) in respect of the distribution of Revenue Receipts to be made on the immediately succeeding Distribution Date (the **Weighted Average Funding 1 Share (Revenue) Percentage**), the sum, in respect of all Interim Trust Calculation Periods during the Trust Calculation Period immediately preceding the relevant Trust Calculation Date, of:
  - (i) for each Interim Trust Calculation Period during that Trust Calculation Period, the product of:
    - (1) the related Funding 1 Share Percentage for that Interim Trust Calculation Period; and
    - (2) the amount of all Revenue Receipts received by the Mortgages Trustee during that Interim Trust Calculation Period;

divided by:

- (ii) the aggregate of all Revenue Receipts received by the Mortgages Trustee during the Trust Calculation Period immediately preceding that Trust Calculation Date;

- (b) in respect of the distribution of Principal Receipts to be made on the immediately succeeding Distribution Date (the **Weighted Average Funding 1 Share (Principal) Percentage**), the sum, in respect of all Interim Trust Calculation Periods during the Trust Calculation Period immediately preceding the relevant Trust Calculation Date, of:
- (i) for each Interim Trust Calculation Period during that Trust Calculation Period, the product of:
    - (1) the related Funding 1 Share Percentage for that Interim Trust Calculation Period; and
    - (2) the amount of all Principal Receipts received by the Mortgages Trustee during that Interim Trust Calculation Period;
 divided by:
  - (ii) the aggregate of all Principal Receipts received by the Mortgages Trustee during the Trust Calculation Period immediately preceding that Trust Calculation Date; and
- (c) in respect of the allocation of Losses to be made on the immediately succeeding Distribution Date (the **Weighted Average Funding 1 Share (Losses) Percentage**), the sum, in respect of all Interim Trust Calculation Periods during the Trust Calculation Period immediately preceding the relevant Trust Calculation Date, of:
- (i) for each Interim Trust Calculation Period during that Trust Calculation Period, the product of:
    - (1) the related Funding 1 Share Percentage for that Interim Trust Calculation Period; and
    - (2) the amount of all Losses sustained on the Loans during that Interim Trust Calculation Period;
 divided by:
  - (ii) the aggregate of all Losses sustained on the Loans during the Trust Calculation Period immediately preceding that Trust Calculation Date.

***The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage***

The **Weighted Average Funding 2 Share Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share Percentage, except that references to Funding 1 are to be read as references to Funding 2.

The **Weighted Average Funding 2 Share (Revenue) Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share (Revenue) Percentage, except that references to Funding 1 are to be read as references to Funding 2.

The **Weighted Average Funding 2 Share (Principal) Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share (Principal) Percentage, except that references to Funding 1 are to be read as references to Funding 2.

The **Weighted Average Funding 2 Share (Losses) Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share (Losses) Percentage, except that references to Funding 1 are to be read as references to Funding 2.

The **Weighted Average Funding 3 Share Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share Percentage, except that references to Funding 1 are to be read as references to Funding 3.

The **Weighted Average Funding 3 Share (Revenue) Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share (Revenue) Percentage, except that references to Funding 1 are to be read as references to Funding 3.

The **Weighted Average Funding 3 Share (Principal) Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share (Principal) Percentage, except that references to Funding 1 are to be read as references to Funding 3.

The **Weighted Average Funding 3 Share (Losses) Percentage** will be calculated in the same way as the Weighted Average Funding 1 Share (Losses) Percentage, except that references to Funding 1 are to be read as references to Funding 3.

***Seller Share of Trust Property – Trust Calculation Date recalculation***

On each Trust Calculation Date, the interest of the Seller in the Trust Property will be recalculated for the relevant Trust Calculation Period or related Interim Trust Calculation Period in accordance with the following formulae:

The **Seller Share** in the Trust Property will be an amount equal to:

- the aggregate Trust Property as at the relevant Trust Calculation Date *minus* the Funding 1 Share, the Funding 2 Share and the Funding 3 Share each as calculated on the relevant Trust Calculation Date.

The percentage share of the Seller in the Trust Property will be an amount equal to:

- 100 per cent. *minus* the Funding 1 Share Percentage, the Funding 2 Share Percentage and the Funding 3 Share Percentage each as calculated on the relevant Trust Calculation Date.

None of the Funding 1 Share, the Funding 2 Share, the Funding 3 Share or the Seller Share of the Trust Property may be reduced to or below zero, regardless of the requirements in relation to the Minimum Seller Share.

***The Weighted Average Seller Share Percentage***

On any Trust Calculation Date in respect of which the Seller has sold New Loans to the Mortgages Trustee or a Beneficiary has made a Further Contribution during the immediately preceding Trust Calculation Period, the Cash Manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding Distribution Date) the weighted average of the current Seller Share Percentages that were calculated previously in respect of each Interim Trust Calculation Period occurring in that immediately preceding Trust Calculation Period. The calculation will be based on the amount of the Revenue Receipts and the Principal Receipts received and the Losses sustained during each of the preceding Interim Trust Calculation Periods.

The **Weighted Average Seller Share Percentage** for any such Trust Calculation Date will be equal to:

- (a) in respect of the distribution of Revenue Receipts to be made on the immediately succeeding Distribution Date (the **Weighted Average Seller Share (Revenue) Percentage**), the sum based on the following formula:

$$100 \text{ per cent. } \textit{minus} \left( \begin{array}{l} \text{(Then current Weighted Average Funding 1} \\ \text{Share (Revenue) Percentage } \textit{plus} \text{ the then} \\ \text{current Weighted Average Funding 2 Share} \\ \text{(Revenue) Percentage } \textit{plus} \text{ the then current} \\ \text{Weighted Average Funding 3 Share (Revenue)} \\ \text{Percentage)} \end{array} \right)$$

- (b) in respect of the distribution of Principal Receipts to be made on the immediately succeeding Distribution Date (the **Weighted Average Seller Share (Principal) Percentage**), the sum based on the following formula:

$$100 \text{ per cent. } \textit{minus} \left( \begin{array}{l} \text{(Then current Weighted Average Funding 1} \\ \text{Share (Principal) Percentage } \textit{plus} \text{ the then} \\ \text{current Weighted Average Funding 2 Share} \\ \text{(Principal) Percentage } \textit{plus} \text{ the then current} \\ \text{Weighted Average Funding 3 Share (Principal)} \\ \text{Percentage)} \end{array} \right)$$

- (c) in respect of the allocation of Losses to be made on the immediately succeeding Distribution Date (the **Weighted Average Seller Share (Losses) Percentage**), the sum based on the following formula:

$$100 \text{ per cent. } \textit{minus} \left( \begin{array}{l} \text{(Then current Weighted Average Funding 1} \\ \text{Share (Losses) Percentage } \textit{plus} \text{ the then current} \\ \text{Weighted Average Funding 2 Share (Losses)} \\ \text{Percentage } \textit{plus} \text{ the then current Weighted} \\ \text{Average Funding 3 Share (Losses) Percentage)} \end{array} \right)$$

### ***Minimum Seller Share***

The Seller Share of the Trust Property includes an amount known as the **Minimum Seller Share**. The amount of the Minimum Seller Share, as at the Closing Date, is set out in *The Supplement – Transaction Features – The Mortgages Trust*, but it will fluctuate depending on changes to the characteristics of the Loans in the Trust Property. The Seller will not be entitled to receive Principal Receipts which would reduce the Seller Share of the Trust Property to an amount less than the Minimum Seller Share unless and until:

- (a) each of the Funding 1 Share, the Funding 2 Share and the Funding 3 Share of the Trust Property is in an amount equal to zero; or
- (b) an Asset Trigger Event occurs.

The Minimum Seller Share will be the amount determined on each Trust Calculation Date (after any sale of Loans to the Mortgages Trustee on that Trust Calculation Date) in accordance with the following formula:

$$X + Y + Z$$

where:

X = 2.25 per cent. of the aggregate Current Balance of Loans originated by Bradford & Bingley in the Trust Property, as calculated on the relevant Trust Calculation Date;

Y = the product of: p x q x r

where:

p = 8 per cent.;

q = the **Flexible Draw Capacity**, being an amount equal to the maximum amount of Cash Withdrawals that Borrowers may draw under Choices Loans or FlexAbility Loans or Buy-to-Let Loans included in the Trust Property as determined in respect of the previous Trust Calculation Period; and

r = 3;

Z = the aggregate Current Balance of all Cash Withdrawals made by Borrowers under Choices Options or under FlexAbility Loans in the Trust Property and the additional Current Balance of all Extension Advances under Loans and further drawings under Buy-to-Let Loans in the Trust Property, in each case on the relevant Trust Calculation Date.

The purpose of “X” is to mitigate the risks relating to certain set-off risks relating to the Loans. The amount of “X” may be reduced from time to time at the request of any of the Beneficiaries (acting reasonably) provided that the Security Trustee has previously received written confirmation from the Rating Agencies that the then current ratings of the Programme Notes as a result thereof will not be downgraded, withdrawn or qualified.

The purpose of the calculation in “Y” is to mitigate the risk of the Seller failing to fund Cash Withdrawals (which Borrowers are entitled to draw) under Choices Loans and FlexAbility Loans and Buy-to-Let Loans in the Portfolio (excluding for these purposes Extension Advances).

The purpose of “Z” is to mitigate enforceability and priority risks relating to Cash Withdrawals and Extension Advances under Loans in the Portfolio.

### ***Adjustments to distributions***

In calculating on each Trust Calculation Date and making the distributions on each Distribution Date, the Mortgages Trustee, or the Cash Manager on its behalf, will take account of and make adjustments for such calculations and distributions in order that:

- (a) any increase in the share of any Beneficiary in the Trust Property as a result of the payment by that Beneficiary of any Contribution (excluding a Deferred Contribution) during the Trust Calculation Period immediately preceding such Distribution Date (or during any Interim Trust Calculation Period during that Trust Calculation Period) is deemed to have taken effect as an increase in the relevant Beneficiary’s Share of the Trust Property from the date on which such Contribution was paid to the Mortgages Trustee; and
- (b) any decrease in the Seller Share of the Trust Property as a result of the payment of a Special Distribution to the Seller will be deemed to have taken effect as a decrease in the Seller Share from the date on which such Special Distribution was paid to the Seller.

### ***Cash Management of Trust Property – Revenue Receipts***

Under the Cash Management Agreement, the Cash Manager is responsible for distributing Revenue Receipts on behalf of the Mortgages Trustee on each Distribution Date in accordance with the order of priority described in the following section. For further information on the role of the Cash Manager, see *Summary of the Transaction Documents – Cash Management Agreement*.

### ***Mortgages Trust Calculation of Revenue Receipts***

**Mortgages Trust Available Revenue Receipts** will be calculated by the Cash Manager on each Trust Calculation Date and is an amount equal to the sum of:

- Revenue Receipts on the Loans (for the avoidance of doubt, excluding Principal Receipts);
- interest received or payable to the Mortgages Trustee on the Mortgages Trustee GIC Account; and
- the amount of any Seller Contribution received by the Mortgages Trustee;

less

- amounts due to third parties (also known as **Third Party Amounts**), including:
  - (1) amounts under a direct debit which are repaid to the bank making the payment if that bank is unable to recoup that amount itself from its customer's account;
  - (2) payments by Borrowers of any fees and other charges which are due to the Seller (including payments of insurance premiums, if any, due to the Seller in respect of any Seller arranged insurance policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the seller in respect of any Loan, which is not repurchased by the Seller, to reimburse the Seller)); and
  - (3) recoveries in respect of amounts deducted from Loans as described in paragraphs (1) to (4) in – *Adjustments to Trust Property* above, which will belong to and be paid to the Funding Companies and/or the Seller as described therein,

which amounts may be paid daily from monies on deposit in the Mortgages Trustee GIC Account.

In the Mortgages Trust Revenue Priority of Payments below, references to the term **Relevant Trust Calculation Date** means the Trust Calculation Date at the start of the most recently completed Trust Calculation Period.

On each Distribution Date (or in respect of amounts due to third parties under paragraph (b) below, when due), the Cash Manager will apply Mortgages Trust Available Revenue Receipts in accordance with the following **Mortgages Trust Revenue Priority of Payments**:

- (a) *first*, to the Seller in an amount equal to any Seller Accrued Interest Amounts received by the Mortgages Trustee in the immediately preceding Trust Calculation Period;
- (b) *then, pari passu and pro rata*, to pay:
  - amounts due and payable to the Mortgages Trustee under the provisions of the Mortgages Trust Deed or to become due and payable to the Mortgages Trustee during the current Trust Calculation Period; and
  - amounts due and payable to third parties or to become due and payable to third parties during the current Trust Calculation Period from the Mortgages Trustee in respect of the Mortgages Trust, but only if:
    - (1) payment is not due as a result of a breach by the Mortgages Trustee of the documents to which it is a party; and/or
    - (2) payment has not already been provided for elsewhere;
- (c) *then, pari passu and pro rata*, to pay:
  - amounts due and payable to the Servicer or to become due and payable to the Servicer during the current Trust Calculation Period under the provisions of the Servicing Agreement;
  - amounts due and payable to the Cash Manager or to become due and payable to the Cash Manager during the current Trust Calculation Period under the provisions of the Cash Management Agreement;

- amounts due and payable to the Mortgages Trustee Corporate Services Provider or to become due and payable to the Mortgages Trustee Corporate Services Provider during the current Trust Calculation Period under the provisions of the Mortgages Trustee Corporate Services Agreement; and
  - amounts due and payable to the Mortgages Trustee Account Bank or to become due and payable to the Mortgages Trustee Account Bank during the current Trust Calculation Period under the provisions of the Mortgages Trustee Bank Account Agreement; and
- (d) *finally*, subject to the proviso below, to allocate and pay the remaining Mortgages Trust Available Revenue Receipts to:
- Funding 1 in an amount determined by multiplying the total amount of the remaining Mortgages Trust Available Revenue Receipts by the Funding 1 Share Percentage of the Trust Property as calculated on the Relevant Trust Calculation Date;
  - Funding 2 in an amount determined by multiplying the total amount of the remaining Mortgages Trust Available Revenue Receipts by the Funding 2 Share Percentage of the Trust Property as calculated on the Relevant Trust Calculation Date;
  - Funding 3 in an amount determined by multiplying the total amount of the remaining Mortgages Trust Available Revenue Receipts by the Funding 3 Share Percentage of the Trust Property as calculated on the Relevant Trust Calculation Date; and
  - the Seller in an amount determined by multiplying the total amount of the remaining Mortgages Trust Available Revenue Receipts by the Seller Share Percentage of the Trust Property as calculated on the Relevant Trust Calculation Date,

**PROVIDED THAT**, if a Sale Date or Further Contribution Date has occurred during the Trust Calculation Period immediately preceding the relevant Distribution Date, then the Cash Manager will use:

- (i) the Weighted Average Funding 1 Share (Revenue) Percentage (instead of the Funding 1 Share Percentage) in determining the amount of Mortgages Trust Available Revenue Receipts to distribute to Funding 1;
- (ii) the Weighted Average Funding 2 Share (Revenue) Percentage (instead of the Funding 2 Share Percentage) in determining the amount of Mortgages Trust Available Revenue Receipts to distribute to Funding 2;
- (iii) the Weighted Average Funding 3 Share (Revenue) Percentage (instead of the Funding 3 Share Percentage) in determining the amount of Mortgages Trust Available Revenue Receipts to distribute to Funding 3; and
- (iv) the Weighted Average Seller Share (Revenue) Percentage (instead of the Seller Share Percentage) in determining the amount of Mortgages Trust Available Revenue Receipts to distribute to the Seller.

Amounts due to the Mortgages Trustee, the Servicer, the Cash Manager, the Mortgages Trustee Corporate Services Provider and the Mortgages Trustee Account Bank include amounts payable in respect of VAT, if any.

You should note that when Funding 2 and/or Funding 3 acquire more than a nominal interest in the Trust Property, the allocation of Mortgages Trust Available Revenue Receipts may change. In particular, Funding 1 may not receive Mortgages Trust Available Revenue Receipts that would be available to pay amounts to any Start-Up Loan Providers or in respect of Deferred Contributions. You will not have any right of prior review or consent to such changes, provided that (among other things) the Rating Agencies confirm that the ratings of the Programme Notes will not be downgraded, withdrawn or qualified by such changes.

### ***Cash Management of Trust Property – Principal Receipts***

Under the Cash Management Agreement, the Cash Manager is also responsible for distributing Principal Receipts on behalf of the Mortgages Trustee on each Distribution Date. To understand how the Cash Manager distributes Principal Receipts on the Loans on each Distribution Date, you need to understand the definitions set out below. The definitions may change when Funding 2 and Funding 3 have acquired more than a nominal interest in the Trust Property or as New Trust Property is acquired. **You will not have any right of prior review or consent to such changes, provided that (among**

**other things) the Rating Agencies previously confirm that the ratings of the Programme Notes will not be downgraded, withdrawn or qualified as a result of such changes.**

On each Trust Calculation Date, the Cash Manager will ascertain whether the following Distribution Date is within a Cash Accumulation Period relating to a Cash Accumulation Advance for any Funding Company and will ascertain each Funding Company's Cash Accumulation Requirement and Repayment Requirement.

The Cash Accumulation Period will be calculated separately for each Cash Accumulation Advance.

### ***Definitions***

An **Asset Trigger Event** will occur when an amount is debited to the Class A Principal Deficiency Sub-Ledger of Funding 1. For more information on the Principal Deficiency Ledger, see *Credit Structure*. The definition of **Asset Trigger Event** may change as New Loan Types are sold to the Mortgages Trustee or when Funding 2 or Funding 3 acquires more than a nominal interest in the Trust Property.

**Bullet Term Advance** means any Funding Company Term Advance where the full amount of principal is scheduled to be repaid in full on one date (being the Scheduled Repayment Date). In respect of any Bullet Term Advances made to Funding 1, such Bullet Term Advances will be deemed to be Pass-Through Term Advances if:

- a Trigger Event occurs;
- in respect of the Bullet Term Advances made by a relevant Programme Issuer only, the security granted by that particular Programme Issuer is enforced; or
- the Funding 1 Security is enforced.

As at the Closing Date, the Bullet Term Advances made by the Programme Issuers to Funding 1 are set out in *The Supplement – Transaction Features – The Term Advances*. Any Bullet Term Advances made to Funding 1 after the Closing Date will be notified to Noteholders in the first Investor Report published after the date such Bullet Term Advances are made.

If a Bullet Term Advance is made to Funding 2 or Funding 3, the amount and Scheduled Repayment Date of that Bullet Term Advance will be notified to Noteholders in the first Investor Report published after the date such Bullet Term Advance is made.

There may be circumstances when the Bullet Term Advances made to Funding 2 or Funding 3 will be deemed to be Pass-Through Term Advances. Noteholders will not be notified of these.

**Cash Accumulation Advance** means a Bullet Term Advance and/or Controlled Amortisation Term Advance.

**Cash Accumulation Ledger** means a ledger maintained by the Cash Manager to record the amount accumulated by a Funding Company from time to time to pay Relevant Accumulation Amounts. There will be a separate Cash Accumulation Ledger for each Funding Company.

**Cash Accumulation Period** means, as applicable, a Funding 1 Cash Accumulation Period, a Funding 2 Cash Accumulation Period and/or a Funding 3 Cash Accumulation Period.

**Cash Accumulation Requirement** means on a Trust Calculation Date in relation to a Funding Company:

- the principal amount remaining to be repaid in relation to each Relevant Accumulation Amount due to that Funding Company;
- plus, on a Trust Calculation Date falling immediately prior to a Funding Company Payment Date, amounts due and payable by that Funding Company on the following Funding Company Payment Date (or which will become due and payable in the current Funding Company Interest Period) in priority to principal amounts due by that Funding Company on the Relevant Accumulation Amount (e.g. in relation to Funding 1, see items (a) and (b) of the Funding 1 Pre-Enforcement Principal Priority of Payments);
- less the amount standing to the credit of the Cash Accumulation Ledger of the relevant Funding Company at the last Funding Company Payment Date (which amount was not distributed on that Funding Company Payment Date and which is available to reduce the relevant Cash Accumulation Requirement);

- less the sum of each relevant Cash Accumulation Requirement amount paid to the relevant Funding Company on a previous Distribution Date during the relevant Funding Company Interest Period.

**Controlled Amortisation Instalment** means that part of a Controlled Amortisation Term Advance which is payable on each of the Scheduled Repayment Dates of that Controlled Amortisation Term Advance.

**Controlled Amortisation Term Advance** means any Funding Company Term Advance which is scheduled to be repaid in multiple instalments (being Controlled Amortisation Instalments) on Scheduled Repayment Dates in accordance with the terms of the relevant debt instruments of the Funding Companies. In respect of any Controlled Amortisation Term Advances made to Funding 1 under a Programme Intercompany Loan Agreement, such Controlled Amortisation Term Advances will be deemed to be Pass-Through Term Advances if:

- a Trigger Event occurs;
- in respect of the Controlled Amortisation Term Advances made by a relevant Programme Issuer, the security granted by that particular Programme Issuer is enforced; or
- the security granted by Funding 1 is enforced.

As at the Closing Date, the Controlled Amortisation Term Advances made by the Programme Issuer to Funding 1 are set out in *The Supplement – Transaction Features – The Term Advances* together with their Controlled Amortisation Instalments. Any Controlled Amortisation Term Advances made to Funding 1 after the Closing Date will be notified to Noteholders in the first Investor Report available after the date such Controlled Amortisation Term Advance is made.

If a Controlled Amortisation Term Advance is made to Funding 2 or Funding 3, the amount and Scheduled Repayment Dates of each Controlled Amortisation Instalment will be notified to Noteholders in the first Investor Report available after the date such Controlled Amortisation Term Advance is made.

There may be circumstances when the Controlled Amortisation Term Advances made to Funding 2 or Funding 3 will be deemed to be Pass-Through Term Advances.

**Funding Company Term Advance** means any term advance made to a Funding Company (e.g. the Programme Term Advances made to Funding 1 from time to time).

**Funding 1 Cash Accumulation Period** in respect of each Relevant Accumulation Amount means the period of time beginning on the earlier of the following two dates:

- (a) the date determined after counting back in time from the relevant Scheduled Repayment Date of the Relevant Accumulation Amount, the number of months calculated under the definition of the Funding 1 Anticipated Cash Accumulation Period; and
- (b) the date determined after counting back in time from the relevant Scheduled Repayment Date of the Relevant Accumulation Amount, the number of months specified in *The Supplement – Transaction Features – The Mortgages Trust*,

**PROVIDED THAT**, if the beginning of a Funding 1 Cash Accumulation Period as determined above would fall on a date which is not a Distribution Date, then the Funding 1 Cash Accumulation Period shall commence on the Distribution Date falling immediately before that date. A Funding 1 Cash Accumulation Period shall end in respect of a Relevant Accumulation Amount when Funding 1 has accumulated an amount equal to that particular Relevant Accumulation Amount.

**Funding 1 Anticipated Cash Accumulation Period** means on any Trust Calculation Date the anticipated number of months required as to accumulate sufficient Principal Receipts to pay the Relevant Accumulation Amount of Funding 1 in relation to the relevant Cash Accumulation Advance made to Funding 1, which will be equal to:

$$\frac{J + K - L}{M \times N \times O}$$

calculated in months and rounded up to the nearest whole number, where:

J = the Relevant Accumulation Amount;

K = the aggregate Outstanding Principal Amount on that Trust Calculation Date of:

- each Cash Accumulation Advance made to the Funding Companies that was not fully repaid on its Scheduled Repayment Date; and

- each other Cash Accumulation Advance made to the Funding Companies, the Scheduled Repayment Date of which falls on or before the Scheduled Repayment Date of the Relevant Accumulation Amount;

L = the amount of any available cash already standing to the credit of the Cash Accumulation Ledger of Funding 1 at the start of that Funding 1 Interest Period (which is available to pay the Relevant Accumulation Amount) plus the aggregate amount of Cash Accumulation Requirement paid to Funding 1 since the previous Funding 1 Payment Date;

M = means the sum of each Monthly CPR on the 12 most recent Trust Calculation Dates which have occurred prior to that date divided by 12;

N = 0.85; and

O = the aggregate Current Balance of the Loans comprising the Trust Property on the previous Trust Calculation Date (or, if applicable, the Initial Closing Date).

**Funding 2 Cash Accumulation Period** means the anticipated period required to accumulate sufficient funds to repay a Cash Accumulation Advance made to Funding 2 (ending when Funding 2 has accumulated an amount equal to that Cash Accumulation Advance, taking into account its obligation to accumulate for any other Cash Accumulation Advance before, or at the same time as, the relevant Cash Accumulation Advance).

**Funding 3 Cash Accumulation Period** means the anticipated period required to accumulate sufficient funds to repay a Cash Accumulation Advance made to Funding 3 (ending when Funding 3 has accumulated an amount equal to that Cash Accumulation Advance, taking into account its obligation to accumulate for any other Cash Accumulation Advance before, or at the same time as, the relevant Cash Accumulation Advance).

**Monthly CPR** on any Trust Calculation Date means the total Principal Receipts received during the period of one month ending on that Trust Calculation Date divided by the aggregate Current Balance of the Loans comprised in the Trust Property as at the immediately preceding Trust Calculation Date.

A **Non-Asset Trigger Event** will occur on a Trust Calculation Date if:

- an Insolvency Event occurs in relation to the Seller on or before that Trust Calculation Date;
- the Seller's role as Servicer is terminated and a new servicer is not appointed within 60 days;
- the Seller Share at any time is equal to or less than the Minimum Seller Share on two consecutive Trust Calculation Dates (in each case by reference to the most recent Trust Calculation Date); or
- on any Trust Calculation Date the aggregate Current Balance of Loans comprising the Trust Property at that date is less than the Minimum Trust Size as at that date.

The definition of **Non-Asset Trigger Event** may change as New Loan Types are sold to the Mortgages Trustee or when Funding 2 or Funding 3 acquires more than a nominal interest in the Trust Property.

**Original Bullet Term Advance** means any Funding Company Term Advance which at any time has been a Bullet Term Advance (even if such Funding Company Term Advance has subsequently become a Pass-Through Term Advance).

**Original Controlled Amortisation Instalment** means that part of a Funding Company Term Advance which at any time has been a Controlled Amortisation Term Advance (even if such Funding Company Term Advance has subsequently become a Pass-Through Term Advance).

**Pass-Through Term Advance** means a Term Advance which has no Scheduled Repayment Date other than the Final Repayment Date. The Programme Pass-Through Term Advances will be all the Programme Term Advances other than the Cash Accumulation Advances. If a Trigger Event occurs or the Funding 1 Security or the Issuer Security is enforced, then the Programme Bullet Term Advances (other than the Series 1 Class A Notes of any Programme Issuer) and the Programme Controlled Amortisation Term Advances will be deemed to be Programme Pass-Through Term Advances.

**Relevant Accumulation Amount** means the amount of funds to be accumulated over a Cash Accumulation Period in order to repay a Bullet Term Advance or make a Controlled Amortisation Instalment in respect of a Controlled Amortisation Term Advance, in each case on its Scheduled Repayment Date (whether or not actually repaid on that Scheduled Repayment Date). As at the

Closing Date, the Relevant Accumulation Amounts for Funding 1 are set out in *The Supplement – Transaction Features – The Term Advances*.

**Repayment Requirement** means on a Trust Calculation Date the amount, if any, by which:

- the aggregate of all principal amounts that will be due and payable by a Funding Company on the next Funding Company Payment Date in respect of the Funding Company Term Advances made to that Funding Company on the basis:
  - (a) that there would be no deferral of those Funding Company Term Advances due to the operation of applicable deferral rules (e.g. in respect of Funding 1, pursuant to Rule (1) as described in *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules*);
  - (b) in respect of Funding 1 only (separate rules may apply to Funding 2 and Funding 3), where Rule (2) or Rule (3) set out in that section applies to a Programme Intercompany Loan, that the amount so payable by Funding 1 in respect of Programme Term Advances (other than Bullet Term Advances and Controlled Amortisation Instalments) under that Programme Intercompany Loan shall be treated as the lesser of:
    - (1) the amount due and payable in respect of those Programme Term Advances,
    - (2) the aggregate amount that may be repaid by Funding 1 on a Funding 1 Payment Date in respect of Intercompany Loan A (if Rule (2) applies) or Intercompany Loan B (if Rule (3) applies);and
  - (3) the remaining Mortgages Trust Available Principal Receipts after paying or providing for amounts set out in items (a) to (d) (inclusive) of the Mortgages Trust Principal Priority of Payments;
- (c) that Funding Company Term Advances will be treated as due and payable if they are already due and payable, or would become due and payable on or before the next Funding Company Payment Date in accordance with the terms of the relevant Funding 1 Pre-Enforcement Principal Priorities of Payment or, in respect of Funding 2 and Funding 3, the relevant principal priorities of payment for those companies; and
- (d) that amounts due and payable to that Funding Company in respect of Bullet Term Advances and Controlled Amortisation Instalments are excluded,

exceeds the sum of:

- the amounts standing to the credit of the Principal Ledger of that Funding Company as at the last Funding Company Payment Date (which amount was not distributed on that Funding Company Payment Date); and
- the sum of each Repayment Requirement amount paid to the relevant Funding Company on a previous Distribution Date during the relevant Funding Company Interest Period.

**Scheduled Repayment Date** means the Funding Company Payment Date when a Funding Company is required to repay a Bullet Term Advance or make a Controlled Amortisation Instalment in respect of a Controlled Amortisation Term Advance. As at the Closing Date, the Scheduled Repayment Dates for Funding 1 are set out in *The Supplement – Transaction Features – The Term Advances*. If Bullet Term Advances or Controlled Amortisation Term Advances are made to Funding 2 or Funding 3, the Scheduled Repayment Date of those advances will be notified to Noteholders in the first Investor Report published after the date such Bullet Term Advances or controlled Amortisation Term Advances are made.

**Trigger Event** means an Asset Trigger Event and/or a Non-Asset Trigger Event.

### ***Mortgages Trust calculation of Principal Receipts***

**Mortgages Trust Available Principal Receipts** are calculated by the Cash Manager on each Trust Calculation Date and will be equal to the amount that is standing to the credit of the Principal Ledger on that Trust Calculation Date.

The Cash Manager will calculate the Repayment Requirement and the Cash Accumulation Requirement on each Trust Calculation Date and the relevant amounts will be notified to the Mortgages Trustee (who will be entitled to rely on such notifications).

***Mortgages Trust allocation and distribution of Principal Receipts Prior to the occurrence of a Trigger Event***

On each Distribution Date (the **relevant Distribution Date**) where no Trigger Event has occurred on or before the immediately preceding Trust Calculation Date, the Cash Manager will apply Mortgages Trust Available Principal Receipts as follows (the **Mortgages Trust Principal Priority of Payments**):

- (a) *first*, to allocate and pay to the Seller, the amount of any Special Distribution which is then available and payable to the Seller in accordance with the terms of the Mortgages Trust Deed;
- (b) *then*, to allocate and pay to the Funding Companies (as applicable), the amount of any Refinancing Distribution which is then available and payable to the relevant Funding Company in accordance with the terms of the Mortgages Trust Deed;
- (c) *then*, if any of the Funding Companies has a Cash Accumulation Requirement on that Distribution Date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all remaining Mortgages Trust Available Principal Receipts multiplied by the Funding 1 Proportion and (2) an amount up to but not exceeding the sum of Funding 1's Cash Accumulation Requirement (if any) on that Distribution Date;
  - (ii) to allocate and pay to Funding 2 an amount equal to the lesser of (1) all remaining Mortgages Trust Available Principal Receipts multiplied by the Funding 2 Proportion and (2) an amount up to but not exceeding the sum of Funding 2's Cash Accumulation Requirement (if any) on that Distribution Date; and
  - (iii) to allocate and pay to Funding 3 an amount equal to the lesser of (1) all remaining Mortgages Trust Available Principal Receipts multiplied by the Funding 3 Proportion and (2) an amount up to but not exceeding the sum of Funding 3's Cash Accumulation Requirement (if any) on that Distribution Date;
- (d) *then, pari passu and pro rata*,
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's Cash Accumulation Requirement (if any) on that Distribution Date after taking into account any amounts received by Funding 1 in accordance with paragraph (c)(i) above;
  - (ii) to allocate and pay to Funding 2 an amount up to but not exceeding Funding 2's Cash Accumulation Requirement (if any) on that Distribution Date after taking into account any amounts received by Funding 2 in accordance with paragraph (c)(ii) above; and
  - (iii) to allocate and pay to Funding 3 an amount up to but not exceeding Funding 3's Cash Accumulation Requirement (if any) on that Distribution Date after taking into account any amounts received by Funding 3 in accordance with paragraph (c)(iii) above;
- (e) *then, pari passu and pro rata*,
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's Repayment Requirement (if any) on that Distribution Date after taking into account any amounts received by Funding 1 in accordance with paragraphs (c)(i) and (d)(i) above;
  - (ii) to allocate and pay to Funding 2 an amount up to but not exceeding Funding 2's Repayment Requirement (if any) on that Distribution Date after taking into account any amounts received by Funding 2 in accordance with paragraphs (c)(ii) and (d)(ii) above; and
  - (iii) to allocate and pay to Funding 3 an amount up to but not exceeding Funding 3's Repayment Requirement (if any) on that Distribution Date after taking into account any amounts received by Funding 3 in accordance with paragraphs (c)(iii) and (d)(iii) above; and
- (f) *finally*, provided that the Seller Share of the Trust Property on the immediately preceding Trust Calculation Date is greater than the Minimum Seller Share, to allocate and pay all remaining Mortgages Trust Available Principal Receipts to the Seller,

**PROVIDED THAT**, in relation to paragraphs (a) to (f) above, the following rules shall apply:

- (1) the amount of Mortgages Trust Available Principal Receipts to be allocated and paid:

- (A) to Funding 1 on a Distribution Date will be reduced by an amount equal to the aggregate of Funding 1 Available Revenue Receipts which are to be applied on the immediately succeeding Funding 1 Payment Date in reduction of deficiencies on the Principal Deficiency Ledger;
- (B) to Funding 2 on a Distribution Date will be reduced by an amount equal to the aggregate of available revenue receipts of Funding 2 which are to be applied on the immediately succeeding Funding 2 payment date in reduction of deficiencies on the principal deficiency ledger of Funding 2; and
- (C) to Funding 3 on a Distribution Date will be reduced by an amount equal to the aggregate of available revenue receipts of Funding 3 which are to be applied on the immediately succeeding Funding 3 payment date in reduction of deficiencies on the principal deficiency ledger of Funding 3,

but in each case only to the extent that (following any such reduction) amounts falling due under paragraphs (c), (d) and (e) are still able to be paid in full;

- (2) a Funding Company will not be entitled to have allocated to it (nor will it have allocated to it or receive) in aggregate an amount of Mortgages Trust Available Principal Receipts from the Mortgages Trustee on a Distribution Date which is in excess of:
  - (A) in respect of Funding 1, the Funding 1 Share on such Distribution Date;
  - (B) in respect of Funding 2, the Funding 2 Share on such Distribution Date; and
  - (C) in respect of Funding 3, the Funding 3 Share on such Distribution Date; and
- (3) if on any Trust Calculation Date prior to the occurrence of a Non-Asset Trigger Event the Seller Share is equal to or less than the Minimum Seller Share:
  - (A) the Mortgages Trustee will make provision in an amount which would have been payable to the Seller if the Seller Share of the Trust Property had been greater than the Minimum Seller Share; and
  - (B) the Seller will not receive nor have allocated to it any amount so provided for by the Mortgages Trustee in paragraph (3)(A) above until such time as the Seller Share is greater than the Minimum Seller Share and provided that (i) the Seller will not receive nor have allocated to it any such amount if a Non-Asset Trigger Event occurs and is occurring and (ii) if an Asset Trigger Event occurs and is occurring, the Seller will have allocated to it and will be paid such amount but only to the extent permitted by the rules governing distribution of Principal Receipts after the occurrence of an Asset Trigger Event.

***Mortgages Trust allocation and distribution of Principal Receipts on or after the occurrence of a Non-Asset Trigger Event but prior to the occurrence of an Asset Trigger Event***

On each Distribution Date after the occurrence of a Non-Asset Trigger Event and until the occurrence of an Asset Trigger Event, the Cash Manager will apply all Mortgages Trust Available Principal Receipts by way of allocation and payment to the Funding Companies *pari passu* and *pro rata* according to the Funding 1 Proportion, the Funding 2 Proportion and the Funding 3 Proportion respectively, until each of the Funding 1 Share, the Funding 2 Share and the Funding 3 Share of the Trust Property (as calculated on the Relevant Trust Calculation Date) is zero. The remainder, if any, of such receipts will be allocated and paid to the Seller.

Following the occurrence of a Non-Asset Trigger Event, the Notes will be subject to prepayment risk (that is, they may be repaid earlier than expected). See *Investment Considerations – If a Non-Asset Trigger Event occurs, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates.*

***Mortgages Trust allocation and distribution of Principal Receipts on or after the occurrence of an Asset Trigger Event***

On each Distribution Date after the occurrence of an Asset Trigger Event, the Cash Manager will allocate and pay all Mortgages Trust Available Principal Receipts, *pari passu* and *pro rata*, to the Funding Companies and the Seller according to the Funding 1 Share Percentage, the Funding 2 Share Percentage, the Funding 3 Share Percentage and the Seller Share Percentage of the Trust Property, respectively (in each case as calculated on the Relevant Trust Calculation Date), until each of the Funding 1 Share, the Funding 2 Share and the Funding 3 Share of the Trust Property is zero. Following the occurrence of an Asset Trigger Event, the making of allocations and payments to the

Seller may reduce the Seller Share below the Minimum Seller Share. The remainder, if any, of such receipts shall thereafter be allocated and paid to the Seller.

Notwithstanding the foregoing, if a Sale Date has occurred during the Trust Calculation Period immediately preceding any such Distribution Date, the Cash Manager on behalf of the Mortgages Trustee will apply all Principal Receipts by way of allocation and payment between and to the Funding Companies and the Seller *pari passu* and *pro rata* to the Weighted Average Funding 1 Share (Principal) Percentage, the Weighted Average Funding 2 Share (Principal) Percentage, the Weighted Average Funding 3 Share (Principal) Percentage, and the Weighted Average Seller Share (Principal) Percentage, for that Distribution Date, until each of the Funding 1 Share, the Funding 2 Share and the Funding 3 Share of the Trust Property is zero.

Following the occurrence of an Asset Trigger Event, it is possible that the Notes of any Series may not be repaid in full by their respective final maturity dates. See *Investment Considerations – If an Asset Trigger Event occurs, any Class A Notes then outstanding will not be repaid on their Scheduled Redemption Dates.*

### **Losses**

All Losses arising on the Loans will be applied in reducing each Beneficiary's share of the Trust Property.

Save as otherwise provided, each Beneficiary's share of the Losses will be determined on any date by multiplying the amount of Losses by:

- in relation to Funding 1, the Funding 1 Share Percentage;
- in relation to Funding 2, the Funding 2 Share Percentage;
- in relation to Funding 3, the Funding 3 Share Percentage; and
- in relation to the Seller, the Seller Share Percentage,

in each case as determined on the immediately preceding Trust Calculation Date, until the share of each Beneficiary in the Trust Property is zero, regardless of the requirements in relation to the Minimum Seller Share.

However, if, during the Trust Calculation Period immediately preceding a Trust Calculation Date, the Seller has sold New Loans to the Mortgages Trustee, then the amount of Losses shall be multiplied by, as applicable, the Weighted Average Funding 1 Share (Losses) Percentage, the Weighted Average Funding 2 Share (Losses) Percentage, the Weighted Average Funding 3 Share (Losses) Percentage and the Weighted Average Seller Share (Losses) Percentage, in each case as calculated on that Trust Calculation Date, rather than the then current Funding 1 Share Percentage, the then current Funding 2 Share Percentage, the then current Funding 3 Share Percentage and the then current Seller Share Percentage respectively.

### **Disposal of Trust Property**

The Trust Property will be held on bare trust for the benefit of the Funding Companies and the Seller absolutely. Subject as provided otherwise in the Mortgages Trust Deed and the other Transaction Documents, the Mortgages Trustee will not be entitled to dispose of the Trust Property or create any security interests over the Trust Property.

If an Intercompany Loan Event of Default occurs under any Programme Intercompany Loan Agreement and (following the service on Funding 1 and the Security Trustee of an Intercompany Loan Acceleration Notice) the Security Trustee enforces the Funding 1 Security, then the Security Trustee will be entitled, among other things, to sell the Funding 1 Share of the Trust Property (see – *Funding 1 Deed of Charge*).

### **Additions to and reductions in the Trust Property**

An Overpayment made by a Borrower under a Choices Loan or a FlexAbility Loan will constitute a Principal Receipt in respect of the relevant Loan and shall be distributed to Beneficiaries in accordance with the Mortgages Trust Principal Priority of Payments and this will result in a reduction of the Current Balance of the relevant Loan by the amount of such Overpayment on the following day.

If a Borrower makes a Cash Withdrawal under a Choices Loan or a FlexAbility Loan or a further drawing under a Buy-to-Let Loan, then pursuant to the terms of the Mortgage Sale Agreement the Seller will be solely responsible for funding that Cash Withdrawal or further drawing. Similarly

pursuant to the terms of the Mortgage Sale Agreement, the Seller will be solely responsible for funding any Extension Advance made to a Borrower. Any Cash Withdrawal, further drawing or Extension Advance made to a Borrower will increase the Current Balance of the relevant Loan with effect from the following day and will increase the Seller Share in the Trust Property, in each case by the amount of that Cash Withdrawal, further drawing or Extension Advance on the next Trust Calculation Date.

If a Borrower exercises a right to make an Underpayment or take a Payment Holiday under a Choices Loan or a FlexAbility Loan, then that will increase the Current Balance of the Loan with effect from the following day by an amount equal to the amount of interest not paid on the relevant Loan in the month during which such Underpayment or Payment Holiday option is exercised. The increase in the Current Balance of the Loan will initially be allocated to each of the Beneficiaries *pro rata* according to their current respective shares in the Trust Property, unless the Seller makes a Seller Contribution to the Mortgages Trustee in an amount equal to the unpaid interest element otherwise payable under any Loan which is subject to an Underpayment or Payment Holiday. If the Seller makes such a Seller Contribution, then it will be deemed to be a Revenue Receipt, and only the Seller Share of the Trust Property shall increase by a corresponding amount. The Seller has agreed to make such Seller Contributions on an on-going basis pursuant to the terms of the Mortgages Trust Deed, but it may cease making such Contributions if it is subject to an Insolvency Event.

### ***Increasing the shares of the Funding Companies by way of Further Contributions and additional Initial Contributions***

If Funding 1 enters into a New Intercompany Loan or if Funding 2 or Funding 3 enter into other financing arrangements, then any such Funding Company may apply the proceeds of that New Intercompany Loan (in the case of Funding 1) or other financing arrangement (in the case of Funding 2 or Funding 3) as either a Further Contribution or an additional Initial Contribution to the Mortgages Trust to increase its beneficial interest in, and the Funding 1 Share or the Funding 2 Share or the Funding 3 Share (as applicable) of, the Trust Property on a Distribution Date. A Funding Company will be permitted to do this only if certain conditions are met, including *inter alia*:

- (a) that no event of default under the Transaction Documents or the documents relating to the indebtedness of Funding 2 or Funding 3 has occurred and is continuing or unwaived as at the relevant Trust Calculation Date;
- (b) that no deficiency was recorded on the Principal Deficiency Ledger or any principal deficiency ledger in respect of Funding 2 or Funding 3 as at the most recent Funding Company Payment Date;
- (c) that the Rating Agencies have confirmed in writing that the proposed increase in the Funding 1 Share or the Funding 2 Share or the Funding 3 Share (as applicable) would not cause the then current ratings by the Rating Agencies of any Programme Notes then outstanding of any Programme Issuer or, as applicable, any existing indebtedness of Funding 2 or Funding 3 to be downgraded, withdrawn or qualified; and
- (d) that, as of the last day of the immediately preceding Trust Calculation Period, the aggregate Current Balance of the Loans in the Trust Property, in respect of which the aggregate amount In Arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans in the Trust Property as of such date, unless the Rating Agencies have confirmed that the then current ratings of any Programme Notes and, as applicable, any existing indebtedness of Funding 2 or Funding 3 will not be downgraded, withdrawn or qualified as a result of any increase in, as applicable, the Funding 1 Share, the Funding 2 Share or the Funding 3 Share of the Trust Property.

### ***Special Distributions***

Pursuant to the terms of the Mortgages Trust Deed, the Funding Companies and the Seller have agreed that amounts held by the Mortgages Trustee on any date in respect of any Further Contribution (other than a Refinancing Contribution) paid by any Funding Company to the Mortgages Trustee (therefore excluding, for the avoidance of doubt, Seller Contributions) will be allocated and paid by the Mortgages Trustee to the Seller as a distribution (a **Special Distribution**) from the Mortgages Trust on such date whether or not such date is a Distribution Date. The payment of any such Special Distribution will reduce the Seller Share of the Trust Property accordingly.

### ***Refinancing Distributions***

Each of the Beneficiaries may make a Refinancing Contribution to the Mortgages Trustee from time to time. A Refinancing Contribution is a Contribution made by a Beneficiary which it designates as a Refinancing Contribution. A Refinancing Contribution is a cash payment made by a Beneficiary to the Mortgages Trustee which the relevant Beneficiary directs the Mortgages Trustee to apply to reduce the share of another Beneficiary (other than the Seller) in the Trust Property. A Beneficiary may only give such a direction to the Mortgages Trustee with the prior consent of the relevant Funding Company whose share in the Trust Property will be reduced. In respect of Funding 1, the consent of the Security Trustee will also be required.

Pursuant to the terms of the Mortgages Trust Deed, the Beneficiaries have agreed that amounts held by the Mortgages Trustee on any date in respect of any Refinancing Contribution paid by a Beneficiary to the Mortgages Trustee on that date will be allocated and paid by the Mortgages Trustee to the relevant Funding Company as a refinancing distribution (a **Refinancing Distribution**) from the Mortgages Trust on such date whether or not such date is a Distribution Date. The payment of any such Refinancing Distribution will reduce the share of the receiving Funding Company accordingly.

If either Funding 2 or Funding 3 issues debt instruments that would have the effect of extending the Funding 1 Cash Accumulation Period in respect of any Cash Accumulation Advance that is, as at the date that such debt instruments are issued, in a Cash Accumulation Period or which would, as a result of the issue of that debt, be in a Cash Accumulation Period (each an **affected Cash Accumulation Advance**), then the proceeds of the debt instruments to be issued by Funding 2 or, as applicable, Funding 3 must be applied to make a Refinancing Contribution to the Mortgages Trustee. The Mortgages Trustee shall apply the proceeds of such Refinancing Contribution to make a Refinancing Distribution to Funding 1 in an amount equal to the lesser of:

- (a) the aggregate Cash Accumulation Requirement of Funding 1 in respect of each affected Cash Accumulation Advance; and
- (b) the net proceeds of the debt to be issued by Funding 2 or, as applicable, Funding 3.

Certain conditions will apply to the right of the Seller to make Refinancing Contributions and hence increase the Seller Share of the Trust Property. In respect of a Refinancing Contribution to be made by the Seller to Funding 1, these are:

- (i) each of the Rating Agencies has confirmed to Funding 1 that the then current ratings of the Programme Notes would not be downgraded, withdrawn or qualified as a result thereof; and
- (ii) Funding 1 agrees to apply the proceeds of that Refinancing Contribution to repay (in whole or in part) a Funding 1 Intercompany Loan.

### ***Termination of the Mortgages Trust***

The Mortgages Trust will terminate on the date on which there is no remaining Trust Property or, if earlier, such date as may be requested in writing by the Seller to the Mortgages Trustee being on or after the date on which:

- (a) all of the Programme Intercompany Loans and existing indebtedness of Funding 2 and Funding 3 have been repaid in full;
- (b) there is no further claim under any Programme Intercompany Loan or any existing indebtedness of Funding 1, Funding 2 or Funding 3;
- (c) the Funding 1 Share of the Trust Property, the Funding 2 Share of the Trust Property and the Funding 3 Share of the Trust Property have all been reduced to zero;
- (d) the Beneficiaries collectively agree to terminate the Mortgages Trust; or
- (e) such other date which may be agreed between the Mortgages Trustee, the Funding Companies and the Seller,

so long as all amounts due from the Funding Companies to their respective secured creditors have been repaid in full.

### ***Governing law***

The Mortgages Trust Deed will be governed by English law.

## **Intercompany Loan Agreement**

Under the terms of the Intercompany Loan Agreement to be entered into on the Closing Date between the Issuer, Funding 1, the Issuer Security Trustee, the Security Trustee and the Agent Bank, the Issuer will agree to make available to Funding 1 on the Closing Date the facilities described in *The Supplement – Transaction Features – The Term Advances*.

The Intercompany Loan Agreement will provide that, subject to satisfying the conditions described in – *Conditions to Drawdown* below, on the Closing Date, the Issuer will on-lend to Funding 1 an amount in sterling equal to the gross proceeds of the issue of the Notes, after converting, if applicable, the US dollar proceeds of the relevant Notes into sterling at the relevant Issuer Dollar Currency Exchange Rates and after converting the euro proceeds of the relevant Notes into sterling at the relevant Euro Currency Exchange Rate.

### ***Conditions to Drawdown***

The Issuer will not be obliged to make the advances available to Funding 1 unless the Issuer Security Trustee is satisfied that on the Closing Date a number of conditions have been met, including:

- that the Notes have been issued and the proceeds received by or on behalf of the Issuer;
- that Funding 1 has delivered a certificate certifying that it is solvent; and
- that each Transaction Document has been duly executed by the relevant parties to it.

### ***Use of proceeds***

Funding 1 is obliged to apply the proceeds of any Programme Intercompany Loan (including the Intercompany Loan):

- (a) to make an Initial Contribution to the Mortgages Trustee to acquire a share of the Trust Property (which amount will be paid by the Mortgages Trustee to the Seller in satisfaction of the Initial Purchase Price for the sale to the Mortgages Trustee of a portfolio of Loans and their Related Security by the Seller pursuant to the Mortgage Sale Agreement); and/or
- (b) to make a Further Contribution to the Mortgages Trustee in order to increase the Funding 1 Share of the Trust Property, and the amount of such Further Contribution will be applied by the Mortgages Trustee in accordance with the Mortgages Trust Deed; and/or
- (c) to fund the General Reserve Fund and/or the Additional Reserve Fund, if any; and/or
- (d) to refinance one or more of the Programme Intercompany Loans outstanding from time to time.

Each Intercompany Loan will be split into Term Advances, as described in *The Supplement – Transaction Features – The Term Advances*.

### ***Payments of Interest and other amounts***

The interest rates applicable to the Term Advances from time to time will be determined by reference to LIBOR for three-month sterling deposits (other than, in each case, the first Funding 1 Interest Period, which will be calculated by reference to linear interpolation) plus or minus, in each case, a margin which will differ for each Term Advance. LIBOR for a Funding 1 Interest Period will be determined on a Funding 1 Interest Determination Date.

The first Funding 1 Interest Period in relation to the Term Advances made by the Issuer will commence on and include the Closing Date and end on but exclude the Funding 1 Payment Date falling in December 2004.

See further *The Supplement – Transaction Features – The Term Advances* for more information relating to the payment of interest on the Term Advances.

In addition, prior to enforcement of the Funding 1 Security, Funding 1 will agree to pay an additional fee to the Issuer on each Funding 1 Payment Date or otherwise when required. The fee on each Funding 1 Payment Date will be equal to the amount needed by the Issuer to pay or provide for other amounts falling due, if any, to be paid to its creditors (other than amounts of interest and principal due on the Notes and tax that can be met out of the Issuer's profits) and a sum (in an amount up to 0.01 per cent. of the interest paid to the Issuer on the relevant Term Advances on each Funding 1 Payment Date), which represents the Issuer's profit. The fee will be paid by Funding 1 out of the Funding 1 Available Revenue Receipts.

### ***Repayment of Principal on the Term Advances***

The Term Advances will be repaid (subject to certain Rules on deferral as set out in *Cashflows of Funding 1 – The Rules*) on the dates and in the priorities described in *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules* and in *The Supplement – Transaction Features – The Term Advances*.

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

Funding 1 will make several representations to the Issuer and the Security Trustee in the Intercompany Loan Agreement including representations that Funding 1 has been duly incorporated and that it has the requisite corporate power and authority to enter into the Transaction Documents to which it is a party.

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

- it will not create or permit to subsist any encumbrance, unless arising by operation of law, or other security interest over any of its assets other than pursuant to the Transaction Documents;
- it will not carry on any business or engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the Transaction Documents provide or envisage that Funding 1 will engage;
- it will not have any subsidiaries or subsidiary undertakings, both as defined in the Companies Act as amended, or any employees or premises;
- it will not transfer, sell, convey, lend, part with or otherwise dispose of all or any of its assets, properties or undertakings or any interest, estate, right, title or benefit therein other than as contemplated in the Transaction Documents;
- it will not pay any dividend or make any other distribution to its shareholders, other than in accordance with the Funding 1 Deed of Charge, and it will not issue any new shares;
- it will not incur any indebtedness in respect of any borrowed money or give any guarantee in respect of any indebtedness or of any obligation of any person whatsoever other than indebtedness contemplated by the Transaction Documents; and
- it will not enter into any amalgamation, demerger, merger or reconstruction, nor acquire any assets or business nor make any investments other than as contemplated in the Transaction Documents.

### ***Intercompany Loan Events of Default***

The Intercompany Loan Agreement will contain events of default (each an **Intercompany Loan Event of Default**), which will include, among others, the following events:

- a default by Funding 1 for a period of five London Business Days in the payment of any amount payable under any Programme Intercompany Loan Agreement (but subject to the limited recourse provisions described in – *Limited recourse*);
- Funding 1 does not comply in any material respect with its obligations under any of the Transaction Documents (other than non-payment as set out in the preceding paragraph) and that non-compliance, if capable of remedy, is not remedied within 20 London Business Days of Funding 1 becoming aware of its non-compliance or of receipt of written notice from the Security Trustee requiring Funding 1's non-compliance to be remedied; or
- an Insolvency Event occurs in relation to Funding 1 or it is, or becomes, unlawful for Funding 1 to perform its obligations under any of the Transaction Documents.

The ability of the Issuer to repay the Notes will depend upon payments to the Issuer from Funding 1 under the Intercompany Loan Agreement. See *Investment Considerations – Failure by Funding 1 to meet its obligations under the Intercompany Loan Agreement would adversely affect the ability of the Issuer to make payments on your Notes*. You should also note that an Intercompany Loan Event of Default in respect of any Other Intercompany Loan or any default by Funding 1 or any other agreement relating to Other Intercompany Loans will constitute an Intercompany Loan Event of Default under the Intercompany Loan Agreement.

If an Intercompany Loan Event of Default occurs and which continues and has not been remedied and/or waived then the Security Trustee will be entitled to deliver an Intercompany Loan Acceleration Notice to Funding 1 stating that the relevant Intercompany Loan Event of Default has occurred. Upon the service of an Intercompany Loan Acceleration Notice, the Security Trustee may direct that

the Term Advances become immediately due and payable and/or that the Term Advances become due and payable on the demand of the Security Trustee.

### ***Limited recourse***

Funding 1 will only be obliged to pay amounts to the Issuer under the Intercompany Loan Agreement to the extent that it has funds to do so after making payments ranking in priority to amounts due on the Term Advances.

It will not be an Intercompany Loan Event of Default under the Intercompany Loan Agreement if default is made by Funding 1 in paying amounts due under an Intercompany Loan Agreement where Funding 1 does not have the money available to make the relevant payment.

If on any Funding 1 Payment Date (including the Final Repayment Date) of any Programme Intercompany Loan, there would not be sufficient Funding 1 Available Revenue Receipts to satisfy in full the aggregate amount of interest (including interest on unpaid interest) due on any Term Advance, there shall instead be payable on such Funding 1 Payment Date, by way of interest (including interest on unpaid interest) on each affected Term Advance, only a *pro rata* share of the Funding 1 Available Revenue Receipts.

If on any Funding 1 Payment Date (including the Final Repayment Date) of any Programme Intercompany Loan, there would not be sufficient Funding 1 Available Principal Receipts to satisfy in full the aggregate amount of principal due on any Term Advance, there shall instead be payable on such Funding 1 Payment Date, by way of principal on each affected Term Advance, only a *pro rata* share of the Funding 1 Available Principal Receipts.

Any shortfall in the payment of interest, principal and other amounts under the Funding Intercompany Loan shall be payable on the next Funding 1 Payment Date that Funding 1 has moneys for that purpose (subject to the terms of the Funding 1 Deed of Charge). Any shortfall in interest payable by Funding 1 on a Term Advance shall itself accrue interest at the same rate as that payable on the applicable Term Advance.

No Intercompany Loan Event of Default shall occur as a result of a failure by Funding 1 to pay interest and/or principal due and payable on a Programme Intercompany Loan on any date if Funding 1 does not have sufficient moneys for that purpose. If there is a shortfall in interest and/or principal payments on a Programme Intercompany Loan, you may not receive the full amount of interest and/or principal and/or other amounts which would otherwise have been due and payable on the applicable Notes outstanding. Accordingly, there may be a Note Event of Default with no corresponding Intercompany Loan Event of Default.

### ***Other Intercompany Loan Agreements***

Holdings is expected to establish Other Issuers, each of which has issued or would issue Other Notes to investors. Other Intercompany Loan Agreements will provide that Funding 1 may at any time, by written notice to the Security Trustee and the Rating Agencies, enter into Other Intercompany Loan Agreements with Other Issuers and draw Other Term Advances thereunder. Other Term Advances have been or will be financed by the issue of Other Notes, and will only be permitted if certain conditions precedent are satisfied, including:

- the proceeds of the Other Intercompany Loan are used by Funding 1 as described in – *Use of proceeds* above;
- each of the Rating Agencies confirms in writing to the Security Trustee that, as a result of the Other Issuer issuing any Other Notes, the ratings of the Programme Notes then outstanding will not be downgraded, withdrawn or qualified at that time by the Rating Agencies then rating the Programme Notes;
- no Intercompany Loan Event of Default under any Programme Intercompany Loan Agreement is continuing or unwaived on the date when the New Term Advance is drawn; and
- no principal deficiency is recorded on the Funding 1 Principal Deficiency Ledger.

### ***Governing law***

The Intercompany Loan Agreement will be governed by English law.

## **Servicing Agreement**

On the Set-Up Date, the Servicer will be appointed by the Mortgages Trustee and each of the Beneficiaries pursuant to the terms of the Servicing Agreement to administer the Loans and their Related Security in the Portfolio.

The Servicer will undertake that in its role as Servicer it will comply with any proper directions and instructions that the Mortgages Trustee (as directed by the Beneficiaries) may from time to time give to it in accordance with the provisions of the Servicing Agreement. The Servicer will be required to administer the Loans and their Related Security in the following manner:

- in accordance with the Servicing Agreement; and
- as if the Loans and Mortgages had not been sold to the Mortgages Trustee but remained with the Seller or, as applicable, the Originator, and in accordance with the Seller's or, as applicable, the Originator's procedures and administration and enforcement policies as they apply to those Loans from time to time.

The Servicer's actions in servicing the Loans in accordance with its procedures are binding on the Mortgages Trustee, the Funding 1 Secured Creditors and the Issuer Secured Creditors.

## ***Powers***

Subject to the guidelines for servicing set forth in the preceding section, the Servicer will have the power, *inter alia*:

- to exercise the rights, powers and discretions of the Mortgages Trustee, the Seller or, as applicable, the relevant Originator, and the Funding Companies in relation to the Loans and their Related Security and to perform their duties in relation to the administration of the Loans and their Related Security; and
- to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the administration of the Loans and their Related Security or the exercise of such rights, powers and discretions.

## ***Undertakings by the Servicer***

The Servicer will undertake, *inter alia*, the following:

- (a) to maintain approvals, authorisations, permissions, consents and licences required in order properly to service the Loans and their Related Security and to perform or comply with its obligations under the Servicing Agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the Servicing Agreement, and in particular any necessary registrations under the Data Protection Act 1998 and permissions under the FSMA;
- (b) to determine and set the Variable Rate and any discretionary rate or margin applicable in relation to any Loan in relation to the Loans comprising the Trust Property except in the limited circumstances described in this paragraph (b) when the Mortgages Trustee will be entitled to do so. It will not at any time, without the prior consent of the Mortgages Trustee and the Funding Companies, set or maintain:
  - (i) the Variable Rate at a rate which is higher than (although it may be lower than or equal to) the then prevailing Seller Variable Rate in relation to Loans of a particular type; and
  - (ii) any other discretionary rate or margin in respect of any other Loan which is higher than (although it may be lower or equal to) the rate or margin which would then be set in accordance with the Seller's or, where the Loan has been originated by an Originator, that Originator's policy from time to time in relation to that type of Loan beneficially owned by the Seller outside the Portfolio except in certain circumstances.

The Servicer shall also determine on each Trust Calculation Date immediately preceding each Funding 1 Payment Date, having regard to the aggregate of:

- (1) the revenue which Funding 1 would expect to receive during the next succeeding Funding 1 Interest Period;
- (2) the Variable Rate, and any other discretionary rates or margins applicable in respect of the Loans which the Servicer proposes to set under the Servicing Agreement; and

- (3) the other resources available to Funding 1 (including the Funding 1 Swap Agreement, the Funding 1 Liquidity Facility Agreement and the General Reserve Fund),

whether Funding 1 would receive an amount of revenue during the related Funding 1 Interest Period which when aggregated with the funds otherwise available to it is less than the amount which is the aggregate of the amount of interest which will be payable by Funding 1 in respect of all Programme Class A Term Advances and all amounts ranking higher in priority to such amounts on the Funding 1 Payment Date falling at the end of the related Funding 1 Interest Period.

If the Servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the Mortgages Trustee, the Funding Companies and the Security Trustee, within one London Business Day of such determination, of the amount of the shortfall and the Variable Rate and/or any other discretionary rates or margins which would, in the Servicer's reasonable opinion, need to be set in order for no shortfall to arise, having regard to the date(s) on which the change to the Variable Rate and any discretionary rates or margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender as regards the competing interests of Borrowers with Variable Rate Loans and Borrowers with other relevant Loans. If the Mortgages Trustee, Funding 1 and the Security Trustee notify the Servicer that, having regard to the obligations of Funding 1, the Variable Rate and/or any discretionary rates or margins should be increased, the Servicer will take all steps which are necessary to increase the Variable Rate and/or any discretionary rates or margins including publishing any notice which is required in accordance with the Mortgage Terms. In these circumstances, the Servicer will have the right to set the Variable Rate and/or any discretionary rates or margins.

The Mortgages Trustee and/or any Funding Company, with the consent of the Security Trustee may terminate the authority of the Servicer to determine and set the Variable Rate and any discretionary rates or margins on or after the occurrence of a Servicer Termination Event, as described below in – *Termination of appointment of the Servicer*, in which case the Mortgages Trustee will set the Variable Rate and any discretionary rates or margins itself in accordance with this paragraph (b);

- (c) to the extent so required by the relevant Mortgage Terms and applicable law, to notify Borrowers of any change in interest rates, whether due to a change in the Variable Rate, the margin applicable to any other relevant Loan or as a consequence of any provisions of the Mortgage Conditions or the Offer Conditions. It will also notify the Mortgages Trustee, the Security Trustee and the Beneficiaries of any change in the Variable Rate;
- (d) to execute all documents on behalf of the Mortgages Trustee, the Seller, any Originator and the Funding Companies which are necessary or desirable for the efficient provision of services under the Servicing Agreement, including (but not limited to), documents relating to the discharge of Mortgages comprised in the Portfolio;
- (e) to keep records and accounts on behalf of the Mortgages Trustee in relation to the Loans and their Related Security;
- (f) to keep the customer files and title deeds in safe custody and maintain records necessary to enforce each Mortgage. It will ensure that each title deed is capable of identification and retrieval and that each title deed is distinguishable from information held by the Servicer for other persons. If the Servicer's short-term, unsecured, unsubordinated and unguaranteed debt is rated less than A-2 by S&P and P-2 by Moody's and F2 by Fitch, it will use reasonable endeavours to ensure the customer files and title deeds are identified as distinct from customer files and title deeds which relate to loans held outside the Trust Property;
- (g) to provide the Mortgages Trustee, the Funding Companies (and their auditors) and the Security Trustee and any other person nominated by the Beneficiaries with access to the title deeds and other records relating to the administration of the Loans and Mortgages;
- (h) to make available to beneficial owners of the Programme Notes and any instruments of indebtedness of Funding 2 and Funding 3, who have provided the beneficial ownership certification as described in the Servicing Agreement, on a monthly basis a report containing information about the Loans in the Mortgages Trust;

- (i) to assist the Cash Manager in the preparation of a quarterly report substantially in the form set out in the Cash Management Agreement which will include, *inter alia*, information on the Loans and payments In Arrears;
- (j) to take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the Mortgages Trustee, in respect of the Loans;
- (k) to enforce any Loan which is in default in accordance with its enforcement procedures or, to the extent that the enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the Mortgages Trustee;
- (l) to provide such other information to the Security Trustee and the Mortgages Trustee as reasonably requested by the Security Trustee or the Mortgages Trustee; and
- (m) not knowingly to fail to comply with any legal requirements in the performance of its obligations under the Servicing Agreement.

The requirement for any action to be taken according to the standards of a Reasonable, Prudent Mortgage Lender is as defined in the *Glossary*. For the avoidance of doubt, any action taken by the Servicer to set Variable Rates and any applicable discretionary rates or margins which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

### ***Compensation of the Servicer***

The Mortgages Trustee will pay to the Servicer an administration fee of 0.05 per cent. per annum (inclusive of any amounts in respect of VAT) on the aggregate amount of the Funding Companies' Share Trust Property as determined on the Trust Calculation Date in respect of the immediately preceding Trust Calculation Period. The fee is payable in arrear on each Distribution Date. Any unpaid balance will be carried forward until the next Distribution Date and, if not paid earlier, will be payable on the Final Repayment Date of the Programme Intercompany Loans or on their earlier repayment in full.

### ***Resignation of the Servicer***

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), the Servicer may voluntarily resign by giving not less than 12 months' notice to the Security Trustee, the Mortgages Trustee and the Beneficiaries. The substitute servicer is required to have experience in administering mortgages in the United Kingdom and to enter into a servicing agreement with the Mortgages Trustee, the Funding Companies and the Security Trustee substantially on the same terms as the relevant provisions of the Servicing Agreement. It will be a further condition precedent to the resignation of the Servicer that the then current ratings of the Programme Notes will not be downgraded, withdrawn or qualified as a result of the resignation, unless the relevant classes of Programme Noteholders otherwise agree by an Extraordinary Resolution.

### ***Termination of appointment of the Servicer***

The Mortgages Trustee and/or any Funding Company (in respect of Funding 1, with the consent of the Security Trustee) may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if any of the following events, each a **Servicer Termination Event**, occurs:

- the Servicer defaults in the payment of any amount due under the Servicing Agreement and fails to remedy that default for a period of three London Business Days after the earlier of becoming aware of the default and receipt of written notice from any Funding Company, the Mortgages Trustee or the Security Trustee requiring the default to be remedied;
- the Servicer fails in the performance or observance of any of its other covenants or obligations under the Servicing Agreement which in the opinion of the Security Trustee is materially prejudicial to Funding 1, any Programme Issuer and the holders of any Programme Notes (or which, in the opinion of Funding 2 or Funding 3 or their respective assignees, is materially prejudicial to, as applicable, Funding 2 or Funding 3 or their respective secured creditors) and does not remedy that failure within 20 London Business Days after becoming aware of the failure or of receipt of written notice from any Funding Company, the Mortgages Trustee or the Security Trustee requiring the Servicer's non-compliance to be remedied;
- an Insolvency Event occurs in relation to the Servicer; or

- any Funding Company resolves, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated.

If the appointment of the Servicer is terminated or the Servicer resigns, the Servicer must deliver the title deeds and customer files relating to the Loans to, or at the direction of, the Mortgages Trustee. The Servicing Agreement will terminate when no Funding Company has any interest in the Trust Property, and the Programme Intercompany Loans and any existing indebtedness of Funding 2 or Funding 3 are repaid in full.

### ***Right of delegation by the Servicer***

The Servicer may sub-contract or delegate the performance of its all or any of its powers and obligations under the Servicing Agreement, provided that it meets certain conditions as set out in the Servicing Agreement (including the prior written consent of the Funding Companies and the Security Trustee) and provided that the Servicer is not released or discharged from any liability therefor and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so sub-contracted or delegated under the Servicing Agreement.

The consent of any Funding Company and the Security Trustee referred to in this document will not be required in respect of any delegation to a wholly-owned subsidiary of Bradford & Bingley from time to time or to persons such as receivers, lawyers or other relevant professionals. Neither the Note Trustee, the Issuer Security Trustee, the Mortgages Trustee, the Funding Companies nor the Security Trustee will be obliged to act as Servicer in any circumstances.

### ***Liability of the Servicer***

The Servicer will indemnify the Mortgages Trustee and the Beneficiaries against all losses, liabilities, claims, expenses or damages incurred as a result of negligence or wilful default by the Servicer or any of its sub-contractors, including the Sub-Servicer, in carrying out its functions under the Servicing Agreement or any other Transaction Document or as a result of a breach of the terms of the Servicing Agreement. If the Servicer does breach the terms of the Servicing Agreement and thereby causes loss to the Beneficiaries, then, for so long as the Servicer is also the Seller, the Seller Share of the Trust Property will be reduced by an amount equal to the loss.

### ***Governing law***

The Servicing Agreement will be governed by English law.

### ***Sub-Servicing Agreement***

The Servicer, the Sub-Servicer, the Security Trustee, the Mortgages Trustee and each of the Beneficiaries will enter into the Sub-Servicing Agreement on the Set-Up Date, pursuant to which, *inter alia*, the Servicer will appoint the Sub-Servicer to provide certain administrative services in respect of those Loans in the Portfolio originated or acquired by Mortgage Express and sold by the Seller to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement.

### ***Governing law***

The Sub-Servicing Agreement will be governed by English law.

### ***Cash Management Agreement***

On the Set-Up Date, the Cash Manager, the Mortgages Trustee, each of the Funding Companies, the Seller and the Security Trustee will enter into the Cash Management Agreement.

### ***Cash management services provided in relation to the Mortgages Trust***

The Cash Manager's duties in relation to the Mortgages Trust will include but are not limited to:

- (a) determining the current shares of the Funding Companies and the Seller in the Trust Property (including the Weighted Average Funding 1 Share Percentage, the Weighted Average Funding 2 Share Percentage, the Weighted Average Funding 3 Share Percentage and the Weighted Average Seller Share Percentage) in accordance with the terms of the Mortgages Trust Deed;
- (b) maintaining the following ledgers on behalf of the Mortgages Trustee:
  - the Funding 1 Share Ledger, the Funding 2 Share Ledger, the Funding 3 Share Ledger and the Seller Share Ledger, which record the current shares of the Funding Companies and the Seller, respectively, in the Trust Property;

- the Losses Ledger, which records Losses on the Loans;
  - the Principal Ledger, which records Principal Receipts on the Loans received by the Mortgages Trustee and payments of principal from the Mortgages Trustee GIC Account to the Funding Companies and the Seller;
  - the Revenue Ledger, which records Revenue Receipts on the Loans received by the Mortgages Trustee and payments of Revenue Receipts from the Mortgages Trustee GIC Account to the Funding Companies and the Seller;
  - a ledger which will record any Overpayments, Underpayments, Cash Withdrawals or further drawings made by Borrowers, any Payment Holidays taken by Borrowers or any Extension Advances made to Borrowers in respect of the Loans in the Portfolio; and
  - a ledger which will record any Further Contribution made by the Funding Companies to the Mortgages Trustee, whether or not such Further Contribution is in whole or part a Refinancing Contribution, and any Special Distribution or Refinancing Distribution made by the Mortgages Trustee following receipt of such Further Contribution or Refinancing Contribution;
- (c) calculating and distributing the Mortgages Trust Available Revenue Receipts and the Mortgages Trust Available Principal Receipts to the Funding Companies and the Seller in accordance with the terms of the Mortgages Trust Deed;
- (d) providing the Mortgages Trustee, the Funding Companies, the Security Trustee and the Rating Agencies with a quarterly report in relation to the Trust Property; and
- (e) investing amounts standing to the credit of the Mortgages Trustee GIC Account or any other Mortgages Trustee account in Authorised Investments.

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

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

- (a) four London Business Days before each Funding 1 Payment Date, determining:
- the amount of Funding 1 Available Revenue Receipts to be applied on the following Funding 1 Payment Date in accordance with the Funding 1 Pre-Enforcement Revenue Priority of Payment;
  - the amount of Funding 1 Available Principal Receipts to be applied on the following Funding 1 Payment Date in accordance with the Funding 1 Pre-Enforcement Principal Priority of Payment;
  - the amount of any Funding 1 Revenue Deficit Amount; and
  - the Funding 1 Anticipated Cash Accumulation Period;
- (b) if required, directing Funding 1 to make drawings under the Liquidity Facility;
- (c) maintaining the following ledgers on behalf of Funding 1:
- the Funding 1 Principal Ledger, which records the amount of Funding 1 Principal Receipts received by Funding 1 on each Distribution Date;
  - the Funding 1 Revenue Ledger, which records all other amounts received by Funding 1 on each Distribution Date;
  - the General Reserve Ledger, which records the amount credited to the General Reserve Fund from a portion of the proceeds of: (i) the Start-Up Loan on the Closing Date; (ii) other amounts standing to the credit of the General Reserve Fund (but not exceeding the General Reserve Fund Required Amount); and (iii) all deposits and other credits in respect of the General Reserve Fund;
  - the Principal Deficiency Ledger, which records principal deficiencies arising from Losses on the Loans which have been allocated to the Funding 1 Share or the use of Funding 1's Principal Receipts to cover any Funding 1 Revenue Deficit Amount;
  - the Programme Intercompany Loan Ledger, which records payments of interest and repayments of principal made on each of the Programme Term Advances under the Programme Intercompany Loans;

- the Cash Accumulation Ledger, which records the amount accumulated by Funding 1 from time to time to pay the amounts due on the Programme Bullet Term Advances and the Programme Controlled Amortisation Instalments; and
  - the Liquidity Facility Ledger, which records drawings made under the Liquidity Facility and repayments of those drawings;
- (d) arranging for the payment of all sums (including costs and expenses) required or permitted to be paid by the Mortgages Trustee and/or Funding 1 under any of the Transaction Documents;
- (e) investing sums standing to the credit of the Funding 1 GIC Account and the Stand-by Account in Authorised Investments as determined by Funding 1, the Cash Manager and the Security Trustee;
- (f) making withdrawals from the General Reserve Fund as and when required;
- (g) applying the Funding 1 Available Revenue Receipts and Funding 1 Available Principal Receipts in accordance with the relevant order of priority of payments for Funding 1 contained in the Funding 1 Deed of Charge;
- (h) providing Funding 1, the Issuer, the Issuer Security Trustee, the Security Trustee and the Rating Agencies with a quarterly report in relation to Funding 1;
- (i) making all returns and filings in relation to Funding 1 and the Mortgages Trustee and providing or procuring the provision of company secretarial and administration services to them; and
- (j) determining the Funding 1 Anticipated Cash Accumulation Period.

### ***Cash management services to be provided to Funding 2 and Funding 3***

The Cash Manager may be required to provide further cash management services to Funding 2 and/or Funding 3 as and when Funding 2 or Funding 3, as the case may be, raise debt. At such time, the Cash Management Agreement may require certain amendments, including, but not limited to, calculation provisions in relation to an increase in the Funding 2 Share or the Funding 3 Share, as applicable, of the Trust Property above the nominal amount. Your consent will not be required prior to making these amendments nor will you have the right of review in respect thereof. See also *Investment Considerations – The Security Trustee and/or the Issuer Security Trustee and/or the Note Trustee may agree modifications to the Issuer Transaction Documents without your prior consent, which may adversely affect your interests.*

### ***Compensation of Cash Manager***

The Cash Manager is paid a rate of 0.025 per cent. per annum of the aggregate Outstanding Principal Amount of the Programme Intercompany Loans (including the Programme Class E Term Advances, if any) for its services which is paid in four equal instalments quarterly in arrear on each Distribution Date. The rate is inclusive of any amounts in respect of VAT. The rate is subject to adjustment if the applicable rate of VAT changes.

In addition, the Cash Manager is entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The Cash Manager is paid by the Mortgages Trustee, on behalf of the Funding Companies, proportionately in accordance with and subject to the terms of the Mortgages Trust Deed and the Mortgages Trust Revenue Priority of Payments.

### ***Resignation of Cash Manager***

The Cash Manager may resign only on giving 12 months' written notice to the Security Trustee, the Funding Companies and the Mortgages Trustee and provided:

- a substitute cash manager has been appointed and a new cash management agreement is entered into on terms satisfactory to the Security Trustee, the Mortgages Trustee and the Funding Companies; and
- the then current ratings of the Programme Notes or any notes issued in connection with debt raised by Funding 2 or Funding 3 would not be downgraded, withdrawn or qualified as a result of that replacement (unless the relevant classes of Programme Noteholders otherwise agree by an Extraordinary Resolution).

### ***Termination of appointment of Cash Manager***

The Funding Companies and/or the Seller (in its capacity as Beneficiary, but in the case of the Seller only with the prior written consent of the Security Trustee) and the Security Trustee may, upon

written notice to the Cash Manager, terminate the Cash Manager's rights and obligations immediately if any of the following events occurs:

- the Cash Manager defaults in the payment of any amount due and fails to remedy the default for a period of three London Business Days after the earlier of becoming aware of the default and receipt of written notice from the Funding Companies, the Mortgages Trustee and the Security Trustee requiring the default to be remedied;
- the Cash Manager fails to comply with any of its other obligations under the Cash Management Agreement which in the opinion of the Security Trustee is materially prejudicial to the Funding 1 Secured Creditors (or which, in the opinion of Funding 2 or Funding 3 or their respective secured creditors, is materially prejudicial to, as applicable, Funding 2 or Funding 3 or their respective secured creditors) and does not remedy that failure within 20 London Business Days after the earlier of becoming aware of the failure and receiving a written notice from the Security Trustee requiring the Cash Manager's non-compliance to be remedied; or
- the Cash Manager suffers an Insolvency Event.

Upon termination of the appointment of the Cash Manager, the Funding Companies and/or the Seller (in its capacity as a Beneficiary, but in the case of the Seller only with the prior written consent of the Security Trustee) will agree to use their reasonable endeavours to appoint a substitute cash manager. Any such substitute cash manager will be required to enter into a cash management agreement on substantially the same terms as the provisions of the Cash Management Agreement and the appointment of such substitute cash manager and all other documentation is conditional upon the Rating Agencies having previously confirmed in writing to the Mortgages Trustee, the Funding Companies and the Security Trustee that the then current ratings of each Programme Issuer's Programme Notes or any notes issued in connection with debt raised by Funding 2 or Funding 3 will not be downgraded, withdrawn or qualified, as a result of the appointment (unless the relevant classes of Noteholders otherwise agree by an Extraordinary Resolution).

If the appointment of the Cash Manager is terminated or it resigns, the Cash Manager must deliver its books of account (and any other information reasonably requested by the Security Trustee) relating to the Loans and/or any monies held on behalf of the Mortgages Trustee, the Funding Companies or the Security Trustee to or at the direction of the Mortgages Trustee, the Funding Companies or the Security Trustee, as the case may be. The Cash Management Agreement will terminate automatically when the Funding Companies have no further interest in the Trust Property and each Programme Intercompany Loan and the debt of Funding 2 and/or Funding 3 have been repaid or otherwise discharged.

### ***Governing law***

The Cash Management Agreement will be governed by English law.

### **Issuer Cash Management Agreement**

The Issuer Cash Manager will be appointed on the Closing Date by the Issuer and the Issuer Security Trustee to provide cash management services to the Issuer pursuant to the Issuer Cash Management Agreement.

### ***Cash management services to be provided to the Issuer***

The Issuer Cash Manager's duties will include but are not limited to:

- (a) four London Business Days before each Note Payment Date, determining:
  - the amount of Issuer Revenue Receipts to be applied to pay interest on the Notes on the following Note Payment Date and to pay amounts due to other creditors of each Issuer;
  - the amount of Issuer Principal Receipts to be applied to repay the Notes on the following Note Payment Date; and
  - such other amounts as are expressed to be calculations and determinations made by the Issuer Cash Manager in accordance with the Conditions of the Notes;
- (b) applying Issuer Revenue Receipts and Issuer Principal Receipts in accordance with the order of priority of payments for the Issuer set out in the Issuer Cash Management Agreement or, as applicable, the Issuer Deed of Charge;
- (c) providing the Issuer, Funding 1, the Issuer Security Trustee and the Rating Agencies with quarterly reports in relation to the Issuer;

- (d) making all returns and filings required to be made by the Issuer and providing or procuring the provision of company secretarial and administration services to the Issuer;
- (e) arranging payment of all fees to the London Stock Exchange or, as applicable, the FSA;
- (f) if necessary, performing all currency and interest rate conversions (whether it be a conversion from sterling to dollars or *vice versa*, sterling to euro or *vice versa*, or floating rates of interest to fixed rates of interest or *vice versa*) free of charge, cost or expense at the relevant exchange rate; and
- (g) investing amounts standing to the credit of the Issuer Transaction Account in Authorised Investments.

### ***Compensation of Issuer Cash Manager***

The Issuer Cash Manager will be paid a rate of 0.025 per cent. per annum of the sterling Principal Amount Outstanding of the Notes for its services which will be paid in four equal instalments quarterly in arrear on each quarterly Note Payment Date. The rate is inclusive of any amounts in respect of VAT.

In addition, the Issuer Cash Manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The Issuer Cash Manager will be paid by the Issuer prior to amounts due on the Notes.

### ***Resignation of Issuer Cash Manager***

The Issuer Cash Manager may resign only on giving 12 months' written notice to the Issuer Security Trustee and the Issuer and provided the following conditions, *inter alia*, are met:

- a substitute issuer cash manager has been appointed and a new issuer cash management agreement is entered into on terms satisfactory to the Issuer Security Trustee and the Issuer; and
- the ratings of the Programme Notes at that time would not be downgraded, withdrawn or qualified as a result of that replacement.

### ***Termination of appointment of Issuer Cash Manager***

The Issuer or the Issuer Security Trustee may, upon written notice to the Issuer Cash Manager, terminate the Issuer Cash Manager's rights and obligations immediately if any of the following events occurs:

- the Issuer Cash Manager defaults in the payment of any amount due and fails to remedy the default for a period of three London Business Days after becoming aware of the default;
- the Issuer Cash Manager fails to comply with any of its other obligations under the Issuer Cash Management Agreement which in the opinion of the Issuer Security Trustee is materially prejudicial to the Issuer Secured Creditors and does not remedy that failure within 20 London Business Days after the earlier of becoming aware of the failure and receiving a written notice from the Issuer Security Trustee requiring the Issuer Cash Manager's non-compliance to be remedied; or
- the Issuer Cash Manager suffers an Insolvency Event.

Upon termination of the appointment of the Issuer Cash Manager, the Issuer will agree to use its reasonable endeavours to appoint a substitute issuer cash manager. Any such substitute issuer cash manager will be required to enter into an issuer cash management agreement on substantially the same terms as the provisions of the Issuer Cash Management Agreement and the appointment of such substitute issuer cash manager and all other documentation is conditional upon the Rating Agencies having previously confirmed in writing to the Issuer and the Issuer Security Trustee that the then current ratings of the Programme Notes of each Programme Issuer will not be downgraded, withdrawn or qualified.

If the appointment of the Issuer Cash Manager is terminated or it resigns, the Issuer Cash Manager must deliver its books of account relating to the Notes to or at the direction of the Issuer Security Trustee. The Issuer Cash Management Agreement will terminate automatically when the Notes have been fully redeemed.

### ***Governing law***

The Issuer Cash Management Agreement will be governed by English law.

## **Funding 1 Bank Account Agreement**

Pursuant to the terms of the Funding 1 Bank Account Agreement to be entered into on the Set-Up Date between Funding 1, the Funding 1 Account Bank, the Cash Manager and the Security Trustee, Funding 1 will maintain three bank accounts in England in its name with the Funding 1 Account Bank. These are:

- (a) the Funding 1 GIC Account: the General Reserve Fund is credited to this account and on each Distribution Date the Funding 1 Share of the Mortgages Trust Available Revenue Receipts, any distribution of Funding 1 Principal Receipts to Funding 1 under the Mortgages Trust and any balance remaining in the Funding 1 Cash Accumulation Ledger are initially deposited in this account. On any date upon which payment is due, amounts required to meet Funding 1's obligations to its various creditors are transferred to the Funding 1 Transaction Account;
- (b) the Funding 1 Transaction Account: on each Funding 1 Payment Date, monies standing to the credit of the Funding 1 GIC Account are, with the consent of the Security Trustee, transferred to the Funding 1 Transaction Account and applied by the Cash Manager in accordance with the relevant order for priority of payments of Funding 1. Amounts representing Funding 1's profits are retained in the Funding 1 Transaction Account; and
- (c) the Funding 1 Collateral Account: which will be credited with all cash collateral transferred by the Funding 1 Swap Provider and all other amounts attributable to assets transferred as collateral by the Funding 1 Swap Provider to the extent such collateral is required to be transferred in accordance with the Funding 1 Swap Agreement.

If the Funding 1 Account Bank ceases to have the Funding 1 Account Bank ratings then either:

- the Funding 1 Transaction Account, the Funding 1 GIC Account and the Funding 1 Collateral Account will be closed and all amounts standing to the credit thereof shall be transferred to accounts held with a financial institution: (i) whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, P-1 by Moody's, and F1 by Fitch; and (ii) which is an authorised person under the FSMA; or
- the Funding 1 Account Bank will obtain a guarantee of its obligations under the Funding 1 Bank Account Agreement from a financial institution whose short term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch,

in each case, provided that the Rating Agencies then rating the Programme Notes confirm that the then current ratings of the Programme Notes would not be downgraded, withdrawn or qualified.

If Funding 1 makes a Stand-by Drawing under the Liquidity Facility Agreement, then Funding 1 will open a Stand-by Account (subject to the terms of the Liquidity Facility Agreement) into which any Stand-by Drawing will be deposited. See *Credit Structure – Liquidity Facility*.

Under the terms of the Funding 1 Bank Account Agreement, the Funding 1 Account Bank will agree to pay interest on the moneys standing to the credit of the Funding 1 GIC Account at a variable rate of interest of 0.20 per cent. per annum below overnight LIBOR for sterling deposits.

### ***Governing law***

The Funding 1 Bank Account Agreement will be governed by English law.

## **Mortgages Trustee Bank Account Agreement**

On the Set-Up Date, the Mortgages Trustee will enter into the Mortgages Trustee Bank Account Agreement with the Mortgages Trustee Account Bank, the Cash Manager and the Security Trustee on substantially the same terms as the Funding 1 Bank Account Agreement in relation to the Mortgages Trustee GIC Account.

## **Issuer Bank Account Agreement**

On the Closing Date the Issuer will enter into the Issuer Bank Account Agreement with the Issuer Account Bank, the Issuer Cash Manager and the Issuer Security Trustee on substantially the same terms as the Funding 1 Bank Account Agreement in relation to the Issuer Transaction Account. The rights, benefits and interests of the Issuer Bank Account Agreement will be assigned to the Security Trustee under the Issuer Deed of Charge. The Issuer may, with the prior written consent of the Issuer Security Trustee, open additional or replacement bank accounts.

## **Start-Up Loan Agreement**

On the Set-Up Date, the Start-Up Loan Provider will make available to Funding 1 the Start-Up Loan under the Start-Up Loan Agreement. This will be a subordinated loan facility in the amount set out in *The Supplement – Transaction Features – Start-Up Loan*, which will be used for: (i) crediting the General Reserve Fund on the Closing Date by an amount specified in *The Supplement – Transaction Features – Credit Structure*; (ii) meeting the costs and expenses incurred by Funding 1 in connection with its payment to the Mortgages Trustee in respect of increasing the Funding 1 Share in the Trust Property on the Closing Date; and (iii) paying the fees under the Intercompany Loan Agreement which relate to the costs of issue of the Notes. The Start-Up Loan Provider will agree to be bound by any calculations and determinations made by the Cash Manager, the Security Trustee or the Mortgages Trustee, respectively.

### ***Interest on the Start-Up Loan***

The Start-Up Loan will bear interest at the variable rates of interest specified in *The Supplement – Transaction Features – Credit Structure*. Any unpaid interest will be added to the principal amount owed on the Start-Up Loan and will bear interest. Interest is payable by Funding 1 on each Funding 1 Payment Date.

### ***Repayment of the Start-Up Loan***

Funding 1 will repay the Start-Up Loan, but only to the extent that it has Funding 1 Available Revenue Receipts after making higher ranking payments in the relevant priorities of payments of Funding 1 (see further – *Funding 1 Deed of Charge – Funding 1 Pre-Enforcement Priority of Payments* and – *Funding 1 Deed of Charge – Funding 1 Post-Enforcement Priority of Payments*). Amounts due to the Start-Up Loan Provider are payable after amounts due on the Programme Term Advances are repaid to the Programme Issuers. After Funding 1 has repaid the Start-Up Loan, it will have no further recourse to the Start-Up Loan Provider.

### ***Event of default***

It will be an event of default under the Start-Up Loan Agreement if Funding 1 has Funding 1 Available Revenue Receipts to pay amounts due to the Start-Up Loan Provider, and it does not pay them.

The occurrence of an event of default under the Start-Up Loan Agreement may constitute an Intercompany Loan Event of Default as set out in – *Intercompany Loan Agreement – Intercompany Loan Events of Default*.

### ***Acceleration***

If notice is given that the security granted by Funding 1 under the Funding 1 Deed of Charge is to be enforced, then the Start-Up Loan will become immediately due and payable.

### ***Governing law***

The Start-Up Loan Agreement will be governed by English law.

## **Funding 1 Deed of Charge**

On the Set-Up Date Funding 1 will enter into the Funding 1 Deed of Charge with the Funding 1 Secured Creditors (comprising, among others, the Security Trustee, the Cash Manager, the Funding 1 Account Bank, the Seller, the Mortgages Trustee, the Funding 1 Corporate Services Provider, the PECO Corporate Services Provider, the Holdings Corporate Services Provider, the Start-Up Loan Provider and the Funding 1 Swap Provider). Under the Funding 1 Deed of Charge, Funding 1 will grant security to the Security Trustee for and on behalf of the Funding 1 Secured Creditors to secure its obligations under the Intercompany Loan Agreement and the other Transaction Documents to which it is a party. If Funding 1 enters into New Intercompany Loan Agreements with New Issuers, then the New Issuers (together with any New Start-Up Loan Providers, any New Funding 1 Swap Providers and/or any New Liquidity Facility Providers) will enter into Deeds of Accession in relation to the Funding 1 Deed of Charge. This means that New Funding 1 Secured Creditors will share in the security granted by Funding 1 under the Funding 1 Deed of Charge with the Funding 1 Secured Creditors existing as at the Set-Up Date.

### ***Funding 1 Security***

Under the Funding 1 Deed of Charge, Funding 1 will create, *inter alia*, the following Funding 1 Security in favour of the Security Trustee for and on behalf of the Funding 1 Secured Creditors to secure all the Programme Intercompany Loans outstanding at any one time and Funding 1's obligations under the Transaction Documents to which it is a party:

- a first fixed charge (which may take effect as a floating charge) over the Funding 1 Share of the Trust Property;
- an assignation by way of first fixed security of the Funding 1 Share of the Trust Property under Scots law, to the extent not effectively charged by the preceding sub-paragraph;
- an assignment by way of first fixed security of all of its right, title, interest and benefit in the Transaction Documents to which Funding 1 is a party from time to time;
- a first ranking fixed charge (which may take effect as a floating charge) over all of the right, title, interest and benefit of Funding 1 in the Funding 1 GIC Account, the Funding 1 Transaction Account, the Funding 1 Collateral Account and any Stand-by Account and any other account in which Funding 1 may acquire an interest, all amounts standing to the credit of those accounts from time to time and all Authorised Investments purchased from those accounts including all monies and income payable under them; and
- a first floating charge over all of the property, assets and undertaking of Funding 1 not otherwise secured by any fixed security interest detailed above but extending over all of Funding 1's property, assets and undertaking which are situated in Scotland or governed by Scots law.

The interest of the Funding 1 Secured Creditors in property and assets over which there is a floating charge only will rank behind the claims of certain preferential creditors on enforcement of the Funding 1 Security.

The Security Trustee holds the benefit of the security created in its favour under the Funding 1 Deed of Charge on trust for the benefit of itself, any Receiver of Funding 1 and any other Funding 1 Secured Creditors, upon and subject to the terms thereof.

### ***Funding 1 Pre-Enforcement Priority of Payments***

The Funding 1 Deed of Charge sets out the order of priority of distribution by the Cash Manager, as at the Closing Date and prior to the service of an Intercompany Loan Acceleration Notice on Funding 1, of amounts standing to the credit of the Funding 1 Transaction Account on each Funding 1 Payment Date. This order of priority is described in *Cashflows of Funding 1 – Distribution of Funding 1 Available Revenue Receipts* and *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts*.

### ***Following the creation of New Intercompany Loan Agreements***

As New Issuers are established to issue New Notes and accordingly to make New Term Advances to Funding 1, those New Issuers (together with any New Start-Up Loan Providers, any New Funding 1 Swap Providers and any New Liquidity Facility Providers) will enter into deeds of accession in relation to the Funding 1 Deed of Charge which will amend the Funding 1 Pre-Enforcement Revenue Priority of Payments, the Funding 1 Pre-Enforcement Principal Priority of Payments (including those priorities of payments applying if a Trigger Event occurs or if a Note Acceleration Notice is served on one or more of the Programme Issuers), and the Funding 1 Post-Enforcement Priority of Payments to reflect the amounts due to the New Issuer and any New Start-Up Loan Provider, any New Funding 1 Swap Provider and any New Liquidity Facility Provider. The ranking of those new amounts due will be as follows:

- subject to the Rules regarding the application of Funding 1 Principal Receipts by Funding 1 (see *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules*), all amounts due and payable to the Issuer and the Other Issuers will be paid, subject to their relevant repayment dates, in descending order of the respective ratings of their Programme Term Advances so the Programme Term Advance with the highest Term Advance Rating will be paid first and the Programme Term Advance with the lowest Term Advance Rating will be paid last;
- all Funding 1 Swap Providers will rank *pari passu* and *pro rata* to the respective amounts due to them;
- all Liquidity Facility Providers will rank *pari passu* and *pro rata* to the respective amounts due to them; and

- all Start-Up Loan Providers will rank *pari passu* and *pro rata* to the respective amounts due to them.

Other creditors of Funding 1 may from time to time become Funding 1 Secured Creditors by signing a Deed of Accession. The prior consent of Programme Noteholders, other Funding 1 Secured Creditors existing at that time and the Issuer Secured Creditors will not be sought in relation to the accession of a New Issuer or other relevant creditor to the Funding 1 Deed of Charge. The Funding 1 Deed of Charge will direct the Security Trustee to execute any Deed of Accession for and on behalf of the Funding 1 Secured Creditors, provided that the conditions precedent to the creation of a New Intercompany Loan have been satisfied.

### ***Enforcement***

The Funding 1 Deed of Charge sets out the general procedures by which the Security Trustee may take steps to enforce the security created by Funding 1 so that the Security Trustee can protect the interests of each of the Funding 1 Secured Creditors.

The Funding 1 Deed of Charge requires the Security Trustee to consider the interests of each of the Funding 1 Secured Creditors in the exercise of its powers, trusts, authorities, duties and discretions, but requires the Security Trustee in the event of a conflict between the interests of the Issuer and the Other Issuers on the one hand and the interests of any other Funding 1 Secured Creditors on the other hand, to consider only, unless stated otherwise, the interests of the Issuer and any Other Issuers.

As among the Issuer and any Other Issuers, the Security Trustee will exercise its rights under the Funding 1 Deed of Charge only in accordance with the directions of the Issuer and/or any Other Issuers having outstanding Programme Term Advances with the highest-ranking Term Advance Ratings. If the Issuer and/or any Other Issuers with Programme Term Advances of equal Term Advance Ratings give conflicting directions, then the Security Trustee will act in accordance with the directions of the Issuer and/or any Other Issuers (or two or more Programme Issuers if in agreement) whose aggregate Outstanding Principal Amount of its/their Programme Term Advances with the highest Term Advance Ratings is the greatest. In all cases, the Security Trustee will only act if it is indemnified and/or secured to its satisfaction.

The Funding 1 Security will become enforceable upon the service of an Intercompany Loan Acceleration Notice under any Programme Intercompany Loan, provided that, if the Funding 1 Security has become enforceable otherwise than by reason of a default in payment of any amount due on any of the Programme Term Advances, the Security Trustee will not be entitled to dispose of all or part of the assets comprised in the Funding 1 Security unless either:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the Programme Class A Term Advances – including the Programme Class A Term Advances made under the Intercompany Loan and any Other Intercompany Loans (or, once these Programme Class A Term Advances have been repaid, the Programme Term Advances with the next highest Term Advance Rating, and so on); or
- the Security Trustee is of the sole opinion that the cashflow expected to be received by Funding 1 will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of Funding 1, to discharge in full as and when due and payable all amounts owing in respect of the Programme Class A Term Advances, including the Programme Class A Term Advances made under the Intercompany Loan and any Other Intercompany Loans (or, once these Programme Class A Term Advances have been repaid, the Programme Term Advances with the next highest Term Advance Rating, and so on).

Each of the Funding 1 Secured Creditors will agree under the Funding 1 Deed of Charge that they will not take steps directly against Funding 1 for any amounts owing to them, unless the Security Trustee has become bound to enforce the Funding 1 Security but has failed to do so within 30 days of becoming so bound.

### ***Funding 1 Post-Enforcement Priority of Payments***

The Funding 1 Deed of Charge sets out the order of priority of distribution as at the Closing Date by the Security Trustee, following service of an Intercompany Loan Acceleration Notice, of amounts received or recovered by the Security Trustee or a Receiver appointed on its behalf. This order of priority is described in *Cashflows of Funding 1 – Distribution of Funding 1 Principal Receipts and*

*Funding 1 Revenue Receipts following the service of an Intercompany Loan Acceleration Notice on Funding 1.*

### ***Governing law***

The Funding 1 Deed of Charge will be principally governed by English law but will contain certain provisions governed by Scots law or Northern Irish law.

### ***Issuer Deed of Charge***

On the Closing Date, the Issuer will enter into the Issuer Deed of Charge with the Issuer Secured Creditors (comprising, among others, the Issuer Security Trustee, each Issuer Swap Provider, the Note Trustee, the Issuer Account Bank, the Paying Agents, the Agent Bank, the Registrar, the Transfer Agent, the Issuer Corporate Services Provider and the Issuer Cash Manager) pursuant to which the Issuer will provide security for its obligations to the Issuer Secured Creditors.

### ***Issuer Security***

Under the Issuer Deed of Charge, the Issuer will create, *inter alia*, the following Issuer Security in favour of the Issuer Security Trustee for itself and on behalf of the Issuer Secured Creditors in respect of its obligations:

- an assignment by way of first fixed security of all of the Issuer's rights, titles, benefits and interests under the Issuer Transaction Documents;
- a first ranking fixed charge (which may take effect as a floating charge) over all of the Issuer's right, title, interest and benefit present and future in the Issuer Transaction Account and any amounts deposited in it from time to time;
- a first ranking fixed charge (which may take effect as a floating charge) over all of the Issuer's right, title, interest and benefit in all Authorised Investments made by or on behalf of the Issuer, including all monies and income payable under them; and
- a first floating charge over all of the Issuer's property, assets and undertakings not otherwise secured under the fixed security interests detailed above but extending over all of the Issuer's property, assets and undertakings situated in Scotland or governed by Scots law.

### ***Enforcement***

The Issuer Deed of Charge will set out the general procedures by which the Issuer Security Trustee may take steps to enforce the security created by the Issuer so that the Issuer Security Trustee can protect the interests of each of the Issuer Secured Creditors.

The Issuer Deed of Charge will require the Issuer Security Trustee to consider the interests of each of the Issuer Secured Creditors in the exercise of its powers, trusts, authorities, duties and discretions, but requires the Issuer Security Trustee, in the event of a conflict between the interests of the Noteholders and the interests of any other Issuer Secured Creditor, to consider only, unless stated otherwise, the interests of the Noteholders. As among Noteholders, the Issuer Security Trustee will exercise its rights under the Issuer Deed of Charge only in accordance with the directions of the class of Noteholders holding the Notes with the highest Rating. If there is a conflict between the interests of the Class A Noteholders of one series and the Class A Noteholders of another series, or a conflict between the interests of Class B Noteholders of one series and the Class B Noteholders of another series, or a conflict between the interests of Class C Noteholders of one series and the Class C Noteholders of another series, or a conflict between the interests of Class D Noteholders of one series and the Class D Noteholders of another series then a resolution directing the Issuer Security Trustee to take any action must be passed at separate meetings of the holders of each series of the Class A Notes or, as applicable, each series of the Class B Notes, each series of the Class C Notes or each series of the Class D Notes. In all such cases, the Issuer Security Trustee will only act if it is indemnified and/or secured to its satisfaction.

The Issuer Security will become enforceable at any time following the service of the Note Acceleration Notice on the Issuer or, if there are no Notes outstanding, following a default in payment of any other secured obligation of the Issuer, provided that, if the Issuer Security has become enforceable otherwise than by reason of a default in payment of any amount due on the Notes, the Issuer Security Trustee will not be entitled to dispose of all or part of the assets comprised in the Issuer Security unless either:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the Class A Notes or, if the Class A Notes have been fully repaid, the Class B Notes or, if the Class B Notes have been fully repaid, the Class C Notes or, if the Class C Notes have been fully repaid, the Class D Notes; or
- the Issuer Security Trustee is of the sole 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 over time all amounts owing in respect of the Class A Notes or, if the Class A Notes have been fully repaid, the Class B Notes or, if the Class B Notes have been fully repaid, the Class C Notes or, if the Class C Notes have been fully repaid, the Class D Notes.

Each of the Issuer Secured Creditors (other than the Noteholders, the Note Trustee acting on behalf of the Noteholders and the Issuer Security Trustee) will agree under the Issuer Deed of Charge that they will not take steps directly against the Issuer for any amounts owing to them, unless the Issuer Security Trustee has become bound to enforce the Issuer Security but has failed to do so within 30 Business Days of becoming so bound and such failure is continuing.

### ***Issuer Post-Enforcement Priority of Payments***

The Issuer Deed of Charge sets out the order of priority of distribution by the Issuer Security Trustee, following service of the Note Acceleration Notice, of amounts received or recovered by the Issuer Security Trustee (or a Receiver appointed by it). There are two separate payment orders of priority depending on whether the Funding 1 Security has also been enforced. These orders of priority are described in *The Supplement – Cashflows of the Issuer*.

### ***Governing law***

The Issuer Deed of Charge will principally be governed by English law.

### **Funding 1 Swap Agreement**

Some of the Loans in the Portfolio pay a variable rate of interest for a period of time which may either be linked to the Variable Rate or linked to a variable interest rate other than the Variable Rate, such as a rate derived from rates offered by a basket of UK mortgage lenders or a rate set by the Bank of England. Other Loans may pay a fixed rate of interest for a period of time. However, the interest rate payable by Funding 1 with respect to the Term Advances is calculated as a margin over LIBOR for three-month sterling deposits. To provide a hedge against possible variance between:

- (1) the Variable Rate (or any other variable interest rate) payable on the Variable Rate Loans and the fixed rates of interest payable on the Fixed Rate Loans; and
- (2) LIBOR for three-month sterling deposits,

Funding 1, the Funding 1 Swap Provider and the Security Trustee will enter into the Funding 1 Swap Agreement. The Funding 1 Swap will have a notional amount that is sized to hedge against any potential interest rate mismatches in relation to the Term Advances and will also provide for the notional amount to be increased as appropriate to hedge against similar interest rate mismatches in relation to any Issue of New Notes. The Funding 1 Swap Agreement will be amended, if required, in connection with any such new issues.

Under the Funding 1 Swap, on each Trust Calculation Date the following amounts will be calculated:

- the amount produced by applying LIBOR for three-month sterling deposits (as determined in respect of the corresponding Funding 1 Interest Period under the Intercompany Loan) plus a spread for the relevant Trust Calculation Period to the notional amount of the Funding 1 Swap as described later in this section (known as the **Calculation Period Swap Provider Amount**); and
- the amount produced by applying a rate equal to the weighted average of:
  - (i) the Bank of England Base Rate;
  - (ii) the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of Abbey National plc, Halifax plc, HSBC Bank plc, Lloyds TSB Bank plc, National Westminster Bank Plc, Nationwide Building Society, Northern Rock plc and Woolwich plc (and where those banks have more than one standard variable rate, the highest of those rates); and
  - (iii) the rates of interest payable on the Fixed Rate Loans,

for the relevant Trust Calculation Period to the same notional amount as above (known as the **Calculation Period Funding 1 Amount**).

On each Funding 1 Payment Date the following amounts will be calculated:

- the sum of each of the Calculation Period Swap Provider Amounts calculated during the preceding Funding 1 Interest Period; and
- the sum of each of the Calculation Period Funding 1 Amounts calculated during the preceding Funding 1 Interest Period.

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

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

If a payment is to be made by the Funding 1 Swap Provider, that payment will be included in the Funding 1 Available Revenue Receipts and will be applied on the relevant Funding 1 Payment Date according to the relevant order of priority of payments of Funding 1. If a payment is to be made by Funding 1, it will be made according to the relevant order of priority of payments of Funding 1.

The notional amount of the Funding 1 Swap in respect of any Trust Calculation Period will be an amount in sterling equal to:

- the aggregate Outstanding Principal Amount of all Intercompany Loans at the start of the relevant Trust Calculation Period; less
- the balance of the Principal Deficiency Ledger attributable to all Intercompany Loans at the start of the relevant Trust Calculation Period; less
- the amount of the Funding 1 Principal Receipts in the Funding 1 GIC Account attributable to all Intercompany Loans at the start of the relevant Trust Calculation Period.

In the event that the Funding 1 Swap is terminated prior to the service of the Intercompany Loan Acceleration Notice or final repayment of the Intercompany Loan, Funding 1 will enter into a replacement Funding 1 swap on terms acceptable to the Rating Agencies, with the Security Trustee and with a swap provider whom the Rating Agencies have previously confirmed in writing to Funding 1, the Issuer and the Security Trustee will not cause the then current ratings of the Programme Notes then outstanding to be downgraded, withdrawn or qualified. If Funding 1 is unable to enter into a replacement Funding 1 swap on terms acceptable to the Rating Agencies, this may affect amounts available to pay interest on the Intercompany Loans.

#### ***Ratings downgrade of the Funding 1 Swap Provider***

Under the Funding 1 Swap Agreement, in the event that the short-term, unsecured, unsubordinated and unguaranteed credit rating of the Funding 1 Swap Provider is downgraded by a Rating Agency below the ratings specified in the Funding 1 Swap Agreement (in accordance with the requirements of the Rating Agencies in order to maintain the ratings of the Programme Notes) for the Funding 1 Swap Provider and, as a result of the downgrade, the then current ratings of the Programme Notes, in respect of the Funding 1 Swap, would or may, as applicable, be adversely affected, the Funding 1 Swap Provider will, in accordance with the Funding 1 Swap be, required to take certain remedial measures which may include providing collateral for its obligations under the Funding 1 Swap, arranging for its obligations under the Funding 1 Swap to be transferred to an entity with ratings required by the relevant Rating Agency as specified in the Funding 1 Swap Agreement (in accordance with the requirements of the relevant Rating Agency), procuring another entity with ratings required by the relevant Rating Agency as specified in the Funding 1 Swap Agreement (in accordance with the requirements of the relevant Rating Agency) to become co-obligor or guarantor, as applicable, in respect of its obligations under the Funding 1 Swap, or taking such other action as it may agree with the relevant Rating Agency.

#### ***Termination of the Funding 1 Swap***

- The Funding 1 Swap will terminate on the date on which the aggregate Outstanding Principal Amount under the Intercompany Loan is reduced to zero.

- The Funding 1 Swap Agreement may also be terminated in certain other circumstances, including the following, each referred to as a **Swap Early Termination Event**:
  - (i) at the option of one party to the Funding 1 Swap Agreement, if there is a failure by the other party to pay any amounts due under that Funding 1 Swap Agreement;
  - (ii) if an event of default under the Intercompany Loan occurs and the Security Trustee serves an Intercompany Loan Acceleration Notice;
  - (iii) upon the occurrence of an insolvency of the Funding 1 Swap Provider or the merger of the Funding 1 Swap Provider without an assumption of its obligations under the Funding 1 Swap Agreement or changes in law resulting in the obligations of one of the parties to the Funding 1 Swap becoming illegal; and
  - (iv) if the Funding 1 Swap Provider is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the Funding 1 Swap Agreement and described above in – *Ratings downgrade of Funding 1 Swap Provider*.

Upon the occurrence of a Swap Early Termination Event, Funding 1 or the Funding 1 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 swap as determined on the basis of quotations sought from leading dealers as to the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result). Any such termination payment could be substantial.

### ***Taxation***

Neither Funding 1 or the Funding 1 Swap Provider is obliged under the Funding 1 Swap Agreement to gross up payments made by them if withholding taxes are imposed on payments made by them under the Funding 1 Swap.

### ***Governing law***

The Funding 1 Swap Agreement will be governed by English law.

### **Post-Enforcement Call Option Agreement**

The Post-Enforcement Call Option Agreement will be entered into between the Note Trustee, as trustee for and on behalf of the Class B Noteholders, the Class C Noteholders and the Class D Noteholders, the Issuer Security Trustee, the Issuer and the Post-Enforcement Call Option Holder. The terms of the option will require, upon exercise of the option by the Post-Enforcement Call Option Holder following the enforcement of the Issuer Security pursuant to the Issuer Deed of Charge, the transfer to the Post-Enforcement Call Option Holder of all of the Class B Notes, all of the Class C Notes and/or all of the Class D Notes, as the case may be. The Class B Noteholders, the Class C Noteholders and the Class D Noteholders will be bound by the terms of the Class B Notes, the Class C Notes and the Class D Notes, respectively, to transfer the Notes to the Post-Enforcement Call Option Holder in these circumstances. The Class B Noteholders, the Class C Noteholders and the Class D Noteholders will be paid a nominal amount only for that transfer.

### **Corporate Services Agreements**

Each of the Funding Companies, the Mortgages Trustee, the Post-Enforcement Call-Option Holder, Holdings and the Issuer will enter into corporate services agreements with the relevant Corporate Services Provider on the Set-Up Date (except in the case of the Issuer Corporate Services Agreement, which will be entered into on the Closing Date), pursuant to which the relevant Corporate Services Provider will provide corporate services to each of the entities.

The Corporate Services Agreements will be governed by either English or Jersey law, as applicable.

### **Other Agreements**

For a description of the Liquidity Facility Agreement see *Credit Structure – Liquidity Facility* and for a description of the Issuer Swap Agreements see *The Supplement – The Issuer Swap Agreements*.

## CASHFLOWS OF FUNDING 1

### Distribution of Funding 1 Available Revenue Receipts

#### *Definition of Funding 1 Available Revenue Receipts*

**Funding 1 Available Revenue Receipts** for each Funding 1 Payment Date (the **relevant Funding 1 Payment Date**) will be calculated by the Cash Manager on the day falling four Business Days prior to the relevant Funding 1 Payment Date and will be an amount equal to the sum of:

- all Mortgages Trust Available Revenue Receipts distributed or to be distributed to Funding 1 during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date and as adjusted due to payments under the Funding 1 Swap if necessary;
- other net income of Funding 1 (including all amounts of interest received on the Funding 1 GIC Account, the Funding 1 Transaction Account and/or income from Authorised Investments but excluding any amounts of interest received on the Funding 1 Collateral Account and any Funding 1 Swap Collateral Excluded Amounts) in each case to be received during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date;
- amounts to be received by Funding 1 on the relevant Funding 1 Payment Date under the Funding 1 Swap Agreement (other than any early termination amount applied or to be applied by Funding 1 to purchase one or more replacement basis swaps, principal amounts and any Funding 1 Swap Collateral Excluded Amounts);
- the amounts then standing to the credit of the General Reserve Ledger subject to any limits or conditions on the purposes for which the General Reserve Fund may be utilised as set out in the Funding 1 Deed of Charge; and
- (only to the extent required after making the calculation set out below) the aggregate of all Funding 1 Available Principal Receipts (if any) on the relevant Funding 1 Payment Date which are to be applied on the relevant Funding 1 Payment Date to pay up to the applicable limits, items (a) to (e), (g), (i), (k) and (m) of the Funding 1 Pre-Enforcement Revenue Priority of Payments.

The definition of Funding 1 Available Revenue Receipts does not include:

- any Refinancing Contribution which is to be applied to reduce the Funding 1 Share of the Trust Property during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date as described in *Summary of the Transaction Documents – Mortgages Trust Deed – Refinancing Distributions*; and
- any proceeds of a New Intercompany Loan received by Funding 1 during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date as described in *Summary of the Transaction Document – The Intercompany Loan Agreement – Other Intercompany Loan Agreements*.

Four Business Days prior to each Funding 1 Payment Date (and prior to taking into account the application of any Funding 1 Available Principal Receipts on the next Funding 1 Payment Date), the Cash Manager will calculate whether Funding 1 Available Revenue Receipts (as calculated above) will be sufficient to pay items (a) to (e), (g), (i), (k) and (m) of the Funding 1 Pre-Enforcement Revenue Priority of Payments. If the Cash Manager determines that there will be a deficit in the amount of Funding 1 Available Revenue Receipts available to pay items (a) to (e), (g), (i), (k) and (m) of the Funding 1 Pre-Enforcement Revenue Priority of Payments (the amount of the deficit being the **Funding 1 Revenue Deficit Amount**), then Funding 1 shall pay or provide for that Funding 1 Revenue Deficit Amount by applying amounts which constitute Funding 1 Principal Receipts (if any) to cure the deficit up to the applicable limit, and the Cash Manager shall make a corresponding entry first, against the Funding 1 Principal Deficiency Ledger, if any, and second, against amounts (if any) credited to the Cash Accumulation Ledger, and the Cash Manager shall make a corresponding entry in the relevant Principal Deficiency Sub-Ledger and, to the extent debited, the Cash Accumulation Ledger. See further *Credit Structure – Principal Deficiency Ledger*.

Funding 1 may only apply Funding 1 Principal Receipts towards covering a revenue shortfall on:

- the Programme Class B Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class B Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class B Term Advances;

- the Programme Class M Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class M Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class M Term Advances;
- the Programme Class C Term Advances, to the extent that, following such application (and for the avoidance of doubt, following the recording of Losses), the debit balance of the Class C Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class C Term Advances; and
- the Programme Class D Term Advances, to the extent that, following such application (and for the avoidance of doubt, following the recording of Losses), the debit balance of the Class D Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class D Term Advances.

Subject as provided above, Funding 1 Principal Receipts thus applied may not be used to pay interest on any Programme Term Advance if and to the extent that would result in a deficiency being recorded or an existing deficiency being increased on a Principal Deficiency Sub-Ledger relating to a higher ranking Programme Term Advance.

If there are no (or insufficient) Funding 1 Principal Receipts (including amounts standing to the credit of the Cash Accumulation Ledger) available to cure the Funding 1 Revenue Deficit Amount, then the Cash Manager will direct Funding 1 to request a drawing under the Liquidity Facility to apply towards the Funding 1 Revenue Deficit Amount in accordance with the Funding 1 Pre-Enforcement Revenue Priority of Payments (subject to the limits or conditions on the purposes for which the Liquidity Facility may be utilised as set out in the Liquidity Facility Agreement). See *Credit Structure – Liquidity Facility*.

***Distribution of Funding 1 Available Revenue Receipts prior to the service of an Intercompany Loan Acceleration Notice on Funding 1***

This section sets out the order of priority of payments of Funding 1 Available Revenue Receipts as at the Closing Date. If Funding 1 enters into New Intercompany Loan Agreements, then this order of priority will change – see *Summary of the Transaction Documents – Funding 1 Deed of Charge*. The consent of Noteholders will not be obtained in relation thereto provided that the conditions for the entry into New Intercompany Loans are satisfied at the time Funding 1 enters into that New Intercompany Loan Agreement.

Except for amounts due to third parties by the Issuer and/or Funding 1 under item (a) below, which shall be paid when due, on each Funding 1 Payment Date prior to the service of an Intercompany Loan Acceleration Notice on Funding 1, the Cash Manager will apply (i) the Funding 1 Available Revenue Receipts for such date and (ii) if there is an uncured Funding 1 Revenue Deficit Amount on such date, drawings under the Liquidity Facility to the extent necessary to cure the Funding 1 Revenue Deficit Amount (subject to any limits or conditions on the purposes for which the Liquidity Facility may be utilised) in accordance with the following **Funding 1 Pre-Enforcement Revenue Priority of Payments**:

- (a) *first, pari passu* and *pro rata*, to pay amounts due and payable to:
- the Security Trustee (together with interest and any amount in respect of VAT on those amounts) and to provide for any amounts due or to become due in the immediately following Funding 1 Interest Period to the Security Trustee under the Funding 1 Deed of Charge;
  - each Programme Issuer in respect of each Programme Issuer's obligations ranking prior to the payment of interest on the Programme Notes (for example, as specified in items (a) to (c) inclusive of the Issuer Pre-Enforcement Revenue Priority of Payments or, as the case may be, items (a) and (b) of the Issuer Post-Enforcement Priority of Payments, as described in *The Supplement – Cashflows of the Issuer – Distribution of Issuer Revenue Receipts prior to the service of a Note Acceleration Notice on the Issuer* and – *Distribution of Issuer Principal Receipts and Issuer Revenue Receipts following the service of a Note Acceleration Notice on the Issuer and the service of an Intercompany Loan Acceleration Notice on Funding 1*; and
  - any third party creditors of Funding 1 (other than those referred to later in this order of priority of payments), which amounts have been incurred without breach by Funding 1 of the Transaction Documents to which it is a party (and for which payment has not been

provided for elsewhere) and to provide for any of these amounts expected to become due and payable in the immediately following Funding 1 Interest Period by Funding 1 and to pay or discharge any liability of Funding 1 for corporation tax or other tax liabilities on any chargeable income, profit or gain of Funding 1;

- (b) *then*, to pay amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (except for amounts drawn thereunder to repay principal due on the Original Bullet Term Advances and the Original Controlled Amortisation Term Advances and any **Liquidity Subordinated Amounts** (which are all amounts payable under or in any way in connection with the Liquidity Facility Agreement other than principal and interest in respect of a loan (except that part of such interest in respect of mandatory costs in excess of 0.20 per cent. per annum on the maximum aggregate amount available to be drawn under the Liquidity Facility Agreement) and the commitment fee payable under the Liquidity Facility Agreement);
- (c) *then, pari passu* and *pro rata*, towards payment of amounts, if any, due and payable, or expected to become due and payable in the following Funding 1 Interest Period, to:
- the Funding 1 Account Bank under the terms of the Funding 1 Bank Account Agreement;
  - the Corporate Services Provider of Funding 1 under the terms of the Corporate Services Agreement;
  - the Corporate Services Provider of Holdings under the terms of the Corporate Services Agreement; and
  - the Corporate Services Provider of the Post-Enforcement Call Option Holder under the terms of the relevant Corporate Services Agreement;
- (d) *then*, towards payment of all amounts, if any, due and payable to the Funding 1 Swap Provider under the Funding 1 Swap Agreement (including termination payments but excluding any Funding 1 Swap Excluded Termination Amount);
- (e) *then, pari passu* and *pro rata*, towards payment of interest due and payable to the Programme Issuers on the Class A Term Advances;
- (f) *then*, towards a credit to the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (g) *then, pari passu* and *pro rata*, towards payment of interest due and payable to the Programme Issuers on the Class B Term Advances;
- (h) *then*, towards a credit to the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (i) *then, pari passu* and *pro rata*, towards payment of interest due and payable to the Programme Issuers on the Class M Term Advances;
- (j) *then*, towards a credit to the Class M Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (k) *then, pari passu* and *pro rata*, towards payment of interest due and payable to the Programme Issuers on the Class C Term Advances;
- (l) *then*, towards a credit to the Class C Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (m) *then, pari passu* and *pro rata*, towards payment of interest due and payable to the Programme Issuers on the Class D Term Advances;
- (n) *then*, towards a credit to the Class D Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (o) *then, pari passu* and *pro rata*, towards payment of any amounts due and payable to the Programme Issuers in respect of their respective obligations (if any) to make a termination payment to a Programme Issuer Swap Provider (but excluding any Programme Issuer Swap Excluded Termination Amount);
- (p) *then*, towards the payment of interest due and payable to the Programme Issuers on the Class E Term Advances;

- (q) *then*, towards a credit to the General Reserve Ledger to the extent the amount standing to the credit thereof is less than the General Reserve Fund Required Amount, taking into account any net replenishment of the General Reserve Fund on that Funding 1 Payment Date from Funding 1 Available Principal Receipts (see item (c) of the relevant Funding 1 Pre-Enforcement Principal Priority of Payments);
- (r) *then*, towards repayment of amounts outstanding under the Liquidity Facility that were drawn in order to make Eligible Liquidity Facility Principal Repayments on any previous Funding 1 Payment Date, but only to the extent that after application of Funding 1 Available Principal Receipts on the relevant Funding 1 Payment Date, there would remain a shortfall in repayment of such amounts;
- (s) *then*, towards the payment of principal due and payable to the Programme Issuers on the Class E Term Advances;
- (t) *then, pari passu and pro rata* (and without double counting):
  - to pay amounts due and payable to the Programme Issuers, in respect of their obligations (if any) to pay any Programme Issuer Swap Excluded Termination Amount;
  - to pay any other amounts due and payable to the Programme Issuers under the Programme Issuer Intercompany Loan Agreements and not otherwise provided for in this order of priorities;
  - after the occurrence of a Funding 1 Swap Provider Default or a Funding 1 Swap Provider Downgrade Termination Event, towards payment of any Funding 1 Swap Excluded Termination Amount due and payable by Funding 1 under the Funding 1 Swap Agreement; and
  - to the Liquidity Facility Provider to pay any Liquidity Subordinated Amounts due and payable under the Liquidity Facility Agreement;
- (u) *then, pari passu and pro rata*, towards payment of amounts due and payable to the Start-Up Loan Providers under the Start-Up Loan Agreements;
- (v) *then*, towards payment of an amount up to 0.01 per cent. of the Funding 1 Available Revenue Receipts, which may be distributed by Funding 1 to its shareholders at its discretion; and
- (w) *finally*, towards payment of any Deferred Contribution due to the Mortgages Trustee pursuant to the terms of the Mortgages Trust Deed.

## **Distribution of Funding 1 Available Principal Receipts**

### ***Principal Receipts paid to Funding 1 by the Mortgages Trustee on each Distribution Date***

On each Distribution Date, Mortgages Trust Available Principal Receipts shall be paid to Funding 1 in the manner and to the extent provided by the Mortgages Trust Principal Priority of Payments (see *Summary of the Transaction Documents – Mortgages Trust Deed – Mortgages Trust calculation of Principal Receipts*) and shall be deposited in the Funding 1 GIC Account and credited by the Cash Manager to the Funding 1 Principal Ledger (being a ledger maintained by the Cash Manager for Funding 1).

### ***Definition of Funding 1 Available Principal Receipts***

**Funding 1 Available Principal Receipts** will be calculated by the Cash Manager on the day falling four Business Days prior to the relevant Funding 1 Payment Date and will be an amount equal to the sum of:

- all Funding 1 Principal Receipts and Refinancing Distributions received by Funding 1 during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date (except to the extent that the Refinancing Distributions are required to be applied towards repayment of a particular Programme Intercompany Loan, as described below in – *Repayment of Programme Term Advances from the proceeds of a New Intercompany Loan or a Refinancing Distribution*);
- all other Funding 1 Principal Receipts standing to the credit of the Cash Accumulation Ledger which are to be applied on the next Funding 1 Payment Date to repay a Bullet Term Advance and/or, subject to Rule (1)(b) below, a Controlled Amortisation Instalment, or to make a payment under items (a) and (b) of the Funding 1 Pre-Enforcement Principal Priority of Payments and, if such Funding 1 Payment Date occurs on or after a Trigger Event, the remainder of such receipts standing to the credit of the Cash Accumulation Ledger;

- the amount, if any, to be credited to the Principal Deficiency Ledger pursuant to the terms of the Funding 1 Pre-Enforcement Revenue Priority of Payments on the relevant Funding 1 Payment Date;
- in so far as available for and needed to make Eligible Liquidity Facility Principal Repayments (see *Credit Structure – Liquidity Facility*), any amounts available to be drawn under the Liquidity Facility on the relevant Funding 1 Payment Date, after taking account of any amounts to be applied on the relevant Funding 1 Payment Date in payment of any Funding 1 Revenue Deficit Amount; and
- in so far as available for and needed to make Eligible General Reserve Fund Principal Repayments (see *Credit Structure – General Reserve Fund*), the amount that would then be standing to the credit of the General Reserve Ledger on the relevant Funding 1 Payment Date, after taking account of any amounts to be applied on the relevant Funding 1 Payment Date in payment of interest and other revenue expenses as set out in items (a) to (p) (inclusive) of the Funding 1 Pre-Enforcement Revenue Priority of Payments,

*less*

- the aggregate amount of all Funding 1 Principal Receipts and Refinancing Distributions (except to the extent that the Refinancing Distributions are required to be applied towards repayment of a particular Programme Intercompany Loan, as described below in – *Repayment of Programme Term Advances from the proceeds of a New Intercompany Loan or a Refinancing Distribution*) received by the Mortgages Trustee during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date, which are to be applied on that date to provide for a Funding 1 Revenue Deficit Amount. Such Funding 1 Principal Receipts and available Refinancing Distributions shall be applied to provide for a Funding 1 Revenue Deficit Amount before being applied in accordance with the relevant Funding 1 Pre-Enforcement Principal Priority of Payments.

#### ***Due and payable dates of Term Advances***

The Term Advances shall become **due and payable** on the earlier to occur of:

- (1) the date set out in *The Supplement – Transaction Features – The Term Advances – Due and payable dates*;
- (2) the date upon which a Trigger Event occurs;
- (3) the date upon which a Note Acceleration Notice is served on the Issuer under the Issuer Deed of Charge;
- (4) the date upon which an Intercompany Loan Acceleration Notice is served on Funding 1 under the Funding 1 Deed of Charge; and
- (5) the date upon which a Step-Up Date occurs in relation to any of the Term Advances.

In each case, when a Term Advance becomes due and payable, it shall continue to be due and payable until it is fully repaid. If there are insufficient funds available to repay a Term Advance on a Funding 1 Payment Date upon which that Term Advance is due and payable, then the shortfall will be repaid on subsequent Funding 1 Payment Dates from Funding 1 Available Principal Receipts until that Term Advance is fully repaid.

The following sections set out various priorities of payments for Funding 1 Available Principal Receipts under the following circumstances, and are collectively referred to as the **Funding 1 Pre-Enforcement Principal Priority of Payments**:

- repayment of Programme Term Advances of each Series prior to the occurrence of a Trigger Event and prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice;
- repayment of Programme Term Advances of each Series following the occurrence of a Non-Asset Trigger Event but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice;
- repayment of Programme Term Advances of each Series following the occurrence of an Asset Trigger Event but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice; and

- repayment of Programme Term Advances of each Series following the service on each Issuer of a Note Acceleration Notice but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice.

***Repayment of Programme Term Advances of each Series prior to the occurrence of a Trigger Event and prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice***

On each Funding 1 Payment Date prior to the occurrence of a Trigger Event and/or the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice, the Cash Manager shall apply Funding 1 Available Principal Receipts in the following order of priority:

- first*, towards repayment of amounts outstanding under the Liquidity Facility to the Liquidity Facility Provider that were drawn in order to make Eligible Liquidity Facility Principal Repayments;
- then*, to the extent only that monies have been drawn from the General Reserve Fund to make Eligible General Reserve Fund Principal Repayments, towards a credit to the General Reserve Ledger in an amount up to but not exceeding the amount drawn to make the Eligible General Reserve Fund Principal Repayments;
- then*, towards repayment of all Programme Class A Term Advances that are then due and payable in an order of priority based on their Final Repayment Date, so that the earliest maturing Programme Class A Term Advance is paid first (and if any Programme Class A Term Advances have the same Final Repayment Date, then those Term Advances will be paid *pari passu* and *pro rata*), in each case subject to Rules (1), (2) and (3) below;
- then*, towards a credit to the Cash Accumulation Ledger until the balance is equal to Funding 1's Cash Accumulation Liability (as calculated after any payments are made at item (c) of this priority of payments);
- then*, towards repayment of all Programme Class B Term Advances that are then due and payable *pari passu* and *pro rata*, in each case subject to Rules (1), (2) and (3) below;
- then*, towards repayment of all Programme Class M Term Advances that are then due and payable *pari passu* and *pro rata*, in each case subject to Rules (1), (2) and (3) below;
- then*, towards repayment of all Programme Class C Term Advances that are then due and payable *pari passu* and *pro rata*, in each case subject to Rules (1), (2) and (3) below;
- then*, towards repayment of all Programme Class D Term Advances that are then due and payable *pari passu* and *pro rata*, in each case subject to Rules (1), (2) and (3) below; and
- finally*, the remainder shall be credited to the Funding 1 Principal Ledger.

***The Rules***

Set out below are Rules (1), (2) and (3) as referred to in the above Funding 1 Pre-Enforcement Principal Priority of Payments.

***Rule (1) – Deferral of repayment of Programme Pass-Through Term Advances and/or Programme Controlled Amortisation Instalments in certain circumstances***

- Deferral of Programme Class B Term Advances, Programme Class M Term Advances, Programme Class C Term Advances and/or Programme Class D Term Advances*

If on a Funding 1 Payment Date:

- (1) there is a debit balance on the Class D Principal Deficiency Sub-Ledger, the Class C Principal Deficiency Sub-Ledger, the Class M Principal Deficiency Sub-Ledger or the Class B Principal Deficiency Sub-Ledger, after application of the Funding 1 Available Revenue Receipts on that Funding 1 Payment Date; or
- (2) the Adjusted General Reserve Fund Level is less than the General Reserve Fund Threshold; or
- (3) the aggregate Current Balance of Loans in the Mortgages Trust, in respect of which three or more Monthly Payments have been missed, is more than 5 per cent. of the aggregate Current Balance of Loans in the Mortgages Trust,

then until the relevant circumstance as described in sub-paragraphs (1), (2) or (3) above has been cured or otherwise ceases to exist, if:

- (i) any Programme Class A Term Advance (whether or not such Class A Term Advance is then due and payable) remains outstanding after making the payments under item (c) of the above priority of payments and/or the balance of the Cash Accumulation Ledger is not equal to the Cash Accumulation Liability of Funding 1 after making payments under item (d) of the above priority of payments, the Programme Class B Term Advances will not be entitled to principal repayments under item (e) of the above priority of payments;
  - (ii) any Programme Class A Term Advance or any Programme Class B Term Advance (whether or not such Class A Term Advance or Class B Term Advance is then due and payable) remains outstanding after making the payments under items (c) and/or (e) of the above priority of payments and/or the balance of the Cash Accumulation Ledger is not equal to the Cash Accumulation Liability of Funding 1 after making payments under item (d) of the above priority of payments then the Programme Class M Term Advances will not be entitled to principal repayments under item (f) of the priority of payments set out above;
  - (iii) any Programme Class A Term Advance, any Programme Class B Term Advance or any Programme Class M Term Advance (whether or not such Class A Term Advance, Class B Term Advance or Class M Term Advance is then due and payable) remains outstanding after making the payments under items (c), (e) and/or (f) of the above priority of payments and/or the balance of the Cash Accumulation Ledger is not equal to the Cash Accumulation Liability of Funding 1 after making payments under item (d) of the above priority of payments then the Programme Class C Term Advances will not be entitled to principal repayments under item (g) of the priority of payments set out above; or
  - (iv) any Programme Class A Term Advance, any Programme Class B Term Advance, any Programme Class M Term Advance or any Programme Class C Term Advance (whether or not such Class A Term Advance, Class B Term Advance, Class M Term Advance or Class C Term Advance is then due and payable) remains outstanding after making the payments under items (c), (e), (f) and/or (g) of the above priority of payments and/or the balance of the Cash Accumulation Ledger is not equal to the Cash Accumulation Liability of Funding 1 after making payments under item (d) then the Programme Class D Term Advances will not be entitled to principal repayments under item (h) of the priority of payments set out above.
- (b) *Deferral of Programme Controlled Amortisation Term Advances when CPR is below certain threshold(s) prior to Step-Up Date*

If on a Funding 1 Payment Date:

- (1) one or more Programme Bullet Term Advances are within a Cash Accumulation Period at that time (irrespective of whether any Programme Controlled Amortisation Instalments are then in a Cash Accumulation Period); and
- (2) either:
  - (a) the Quarterly CPR is less than 4 per cent.; or
  - (b) both:
    - (i) the Quarterly CPR is equal to or greater than 4 per cent., but less than 7 per cent., and
    - (ii) the annualised CPR is less than 4 per cent.;

then on or before their Step-Up Dates the Programme Controlled Amortisation Term Advances will be entitled to principal repayments under item (c) of the priority of payments set out above only to the extent permitted under the Controlled Amortisation Repayment Restrictions.

For the purposes hereof:

**annualised CPR** means the result of:

$$1 - ((1 - M)^{12})$$

where

**M** is expressed as a percentage and determined as at the most recent Trust Calculation Date as indicated in the definition of **Funding 1 Anticipated Cash Accumulation Period** (see *Summary of Transaction Documents – Mortgages Trust Deed – Definitions*);

**Bullet Accumulation Liability** means on any Funding 1 Payment Date prior to any payment under item (c) of the above priority of payments, the aggregate of each Relevant Accumulation Amount at that time of each Programme Bullet Term Advance which is within a Cash Accumulation Period;

**Bullet Accumulation Shortfall** means at any time the amount by which the Cash Accumulation Ledger Amount is less than the Bullet Accumulation Liability;

**Cash Accumulation Ledger Amount** means at any time the amount standing to the credit of the Cash Accumulation Ledger at that time (immediately prior to any drawing to be applied on that Funding 1 Payment Date under item (d) of the Funding 1 Pre-Enforcement Principal Priority of Payments);

**Cash Accumulation Liability** means on any Funding 1 Payment Date prior to any payment under item (c) of the above priority of payments, the sum of:

- (1) the Bullet Accumulation Liability at that time; and
- (2) the aggregate of each Relevant Accumulation Amount at that time of each Controlled Amortisation Instalment which is within a Cash Accumulation Period;

**Controlled Amortisation Repayment Restrictions** means on a Funding 1 Payment Date:

- (1) where there is not a Bullet Accumulation Shortfall at that time, the total amount withdrawn from the Cash Accumulation Ledger on that Funding 1 Payment Date for repayment of the relevant Programme Controlled Amortisation Instalments shall not exceed the Cash Accumulation Ledger Amount less the Bullet Accumulation Liability at that time; and
- (2) where there is a Bullet Accumulation Shortfall at that time:
  - (a) no amounts may be withdrawn from the Cash Accumulation Ledger on that Funding 1 Payment Date to be applied in repayment of the relevant Programme Controlled Amortisation Instalments; and
  - (b) thereafter, an amount may only be applied in repayment of the relevant Programme Controlled Amortisation Instalments if the sum of the Cash Accumulation Ledger Amount and the amount of Funding 1 Available Principal Receipts after the application of items (a) and (b) and before item (c) of the above priority of payments is greater than the Bullet Accumulation Liability of Funding 1 at that time.

**Rule (2) – Repayment of payable Programme Pass-Through Term Advances after the occurrence of a Step-Up Date**

Following the occurrence of the Step-Up Date under any Programme Intercompany Loan (**Intercompany Loan A**) but prior to the time when Rule (3) becomes applicable and provided that the Funding 1 Share of the Trust Property is greater than zero, the aggregate amount repaid on a Funding 1 Payment Date in relation to Programme Term Advances (other than Programme Bullet Term Advances or Programme Controlled Amortisation Instalments) made under that particular Intercompany Loan A under items (c), (e), (f), (g) and (h) of the priority of payments set out above shall not exceed an amount calculated as follows:

$$\text{Funding 1 Principal Funds} \quad \times \quad \frac{\text{Outstanding Principal Amount of Intercompany Loan A}}{\text{aggregate Outstanding Principal Amount of all Intercompany Loans}}$$

where **Funding 1 Principal Funds** means in respect of any Funding 1 Payment Date the sum of:

- (a) the aggregate of the following amount for each Trust Calculation Period which has fallen in the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date, such amount being the product of:
  - (1) the Funding 1 Share Percentage or, as applicable, the Weighted Average Funding 1 Share (Principal) Percentage, as calculated at the start of the relevant Trust Calculation Period; and
  - (2) the aggregate amount of Principal Receipts received by the Mortgages Trustee during the most recently ended Trust Calculation Period;

- (b) the amount credited to the Principal Deficiency Ledger on the relevant Funding 1 Payment Date; and
- (c) the amount, if any, credited to the Funding 1 Principal Ledger pursuant to item (i) of the above Funding 1 Pre-Enforcement Principal Priority of Payments on the immediately preceding Funding 1 Payment Date.

In calculating the Outstanding Principal Amount of Intercompany Loan A and the Outstanding Principal Amount of all Intercompany Loans in the above formula, the aggregate Outstanding Principal Amount of all Class E Term Advances shall be excluded.

**Rule (3) – Repayment of Programme Term Advances after a Note Acceleration Notice has been served on one or more (but not all) of the Programme Issuers**

If a Note Acceleration Notice has been served on one or more Programme Issuers (but not all the Programme Issuers), then this Rule (3) will apply. In these circumstances:

- (i) enforcement of a Programme Issuer’s Security will not result in automatic enforcement of the Funding 1 Security;
- (ii) the Programme Term Advances (including any outstanding Programme Bullet Term Advances and Programme Controlled Amortisation Instalments) under the Intercompany Loan relating to the relevant Programme Issuer whose security is being enforced (**Intercompany Loan B**) will become immediately due and payable;
- (iii) the Cash Manager shall apply the appropriate amount of Funding 1 Available Principal Receipts available to be allocated to Intercompany Loan B in accordance with the applicable Funding 1 Priority of Payments to repay any Programme Class A Term Advances outstanding under that Intercompany Loan B *pari passu* and *pro rata* (that is, those Programme Class A Term Advances will not be repaid in an order of priority based on their Final Repayment Date); and
- (iv) the aggregate amount repaid on a Funding 1 Payment Date in respect of Intercompany Loan B under items (c), (e), (f), (g), (h) and (i) of the above priority of payments shall not exceed an amount calculated as follows:

$$\text{Funding 1 Principal Funds} \quad \times \quad \frac{\text{Outstanding Principal Amount of Intercompany Loan B}}{\text{aggregate Outstanding Principal Amount of all Intercompany Loans}}$$

where **Funding 1 Principal Funds** has the meaning given to it in Rule (2) above.

In calculating the Outstanding Principal Amount of Intercompany Loan B and the Outstanding Principal Amount of all Intercompany Loans in the above formula, the aggregate Outstanding Principal Amount of all Class E Term Advances shall be excluded.

**Allocations involving Rule (2) or Rule (3)**

Where Rule (2) or Rule (3) applies at a level of any priority of payments, the funds available for making payments at that level shall first be allocated without reference to Rule (2) or Rule (3) (as applicable). However, if the amount so allocated to one or more Programme Term Advances exceeds the amount permitted under Rule (2) or Rule (3) (as applicable) to be paid in respect of those Programme Term Advances (the **Capped Advances**), the excess shall then be reallocated among any other relevant Programme Term Advances at that level using the method of allocation as applies at that level but without reference to the Capped Advances in calculating such reallocation. If a further such excess arises as a result of the reallocation process, the reallocation process shall be repeated at that level in relation to each such further excess that arises until no further funds can be allocated at that level following which the remaining excess shall then be applied at the next level of that priority of payments.

**Repayment of Programme Term Advances of each Series following the occurrence of a Non-Asset Trigger Event but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice**

Following the occurrence of a Non-Asset Trigger Event (where no Asset Trigger Event has occurred) under the Mortgages Trust Deed but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice under the Funding 1 Deed of Charge or the service on each and every Programme Issuer of a Note Acceleration Notice under its Programme Issuer Deed of Charge, the Programme Bullet Term Advances and the Programme Controlled Amortisation Term Advances in

respect of any Programme Intercompany Loan will be deemed to be Programme Pass-Through Term Advances and, on each Funding 1 Payment Date, Funding 1 will be required to apply Funding 1 Available Principal Receipts in the following order of priority:

- (a) *first*, towards repayment of the Liquidity Facility Provider of amounts outstanding under the Liquidity Facility that were drawn in order to make Eligible Liquidity Facility Principal Repayments;
- (b) *then*, to the extent only that monies have been drawn from the General Reserve Fund to make Eligible General Reserve Fund Principal Repayments, towards a credit to the General Reserve Ledger in an amount up to but not exceeding the amount drawn to make the General Reserve Fund Principal Repayment;
- (c) *then*, to repay the Programme Class A Term Advance with the earliest Final Repayment Date, then to repay the Programme Class A Term Advance with the next earliest Final Repayment Date, and so on until the Programme Class A Term Advances are fully repaid;
- (d) *then, pari passu and pro rata*, to repay the Programme Class B Term Advances until those Programme Class B Term Advances are fully repaid;
- (e) *then, pari passu and pro rata*, to repay the Programme Class M Term Advances until those Programme Class M Term Advances are fully repaid;
- (f) *then, pari passu and pro rata*, to repay the Programme Class C Term Advances until those Programme Class C Term Advances are fully repaid; and
- (g) *finally, pari passu and pro rata*, to repay the Programme Class D Term Advances until those Programme Class D Term Advances are fully repaid.

***Repayment of Programme Term Advances of each Series following the occurrence of an Asset Trigger Event but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice or the service on each Programme Issuer of a Note Acceleration Notice***

Following the occurrence of an Asset Trigger Event (whether or not a Non-Asset Trigger Event occurs or has occurred) but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice under the Funding 1 Deed of Charge or the service on each and every Programme Issuer of a Note Acceleration Notice under their respective Programme Issuer Deeds of Charge, the Programme Bullet Term Advances and the Programme Controlled Amortisation Term Advances in respect of any Programme Intercompany Loan will be deemed to be Programme Pass-Through Term Advances and on each Funding 1 Payment Date Funding 1 will be required to apply Funding 1 Available Principal Receipts in the following order of priority:

- (a) *first*, towards repayment to the Liquidity Facility Provider of amounts outstanding under the Liquidity Facility that were drawn in order to make Eligible Liquidity Facility Principal Repayments;
- (b) *then*, to the extent only that monies have been drawn from the General Reserve Fund to make Eligible General Reserve Fund Principal Repayments, towards a credit to the General Reserve Ledger in an amount up to but not exceeding the amount drawn to make the General Reserve Fund Principal Repayments;
- (c) *then, pari passu and pro rata*, to repay the Programme Class A Term Advances until each of those Programme Class A Term Advances is fully repaid;
- (d) *then, pari passu and pro rata*, to repay the Programme Class B Term Advances until each of those Programme Class B Term Advances is fully repaid;
- (e) *then, pari passu and pro rata*, to repay the Programme Class M Term Advances until each of those Programme Class M Term Advances is fully repaid;
- (f) *then, pari passu and pro rata*, to repay the Programme Class C Term Advances until each of those Programme Class C Term Advances is fully repaid; and
- (g) *finally, pari passu and pro rata*, to repay the Programme Class D Term Advances until each of those Programme Class D Term Advances is fully repaid.

***Repayment of Programme Term Advances of each Series following the service on each Programme Issuer of a Note Acceleration Notice but prior to the service on Funding 1 of an Intercompany Loan Acceleration Notice***

If a Note Acceleration Notice is served on each and every Programme Issuer under their respective Programme Issuer Deeds of Charge, then that will not result in automatic enforcement of the Funding 1 Security under the Funding 1 Deed of Charge. In those circumstances, however, the Programme Bullet Term Advances and any Programme Controlled Amortisation Term Advances under any Programme Intercompany Loans will be deemed to be Programme Pass-Through Term Advances and on each Funding 1 Payment Date, Funding 1 will be required to apply Funding 1 Available Principal Receipts in the following order of priority:

- (a) *first*, towards repayment to the Liquidity Facility Provider of amounts drawn under the Liquidity Facility on the prior Funding 1 Payment Date in order to make Eligible Liquidity Facility Principal Repayments;
- (b) *then*, to the extent only that monies have been drawn from the General Reserve Fund to make Eligible General Reserve Fund Principal Repayments, towards a credit to the General Reserve Ledger in an amount up to but not exceeding the amount drawn to make the Eligible Reserve Fund Principal Repayments;
- (c) *then, pari passu and pro rata*, to repay the Programme Class A Term Advances until each of those Programme Class A Term Advances is fully repaid;
- (d) *then, pari passu and pro rata*, to repay the Programme Class B Term Advances, until each of those Programme Class B Term Advances is fully repaid;
- (e) *then, pari passu and pro rata*, to repay the Programme Class M Term Advances, until each of those Programme Class M Term Advances is fully repaid;
- (f) *then, pari passu and pro rata*, to repay the Programme Class C Term Advances until each of those Programme Class C Term Advances is fully repaid; and
- (g) *finally, pari passu and pro rata*, to repay the Programme Class D Term Advances until each of those Programme Class D Term Advances is fully repaid.

***Repayment of Programme Term Advances from the proceeds of a New Intercompany Loan or a Refinancing Distribution***

If either:

- (a) the proceeds of a New Intercompany Loan are to be used to refinance another Programme Intercompany Loan as described in *Summary of the Transaction Documents – Intercompany Loan Agreement – Other Intercompany Loan Agreements*; or
- (b) Funding 1 has received, or will receive during the Funding 1 Interest Period ending on the relevant Funding 1 Payment Date, a Refinancing Distribution funded by another Beneficiary and either:
  - (i) a Programme Issuer has issued, or will issue within the period of 60 days of receipt of that Refinancing Distribution, an Optional Redemption Notice to Noteholders in the circumstances set out in (and in accordance with) Condition 7.3(a) (Optional Redemption); or
  - (ii) with the consent of Funding 1 and the Security Trustee, the donor Beneficiary specifies that the proceeds of the Refinancing Distribution are to be applied (in whole or in part) by Funding 1 towards repayment of a particular Programme Intercompany Loan,

then Funding 1 will not apply the amount received under the New Intercompany Loan or the relevant Refinancing Distribution as described above in – *Distribution of Funding 1 Available Principal Receipts*. Rather, Funding 1 will apply the amount received under the New Intercompany Loan or, as applicable, the relevant Refinancing Distribution to repay the relevant Programme Intercompany Loan. If (at any time) only one Programme Intercompany Loan is outstanding, then Funding 1 shall apply the amount received under the New Intercompany Loan or, as applicable, the relevant Refinancing Distribution, first towards payment of any Funding 1 Revenue Deficit Amount, second to repay the Liquidity Facility Provider any amounts outstanding under the Liquidity Facility and the remainder shall be applied to repay the relevant Programme Intercompany Loan.

***Distribution of Funding 1 Principal Receipts and Funding 1 Revenue Receipts following the service of an Intercompany Loan Acceleration Notice on Funding 1***

The Funding 1 Deed of Charge sets out the order of priority of distribution as at the Closing Date of amounts received or recovered by the Security Trustee or a Receiver appointed on its behalf following the service of an Intercompany Loan Acceleration Notice on Funding 1. If Funding 1 enters into New Intercompany Loan Agreements, then this order of priority will change – see *Summary of the Transaction Documents – Funding 1 Deed of Charge*.

The Security Trustee will apply amounts received or recovered following the service of an Intercompany Loan Acceleration Notice on Funding 1 (including all amounts standing to the credit of the Cash Accumulation Ledger and the General Reserve Ledger) on each Funding 1 Payment Date in accordance with the following **Funding 1 Post-Enforcement Priority of Payments**:

- (a) *first, pari passu* and *pro rata*, to pay amounts due and payable to:
  - (i) the Security Trustee and any Receiver appointed by the Security Trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due and payable to the Security Trustee and the Receiver in the following Funding 1 Interest Period under the Funding 1 Deed of Charge; and
  - (ii) each Programme Issuer in respect of each Programme Issuer's obligations ranking prior to payments of interest on the Programme Notes (for example, as specified in items (a) and (b) of the Issuer Post-Enforcement Priority of Payments as described in *The Supplement – Cashflows of the Issuer – Distribution of Issuer Revenue Receipts following the service of a Note Acceleration Notice on the Issuer but prior to the service of an Intercompany Loan Acceleration Notice on Funding 1*);
- (b) *then, pari passu* and *pro rata*, towards payment of amounts (if any) due and payable to:
  - (i) the Funding 1 Account Bank under the terms of the Funding 1 Bank Account Agreement;
  - (ii) the Corporate Services Provider of Funding 1 under the terms of the Corporate Services Agreement;
  - (iii) the Corporate Services Provider of Holdings under the terms of the Corporate Services Agreement; and
  - (iv) the Corporate Services Provider of the Post-Enforcement Call Option Holder under the terms of the Corporate Services Agreement;
- (c) *then*, towards payment of amounts (if any) due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (except for any Liquidity Subordinated Amounts);
- (d) *then*, towards payment of amounts (if any) due and payable to the Funding 1 Swap Provider under the Funding 1 Swap Agreement (including any termination payment but excluding any Funding 1 Swap Excluded Termination Amount);
- (e) *then, pari passu* and *pro rata*, towards payments of interest and principal due and payable on the Programme Class A Term Advances;
- (f) *then, pari passu* and *pro rata*, towards payments of interest and principal due and payable on the Programme Class B Term Advances;
- (g) *then, pari passu* and *pro rata*, towards payments of interest and principal due and payable on the Programme Class M Term Advances;
- (h) *then, pari passu* and *pro rata*, towards payments of interest and principal due and payable on the Programme Class C Term Advances;
- (i) *then, pari passu* and *pro rata*, towards payments of interest and principal due and payable on the Programme Class D Term Advances;
- (j) *then*, towards payment of any amounts due and payable to the Programme Issuers in respect of their respective obligations (if any) to make a termination payment to a Programme Issuer Swap Provider (but excluding any Programme Issuer Swap Excluded Termination Amount);
- (k) *then, pari passu* and *pro rata*, towards payment of interest and principal due and payable on the Class E Term Advances;

- (l) *then, pari passu and pro rata*, (without double counting):
  - (i) to pay amounts due and payable to the Programme Issuers in respect of their respective obligations (if any) to pay any Programme Issuer Swap Excluded Termination Amount to a Programme Issuer Swap Provider following a Programme Swap Provider Default or a Programme Issuer Swap Provider Downgrade Termination Event (as appropriate);
  - (ii) to pay any other amounts due and payable to the Programme Issuers under the Programme Intercompany Loan Agreements and not otherwise provided for earlier in this order of priorities;
  - (iii) to pay any Liquidity Subordinated Amounts due and payable to the Liquidity Facility Provider; and
  - (iv) to pay amounts due and payable to the Funding 1 Swap Provider in respect of Funding 1's obligation to pay any termination amount to the Funding 1 Swap Provider as a result of a Funding 1 Swap Provider Default or a Funding 1 Swap Provider Downgrade Termination Event; and
- (m) *then, pari passu and pro rata*, towards payment of amounts due and payable to the Start-Up Loan Provider under the Start-Up Loan Agreements;
- (n) *then*, towards payment of any Deferred Contribution due to the Mortgages Trustee under the Mortgages Trust Deed; and
- (o) *finally*, to pay any amount remaining following the application of principal and revenue set forth in items (a) through (n) above, to Funding 1.

## CREDIT STRUCTURE

The credit support arrangements applicable to the Programme may be summarised as follows:

The Notes will be obligations of the Issuer only and will not be obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments to Noteholders, as follows:

- Funding 1 Available Revenue Receipts are expected to exceed interest and fees payable to the Issuer;
- a shortfall in Funding 1 Available Revenue Receipts may be met from Funding 1's Principal Receipts;
- a General Reserve Fund has been established which will help meet shortfalls in principal due on the Programme Bullet Term Advances and Programme Controlled Amortisation Term Advances in the circumstances described below;
- the General Reserve Fund may also be used to increase the Funding 1 Available Revenue Receipts (to help meet any shortfall which may arise, for example, due to non-performance of Loans in the Mortgages Trust);
- any Programme Class E Term Advances made to Funding 1 will be used to make a credit to the General Reserve Fund or to establish an Issuer reserve fund for use only by a specific Programme Issuer;
- payments on the lower ranking classes of Programme Notes will be subordinated to payments on higher ranking classes of each class of Programme Notes (for instance, payments on the Programme Class B Notes will be subordinated to payments on the Programme Class A Notes; payments on the Programme Class C Notes will be subordinated to payments on the Programme Class A Notes and the Programme Class B Notes, and so on);
- the Mortgages Trustee GIC Account and the Funding 1 GIC Account each earn interest at a rate of interest of 0.20 per cent. per annum below overnight LIBOR for sterling deposits;
- a liquidity facility is available to Funding 1 to pay Senior Expenses of Funding 1, interest on the Term Advances and principal amounts due on the Original Bullet Term Advances and Original Controlled Amortisation Term Advances in the circumstances described below;
- hedging arrangements are available to Funding 1 and the Issuer to hedge against variances in interest rates and exchange rate risks; and
- a Start-Up Loan will be provided to make a credit to the General Reserve Fund and meet the costs of setting up the structure.

Each of these features is considered more fully in the remainder of this section.

### **Credit support for the Notes provided by Funding 1 Available Revenue Receipts**

It is anticipated that, during the life of the Notes, the Funding 1 Share of the interest received from Borrowers on the Loans will, assuming that all of the Loans are fully performing, be greater than the sum of the interest which the Programme Issuers have to pay on all of the Programme Notes and the other costs and expenses of the Programme. In other words, the Funding 1 Available Revenue Receipts should be sufficient to pay the amounts payable under items (a) to (e) (inclusive), (g), (i), (k), (m) and (p) of the Funding 1 Pre-Enforcement Revenue Priority of Payments, assuming all Loans are fully performing.

The actual amount of any excess will vary during the life of the Notes. Two of the key factors determining the variation are as follows:

- the interest rate on the Loans in the Portfolio; and
- the level of arrears experienced.

### **Level of arrears experienced**

If the level of interest payments made by the Borrowers which are In Arrears results in Funding 1 experiencing an income deficit, Funding 1 will be able to use the following amounts to cure that income deficit:

- *first*, amounts standing to the credit of the General Reserve Fund, as described in – *General Reserve Fund*;

- *then, Funding 1 Principal Receipts, if any, as described in – Use of Funding 1 Principal Receipts to reduce a Funding 1 Revenue Deficit Amount.*

Any excess of Funding 1 Revenue Receipts will be applied on each Funding 1 Payment Date to the extent described in the Funding 1 Pre-Enforcement Revenue Priority of Payments, including to extinguish amounts standing to the debit of any Principal Deficiency Ledger and to replenish the General Reserve Fund.

### **Use of Funding 1 Principal Receipts to reduce a Funding 1 Revenue Deficit Amount**

Four Business Days prior to each Funding 1 Payment Date, the Cash Manager will calculate whether there will be a Funding 1 Revenue Deficit Amount.

If there is a Funding 1 Revenue Deficit Amount, then Funding 1 shall pay or provide for that deficit by the application of Funding 1 Principal Receipts (plus any part of the balance of the Cash Accumulation Ledger which is not comprised in Funding 1 Principal Receipts), if any, and the Cash Manager shall make a corresponding entry in the relevant Principal Deficiency Sub-Ledger, as described in – *Principal Deficiency Ledger* as well as making a debit in the Funding 1 Principal Ledger. Any such entry and debit shall be made and taken into account (including as to which priority of payments shall apply) prior to the application of Funding 1 Available Principal Receipts on the relevant Funding 1 Payment Date.

Funding 1 may only apply Funding 1 Principal Receipts towards covering a revenue shortfall on:

- the Programme Class B Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class B Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class B Term Advances;
- the Programme Class M Term Advances if any, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class M Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class M Term Advances;
- the Programme Class C Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class C Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class C Term Advances; and
- the Programme Class D Term Advances, to the extent that, following such application (and, for the avoidance of doubt, following the recording of Losses), the debit balance of the Class D Principal Deficiency Sub-Ledger is in an amount equal to or less than 50 per cent. of the Outstanding Principal Amount of the Programme Class D Term Advances.

Funding 1 Principal Receipts will not be used to pay interest on any Programme Term Advance if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a Principal Deficiency Sub-Ledger relating to a higher ranking Programme Term Advance. Funding 1 Available Principal Receipts will not be used to pay interest on the Class E Term Advances, if any.

### **General Reserve Fund**

The General Reserve Fund will be funded in order to:

- contribute to Funding 1 Available Revenue Receipts (including to help meet any deficit recorded on the Principal Deficiency Ledger); and
- make, where necessary, **Eligible General Reserve Fund Principal Repayments**, being:
  - (a) prior to the occurrence of a Trigger Event;
    - (i) repayments of principal which are then due and payable in respect of the Programme Original Bullet Term Advances; and
    - (ii) repayments of principal due and payable in respect of Programme Original Controlled Amortisation Term Advances on their respective Final Maturity Dates only; and

- (iii) on or after the occurrence of a Non-Asset Trigger Event or an Asset Trigger Event, repayments of principal due and payable in respect of Programme Original Bullet Term Advances and Programme Original Controlled Amortisation Term Advances on their respective Final Maturity Dates only,

in each case prior to the service of an Intercompany Loan Acceleration Notice on Funding 1.

The General Reserve Fund:

- (A) may be funded from the proceeds of any Programme Class E Term Advances loaned by the Issuer to Funding 1 on the Closing Date;
- (B) may be funded from a portion of the Start-Up Loan in the amount set out in *The Supplement – Transaction Features – Credit Structure* on the Closing Date;
- (C) may be replenished from excess Funding 1 Available Revenue Receipts in an amount up to and including the General Reserve Fund Required Amount, after Funding 1 has paid all of its obligations in respect of items ranking higher than the General Reserve Fund in the Funding 1 Pre-Enforcement Revenue Priority of Payments on each Funding 1 Payment Date (see *Cashflows of Funding 1 – Distribution of Funding 1 Available Revenue Receipts prior to the service of an Intercompany Loan Acceleration Notice on Funding 1*); and
- (D) only to the extent that amounts standing to the credit of the General Reserve Fund have been used to make an Eligible General Reserve Fund Principal Repayment, may be replenished from Funding 1 Available Principal Receipts, after Funding 1 has paid all of its obligations in respect of items ranking higher than the General Reserve Fund in the relevant Funding 1 Pre-Enforcement Principal Priority of Payments on each Funding 1 Payment Date (see *Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts prior to the service of an Intercompany Loan Acceleration Notice on Funding 1*).

A General Reserve Ledger is maintained by the Cash Manager to record the balance from time to time of the General Reserve Fund.

On each Funding 1 Payment Date the amount of the General Reserve Fund is added to certain other income of Funding 1 in calculating Funding 1 Available Revenue Receipts.

The **General Reserve Fund Required Amount** is set out in *The Supplement – Transaction Features – Credit Structure*.

The Seller, Funding 1 and the Security Trustee may agree to increase, decrease or amend the General Reserve Fund Required Amount from time to time. The prior consent of Programme Noteholders and other creditors of Funding 1 will not be obtained in relation to such amendment, provided that the Rating Agencies have previously confirmed that the ratings of the Programme Notes will not be withdrawn, qualified or downgraded as a result of the proposed amendment.

### **Additional Reserve Funds**

Following the Closing Date, Funding 1 may establish Additional Reserve Funds for one, some or all of the Programme Issuers which may be available to pay interest and/or principal on the relevant Programme Term Advances and/or for other purposes. The way in which such Additional Reserve Funds are funded or replenished may differ from the funding or replenishment of the General Reserve Fund. Any Additional Reserve Funds may rank prior to or after the General Reserve Funding in the Funding 1 Revenue Priority of Payments and the Funding 1 Principal Priority of Payments. **The prior consent of Noteholders will not be obtained if Additional Reserve Funds are established by Funding 1.**

### **Principal Deficiency Ledger**

A Principal Deficiency Ledger has been established to record:

- on each Trust Calculation Date, any principal Losses on the Loans allocated to Funding 1; and/or
- on each Funding 1 Payment Date, any application of Funding 1 Principal Receipts to meet any Funding 1 Revenue Deficit Amount.

The Principal Deficiency Ledger is split into five sub-ledgers, which will each correspond to all the Programme Term Advances, as follows:

- the Class A Principal Deficiency Sub-Ledger corresponding to the Programme Class A Term Advances;

- the Class B Principal Deficiency Sub-Ledger corresponding to the Programme Class B Term Advances;
- the Class M Principal Deficiency Sub-Ledger corresponding to the Programme Class M Term Advances;
- the Class C Principal Deficiency Sub-Ledger corresponding to the Programme Class C Term Advances; and
- the Class D Principal Deficiency Sub-Ledger corresponding to the Programme Class D Term Advances.

The reduction in Funding 1 Principal Receipts as a result of Losses occurring in respect of the Loan and the application of Funding 1 Principal Receipts to reduce any Funding 1 Revenue Deficit Amount (subject to the limit on the application of Funding 1 Principal Receipts to pay interest on the Programme Term Advances, as described in – *Use of Funding 1 Principal Receipts to reduce a Funding 1 Revenue Deficit Amount*) will be recorded as follows:

- *first*, on the Class D Principal Deficiency Sub-Ledger until the balance of the Class D Principal Deficiency Sub-Ledger is equal to the aggregate Outstanding Principal Amount of the Programme Class D Term Advances;
- *then*, on the Class C Principal Deficiency Sub-Ledger until the balance of the Class C Principal Deficiency Sub-Ledger is equal to the aggregate Outstanding Principal Amount of the Programme Class C Term Advances;
- *then*, on the Class M Principal Deficiency Sub-Ledger until the balance of the Class M Principal Deficiency Sub-Ledger is equal to the aggregate Outstanding Principal Amount of the Programme Class M Term Advances;
- *then*, on the Class B Principal Deficiency Sub-Ledger until the balance of the Class B Principal Deficiency Sub-Ledger is equal to the aggregate Outstanding Principal Amount of the Programme Class B Term Advances; and
- *finally*, on the Class A Principal Deficiency Sub-Ledger, at which point there will be an Asset Trigger Event.

Losses on the Loans and/or the application of Funding 1 Principal Receipts to pay interest on the Programme Term Advances will not be recorded on the Principal Deficiency Ledger on any day to the extent that the Funding 1 Share of the Trust Property, together with amounts standing to the credit of the Funding 1 Cash Accumulation Ledger and the Funding 1 Principal Ledger, in aggregate is greater than or equal to the aggregate Outstanding Principal Amount of the Programme Intercompany Loans on that day, after taking account of such Losses or the relevant application of Funding 1 Principal Receipts.

Prior to the service of an Intercompany Loan Acceleration Notice on Funding 1, Funding 1 Available Revenue Receipts will be applied on each Funding 1 Payment Date in the manner and to the extent described in the Funding 1 Pre-Enforcement Revenue Priority of Payments as follows:

- *first*, in an amount necessary to reduce to zero the balance on the Class A Principal Deficiency Sub-Ledger;
- *then*, provided that interest due on the Programme Class B Term Advances has been paid, in an amount necessary to reduce to zero the balance on the Class B Principal Deficiency Sub-Ledger;
- *then*, provided that interest due on the Programme Class M Term Advances has been paid, in an amount necessary to reduce to zero the balance on the Class M Principal Deficiency Sub-Ledger;
- *then*, provided that interest due on the Programme Class C Term Advances has been paid, in an amount necessary to reduce to zero the balance on the Class C Principal Deficiency Sub-Ledger; and
- *finally*, provided that interest due on the Programme Class D Term Advances has been paid, in an amount necessary to reduce to zero the balance on the Class D Principal Deficiency Sub-Ledger.

See also – *Use of Funding 1 Principal Receipts to reduce a Funding 1 Revenue Deficit Amount*.

### **Issuer Available Funds**

On each Funding 1 Payment Date in respect of the Intercompany Loan, the Issuer will receive from Funding 1 an amount equal to or less than the amount which it needs to pay out on the

corresponding Note Payment Date in respect of the Notes in accordance with the Issuer Pre-Enforcement Principal Priority of Payments and the Issuer Pre-Enforcement Revenue Priority of Payments. It is not intended that any surplus cash will be accumulated in the Issuer.

### **Subordination provided by the Notes (other than the Class A Notes)**

The order of payments of interest to be made on the classes of Notes will be prioritised so that interest payments on the Programme Class E Notes will be subordinated to interest payments on the Programme Class D Notes, interest payments on the Programme Class D Notes will be subordinated to interest payments on the Programme Class C Notes, interest payments on the Programme Class C Notes will be subordinated to interest payments on the Programme Class M Notes, interest payments on the Programme Class M Notes will be subordinated to interest payments on the Programme Class B Notes and interest payments on the Programme Class B Notes will be subordinated to interest payments on the Programme Class A Notes, in each case in accordance with Condition 2 of the Notes, as set out in *The Supplement – Terms and Conditions of the Notes* and the Issuer Priority of Payments set out in *The Supplement – Cashflows of the Issuer*.

Any shortfall in payments of interest on the Notes (other than the Class A Notes) will be deferred until the next Note Payment Date. On the next Note Payment Date, the amount of interest due on each Class of Notes will be increased to take account of any deferred interest. If on that Note Payment Date, there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the Final Maturity Date of the relevant Notes, at which point if there is insufficient money available to the Issuer to pay interest on the Notes (other than the Class A Notes), then you may not receive all interest amounts payable on those Classes of Notes.

The Issuer is not able to defer payments of interest due on any Note Payment Date in respect of the Class A Notes. The failure to pay interest on the Class A Notes will be an Issuer Event of Default under those Classes of Notes.

All of the Notes will be constituted by the Note Trust Deed and will share the same security. However, upon enforcement of the Issuer Security or the occurrence of a Trigger Event, the Class A Notes will rank in priority to the other Classes of Notes; the Class B Notes will rank in priority to the other Classes of Notes (other than the Class A Notes), and so on in respect of each other Class of Notes.

### **Mortgages Trustee GIC Account/Funding 1 GIC Account**

All amounts held by the Mortgages Trustee are to be deposited in the Mortgages Trustee GIC Account with the Mortgages Trustee Account Bank. This account is subject to the terms of the Mortgages Trustee Bank Account Agreement under which the Mortgages Trustee Account Bank has agreed to pay a variable rate of interest on funds in the Mortgages Trustee GIC Account which is 0.20 per cent. per annum margin below overnight LIBOR for sterling deposits. The rate of interest applicable to the Mortgages Trustee GIC Account is set out in *The Supplement – Transaction Features – Credit Structure*.

Amounts held in the Collection Accounts will not have the benefit of a guaranteed rate of interest but following receipt will be transferred into the Mortgages Trustee GIC Account on a daily basis and in any event in the case of direct debits no later than the next London Business Day after they are deposited in the Collection Account.

All amounts held by Funding 1 are to be deposited in the Funding 1 GIC Account in the first instance. The Funding 1 GIC Account is maintained with the Funding 1 Account Bank. This account is subject to the terms of the Funding 1 Bank Account Agreement under which the Funding 1 Account Bank has agreed to pay a variable rate of interest on funds in the Funding 1 GIC Account which is 0.20 per cent. per annum below overnight LIBOR for sterling deposits. The rate of interest applicable to the Funding 1 GIC Account is set out in *The Supplement – Transaction Features – Credit Structure*.

### **Liquidity Facility**

#### ***General description***

The Liquidity Facility is available to make certain payments on the Term Advances and to pay certain Senior Expense amounts. The Liquidity Facility may be amended from time to time with the consent of the Liquidity Facility Provider to cover Other Term Advances made by Other Issuers (e.g.

the amount of the Liquidity Facility may increase). **The consent of Noteholders will not be obtained in relation to any such amendments or increases.**

?● the items described in paragraphs (a) to (d) (inclusive) of the Funding 1 Pre-Enforcement Revenue Priority of Payments and ●?

As at the Closing Date, pursuant to the terms of the Liquidity Facility Agreement, the Liquidity Facility Provider has agreed to grant to Funding 1 a liquidity facility for the purposes described below:

- paying in full on any Funding 1 Payment Date (prior to the occurrence of a Trigger Event or the service of an Intercompany Loan Acceleration Notice on Funding 1) interest due and payable on the Term Advances as specified in the Funding 1 Pre-Enforcement Revenue Priority of Payments provided that:
  - (1) drawings may not be made under the Liquidity Facility to pay interest on item (g) of the Funding 1 Pre-Enforcement Revenue Priority of Payments (being payment of interest on the Class B Term Advances) if, at the date of the relevant drawing, the debit balance on the Class B Principal Deficiency Sub-Ledger is in an amount equal to or in excess of 50 per cent. of the Outstanding Principal Amount of the Class B Term Advances;
  - (2) drawings may not be made under the Liquidity Facility to pay interest on item (k) of the Funding 1 Pre-Enforcement Revenue Priority of Payments (being payment of interest on the Class C Term Advances) if, at the date of the relevant drawing, the debit balance on the Class C Principal Deficiency Sub-Ledger is in an amount equal to or in excess of 50 per cent. of the Outstanding Principal Amount of the Class C Term Advances; and
  - (3) drawings may not be made under the Liquidity Facility to pay interest on item (m) of the Funding 1 Pre-Enforcement Revenue Priority of Payments (being payment of interest on the Class D Term Advances) if, at the date of the relevant drawing, the debit balance on the Class D Principal Deficiency Sub-Ledger is in an amount equal to or in excess of 50 per cent. of the Outstanding Principal Amount of the Class D Term Advances; and/or
- making Eligible Liquidity Facility Principal Repayments, being:
  - (1) prior to the occurrence of a Trigger Event:
    - (a) repayments of principal which are then due and payable in respect of Original Bullet Term Advances; and
    - (b) repayments of principal in respect of the Original Controlled Amortisation Term Advances on their respective Final Repayment Dates only; and
  - (2) on or after the occurrence of a Non-Asset Trigger Event but prior to the occurrence of an Asset Trigger Event, repayments of principal in respect of Original Bullet Term Advances and Original Controlled Amortisation Term Advances on their respective Final Repayment Dates only,

in each case prior to the service of an Intercompany Loan Acceleration Notice on Funding 1 and taking into account any allocation of principal to meet any Funding 1 Revenue Deficit Amount.

Following the occurrence of an Asset Trigger Event the Liquidity Facility will not be available to pay any Liquidity Shortfall.

The Liquidity Facility will be a 364-day committed facility. Each year, Funding 1 may request a renewal of the Liquidity Facility for a further 364 days by giving written notice to the Liquidity Facility Provider not more than 60 days and not less than 30 days before the expiration of the 364-day period.

### ***Liquidity Facility Drawings***

If the Cash Manager determines on the London Business Day immediately preceding a Funding 1 Payment Date that Funding 1 will not have sufficient funds to make the payments specified in – *General description* above (a shortfall known as the **Liquidity Shortfall**), then the Cash Manager must direct Funding 1 to make a drawing under the Liquidity Facility (a **Liquidity Facility Drawing**) to apply towards the Liquidity Shortfall. The drawing will be the lesser of the amount of the Liquidity Shortfall and the amount available for drawing under the Liquidity Facility. A Liquidity Facility Drawing may only be made by a duly completed drawdown notice signed by an authorised signatory of Funding 1.

### ***Conditions precedent to a Liquidity Drawing***

A drawing may be made under the Liquidity Facility:

- if no event of default exists under the Liquidity Facility if, *inter alia*;
- if no Asset Trigger Event has occurred; and
- if insufficient amounts are available for drawing from the General Reserve Fund.

### ***Stand-by Account***

The Liquidity Facility Agreement provides that if:

- the relevant rating(s) of the Liquidity Facility Provider is or are, as applicable, downgraded by a Rating Agency below the rating(s) specified in the Liquidity Facility Agreement; or
- the Liquidity Facility Provider does not agree to renew the Liquidity Facility beyond each 364-day commitment period,

then Funding 1 may make a Stand-by Drawing in an amount equal to the available commitment under the Liquidity Facility, which it shall deposit into the Stand-by Account. The Stand-by Account must be maintained with a bank having the requisite ratings, which will be the Liquidity Facility Provider if it has the requisite ratings. Amounts standing to the credit of the Stand-by Account will be available to make Liquidity Facility Drawings when there is a Liquidity Shortfall and may be invested in Authorised Investments.

Amounts standing to the credit of the Stand-by Account will belong to Funding 1, including interest earned on those amounts.

### ***Interest on Liquidity Facility Drawings***

Interest is payable to the Liquidity Facility Provider on the principal amount of a Liquidity Facility Drawing (except when a Liquidity Facility Drawing is made from the Standby Account) at a rate based on three-month Sterling LIBOR plus a margin of 0.60 per cent. per annum. Unpaid interest will be added to the principal amount owed to the Liquidity Facility Provider and interest will accrue on that amount.

A commitment fee is also payable at the rate of 0.095 per cent. per annum on the undrawn, uncanceled amount of the Liquidity Facility. The commitment fee is payable quarterly in arrear on each Funding 1 Payment Date.

Interest is payable to the Liquidity Facility Provider on the principal amount of a Standby Drawing at a rate which is equal to 0.60% of the principal amount of the Standby Drawing together with an amount equal to the interest earned on the Standby Account. No commitment fee will be payable when there has been a Standby Drawing and no interest will be payable on Liquidity Drawings made from the Standby Account.

### ***Repayment of Liquidity Facility Drawings***

If an amount has been drawn down under the Liquidity Facility, the principal amount is repayable on the following Funding 1 Payment Date from Funding 1 Available Principal Receipts (to the extent that the drawing has been made to repay principal on the relevant Term Advance) or from Funding 1 Available Revenue Receipts (to the extent that the drawing has been made to pay interest on other relevant revenue expenses), prior to making payments on the Term Advances.

### ***Events of Default under the Liquidity Facility***

It is an event of default under the Liquidity Facility, whether or not that event is within the control of Funding 1, if, among other things:

- (a) Funding 1 does not pay within three Business Days of the due date any amount due and payable under the Liquidity Facility, other than Liquidity Subordinated Amounts, where funds are available for that purpose; or
- (b) an Intercompany Loan Acceleration Notice is served on Funding 1; or
- (c) it is or becomes unlawful for Funding 1 to perform any of its obligations under the Liquidity Facility.

### ***Consequences of default***

After the occurrence of an event of default under the Liquidity Facility Agreement, the Liquidity Facility Provider may by notice to Funding 1:

- cancel the Liquidity Facility commitment; and/or
- demand that all or part of the loans made to Funding 1 under the Liquidity Facility, together with accrued interest and all other amounts accrued under the Liquidity Facility Agreement, be immediately due and payable, in which case they shall become immediately due and payable; and/or
- demand that all or part of the loans made under the Liquidity Facility be repayable on demand, in which case they will immediately become repayable on demand.

The occurrence of an event of default under the Liquidity Facility Agreement may constitute an Intercompany Loan Event of Default as set out in *Summary of the Transaction Documents – The Intercompany Loan Agreement – Intercompany Loan Events of Default*.

### ***Liquidity Facility Provider a Secured Creditor***

The Liquidity Facility Provider will be a secured creditor of Funding 1 pursuant to the Funding 1 Deed of Charge. All amounts owing to the Liquidity Facility Provider will, on the service of an Intercompany Loan Acceleration Notice on Funding 1, rank in priority to the payment of all amounts of interest and principal in respect of the Term Advances.

### ***Cancellation and transfer of the Liquidity Facility***

If Funding 1 is required to make tax payments or pay additional costs to the Liquidity Facility Provider or if a Liquidity Facility Provider no longer has the requisite ratings or refuses to extend the commitment under the Liquidity Facility, then Funding 1 may cancel the unutilised amount of the Liquidity Facility. Funding 1 may only do this if it has made arrangements to enter into a new liquidity facility agreement with a new liquidity facility provider that, *inter alia*, has the requisite ratings. The terms of the new liquidity facility are required to be on substantially the same terms as the Liquidity Facility Agreement, although the interest rate and fees payable may increase if the Security Trustee is satisfied that the Rating Agencies would not withdraw, qualify or downgrade the Notes as a result thereof.

The Liquidity Facility Provider may, subject to the terms of the Liquidity Facility Agreement, assign or transfer (including by way of novation) any of its rights and obligations under the Liquidity Facility Agreement to a new liquidity facility provider that, *inter alia*, has the requisite ratings.

### ***Governing law***

The Liquidity Facility Agreement will be governed by English law.

### ***Additional Liquidity Facility***

If the rating of the short-term unsecured, unguaranteed and unsubordinated debt obligations of the Seller fall below A-2 by S&P, P-1 by Moody's and F1 by Fitch, then Funding 1 (unless otherwise agreed in writing with the Rating Agencies and the Security Trustee) will enter into an Additional Liquidity Facility Agreement. The Additional Liquidity Facility Provider will be a bank the short-term unsecured, unguaranteed and unsubordinated debt obligations of which are rated at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch, unless otherwise agreed by the Rating Agencies and the Security Trustee.

Under the terms of the Additional Liquidity Facility Agreement, Funding 1 will be permitted to make drawings only if (i) an Insolvency Event occurs in relation to the Seller and (ii) no Intercompany Loan Acceleration Notice has been served by the Security Trustee, in order to pay interest and amounts ranking in priority to interest in the Funding 1 Pre-Enforcement Revenue Priority of Payments.

The other terms of the Additional Liquidity Facility Agreement will be agreed at the time that Funding 1 is required to enter into such an agreement, subject to the prior written approval of the Rating Agencies and the Security Trustee.

The Additional Liquidity Facility Provider will accede to the terms of the Funding 1 Deed of Charge and will be a secured creditor of Funding 1, and all payments due to the Additional Liquidity Facility Provider will rank in priority to payments of interest and principal on the Term Advances, and will rank *pari passu* and *pro rata* with amounts due to the existing Liquidity Facility Provider. The other

Funding 1 Secured Creditors (including the Issuer) will agree on the relevant closing date to the proposed accession.

### **Other Liquidity Facilities**

The Liquidity Facility Provider may not provide liquidity to Funding 1 in respect of Other Intercompany Loans or Other Term Advances made by Other Issuers. If this situation arises, then Funding 1 may enter into Other Liquidity Facility Agreements with Other Liquidity Facility Providers in the market. The terms of any such Other Liquidity Facility may differ from the terms of the Liquidity Facility, but such Other Liquidity Facility Provider and the Liquidity Facility Provider will rank *pari passu* and *pro rata* as to payment of amounts due to them. Any Other Liquidity Facility Provider will be a secured creditor of Funding 1 and will accede to the terms of the Funding 1 Deed of Charge. **The prior consent of Noteholders will not be obtained if Funding 1 enters into other liquidity arrangements or if the Liquidity Facility Provider agrees to extend the availability of the Liquidity Facility to Other Term Advances.**

### **Hedging Arrangements**

Hedging arrangements are available to Funding 1 under the terms of the Funding 1 Swap Agreement to hedge against possible variances between the rates of interest payable by Borrowers on their Loans and the rates of interest payable by Funding 1 under the Programme Term Advances.

Hedging arrangements are available to the Issuer under the terms of the Issuer Swap Agreements to hedge against possible variances in currency exchange rates between amounts payable in Sterling by Funding 1 under the Intercompany Loan and amounts payable in US Dollars and/or Euro by the Issuer and, if applicable, possible variances between USD-LIBOR, EURIBOR and/or LIBOR and any fixed rate of interest payable under the Notes.

See further *Summary of the Transaction Documents – Funding 1 Swap Agreement* and *The Supplement – The Issuer Swap Agreements* for a further description of these arrangements.

### **Start-Up Loan**

As described in *Summary of the Transaction Documents – Start-Up Loan Agreement*, the Start-Up Loan Provider will enter into the Start-Up Loan Agreement with Funding 1 on the Set-Up Date in order to: (i) make a credit to the General Reserve Fund; (ii) meet the costs and expenses incurred by Funding 1 in connection with its payment to the Mortgages Trustee for its share in the Trust Property; and (iii) pay the fees due under the Intercompany Loan Agreement which relate to the costs of issue of the Notes. Certain terms of the Start-Up Loan are set out in *The Supplement – Transaction Features – Credit Structure*.

Any Other Start-Up Loan Agreements entered into between Funding 1 and Other Start-Up Loan Providers are set out in *The Supplement – Transaction Features – Credit Structure*.

## FUNDING 1

Aire Valley Funding 1 Limited was incorporated in England and Wales on 16th March, 2004 (registered number 05074932) as a private limited company under the Companies Act 1985 (as amended). The authorised share capital of Funding 1 comprises 100 ordinary shares of £1 each. The issued share capital of Funding 1 comprises two ordinary shares of £1 each, all of which are beneficially owned by Holdings (see *Holdings*).

Funding 1 has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or Funding 1.

The principal objects of Funding 1 are set out in clause 3 of its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company, to acquire any estate or interest in any real or personal property and any rights of any kind, to borrow and raise money and to secure or discharge any debt, or obligation in any manner, to lend money and grant or provide credit and financial accommodation to any person, to invest money of the company in any investments and to hold, sell or otherwise deal with investments or other financial assets and to participate in establishing any trust to acquire securities and to execute any trust business.

Funding 1 has not engaged since its incorporation in any material activities, other than changing its name from Trushelfco (No. 3035) Limited to Kumquat Funding Limited on 6th April, 2004 and to Aire Valley Funding 1 Limited on 21st July, 2004, obtaining a standard licence under the CCA, the authorisation and implementation of the Transaction Documents referred to in this document to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

The directors of Funding 1 and their respective business addresses and occupations are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
SFM Directors (No.2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
Rosemary Prudence Thorne	Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA	Company Director

Rosemary Thorne is a director of the Seller.

The directors of SFM Directors Limited and SFM Directors (No.2) Limited and their respective occupations are set out under *Holdings*.

The company secretary of Funding 1 is SFM Corporate Services Limited of Blackwell House, Guildhall Yard, London EC2V 5AE.

The registered office of Funding 1 is at Blackwell House, Guildhall Yard, London EC2V 5AE.

The accounting reference date of Funding 1 is 31st December.

Funding 1 has no employees.

**Capitalisation statement**

The following table shows the capitalisation of Funding 1 as at 29th September, 2004:

	As at 29th September, 2004 £
<b>Authorised share capital</b>	
Ordinary shares of £1 each .....	100
	100
	100
<b>Issued share capital</b>	
Allotted and fully paid .....	2
Allotted and unpaid .....	0
Allotted and partly paid .....	0
	2
	2

Funding 1 has no loan capital, borrowings or contingent liabilities (including guarantees) as at 29th September, 2004.

There has been no material change in the capitalisation, indebtedness, guarantees or contingent liabilities of Funding 1 since 29th September, 2004.

## **Accountants' Report**

The following is the text of a report received by the directors of Funding 1 from KPMG Audit Plc, Chartered Accountants, the reporting accountants to Funding 1, prepared solely for the purposes of the issue of the Notes:



The Directors  
Aire Valley Funding 1 Limited  
Blackwell House  
Guildhall Yard  
London  
EC2V 5AE

29th September, 2004

Dear Sirs

### **Aire Valley Funding 1 Limited (the "Company")**

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular of Aire Valley Mortgages 2004 - 1 plc dated 29th September, 2004 (the "Offering Circular").

### **Basis of Preparation**

The financial information set out in paragraphs 1 and 2 is based on the financial statements of the Company from incorporation to 29th September, 2004 prepared on the basis described in note 2.1.

### **Responsibility**

Such financial statements are the responsibility of the directors of the Company.

The directors of Aire Valley Mortgages 2004 - 1 plc are responsible for the contents of the Offering Circular dated 29th September, 2004 in which this report is included.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

### **Basis of Opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In our opinion the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company at 29th September, 2004.

Yours faithfully

*KPMG Audit Plc*

**Balance Sheet as at 29th September, 2004**

	£
<b>Current assets</b>	
Cash at bank and in hand . . . . .	2
<b>Capital and reserves</b>	
Called up equity share capital	
2 shares 100% called and paid . . . . .	2

**Notes**

***Accounting Policies***

The financial information has been prepared under the historical cost convention and in accordance with accounting standards currently applicable in the United Kingdom.

***Trading Activity***

The Company was incorporated on 16th March, 2004. The Company has not yet commenced business, no audited financial statements have been prepared and no dividends have been declared or paid since the date of incorporation.

***Registration***

During the period the Company has applied for and obtained registrations as follows:

- Consumer Credit Act 1974 – consumer credit licence, licence number 559265.

***Share Capital***

The Company was incorporated and registered as a private limited company on 16th March, 2004, with the name of Trushelfco (No. 3035) Limited. On 6th April, 2004 the Company changed its name from Trushelfco (No. 3035) Limited to Kumquat Funding Limited. On 21st July, 2004 the Company changed its name to Aire Valley Funding 1 Limited.

On incorporation, the authorised share capital of the Company was divided into 100 ordinary shares of £1 each. One subscriber share was taken by Trexco Limited and one subscriber share was taken by Trucidator Nominees Limited. On 16th April, 2004, one ordinary share was transferred from Trexco Limited to Bradford & Bingley plc and one ordinary share was transferred from Trucidator Nominees Limited to Bradford & Bingley plc.

On 5th August, 2004, two ordinary shares were transferred from Bradford & Bingley plc to Aire Valley Holdings Limited for a total cash consideration of £2.

***Auditors***

KPMG Audit Plc was appointed as auditor on 27th September, 2004.

## THE MORTGAGES TRUSTEE

Aire Valley Trustee Limited was incorporated in Jersey, Channel Islands on 29th July, 2004 (registered number 88218) as a private limited company under the Companies (Jersey) Law 1991 (as amended). The authorised share capital of the Mortgages Trustee comprises two ordinary shares of £1 each. The issued share capital of the Mortgages Trustee comprises two ordinary shares of £1 each, all of which are held by Structured Finance Management Offshore Limited on trust under a charitable trust governed by Jersey law.

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

The Mortgages Trustee was established as a special purpose company to hold the Loans and Related Security constituting the Trust Property as bare trustee for the Seller and the Funding Companies pursuant to the terms of the Mortgages Trust Deed. The activities of the Mortgages Trustee are restricted by the Transaction Documents and are limited to the activities described in the Mortgage Sale Agreement and the Mortgages Trust Deed.

The Mortgages Trustee has not engaged since its incorporation in any material activities other than those incidental to the settlement of the Trust Property on the Mortgages Trust, registration under the Data Protection Act 1984 (or notification under the Data Protection Act 1998), obtaining a standard licence under the CCA, registering as a data user under the Data Protection (Jersey) Law 1987 and those activities incidental to the authorisation and implementation of the Transaction Documents referred to in this document to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

The Mortgages Trustee will receive a fee of £1,000 per annum for the work it undertakes as trustee of the Mortgages Trust. This amount, together with any profits received by the Mortgages Trustee after payment of the costs and expenses of the Mortgages Trustee, will be paid for the benefit of charities and charitable purposes selected at the discretion of Structured Finance Management Offshore Limited.

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Michael George Best	47 Esplanade, St. Helier, Jersey JE1 0BD	Trust Company Director
Peter John Richardson	47 Esplanade, St. Helier, Jersey JE1 0BD	Trust Company Director
Rosemary Prudence Thorne	Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA	Company Director

Rosemary Thorne is a director of the Seller.

The directors of Structured Finance Management Offshore Limited and their respective occupations are:

<u>Name</u>	<u>Business Occupation</u>
Jonathan Eden Keighley	Company Director
James Garner Smith Macdonald	Company Director
Michael George Best	Trust Company Director
Peter John Richardson	Trust Company Director
Anthony John Olsen	Jersey Advocate and Notary Public

The company secretary of the Mortgages Trustee is Structured Finance Management Offshore Limited, 47 Esplanade, St. Helier, Jersey JE1 0BD.

The registered office of the Mortgages Trustee is 47 Esplanade, St. Helier, Jersey JE1 0BD.

The accounting reference date of the Mortgages Trustee is 31st December.

The Mortgages Trustee has no employees.

## HOLDINGS

Aire Valley Holdings Limited was incorporated in England and Wales on 25th June, 2004 (registered number 05163624) as a private limited company under the Companies Act 1985 (as amended). The authorised share capital of Holdings comprises 100 ordinary shares of £1 each. The issued share capital of Holdings comprises three ordinary shares of £1 each, one of which has been issued at a premium. SFM Corporate Services Limited holds the entire beneficial interest in the issued shares on a discretionary trust for charitable purposes.

The principal objects of Holdings are set out in clause 3 of its Memorandum of Association and are, *inter alia*, to carry on business as a general commercial company, to act as a holding company, to acquire any estate or interest in any real or personal property and rights of any kind, to invest money of the company in any investments and to hold investments or other financial assets.

Holdings has not engaged since its incorporation in any material activities, other than changing its name from Trushelfco (No. 3064) Limited on 27th July, 2004 and those activities incidental to the authorisation and implementation of the Transaction Documents referred to in this document to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
SFM Directors (No.2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
Rosemary Prudence Thorne	Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA	Company Director

Rosemary Thorne is a director of the Seller.

The directors of SFM Directors Limited and their respective occupations are:

<u>Name</u>	<u>Business Occupation</u>
Jonathan Eden Keighley	Company Director
James Garner Smith Macdonald	Company Director
Robert William Berry	Company Director
Annika Ida Louise Aman Goodwille	Company Secretary
Paivi Helena Whitaker	Company Secretary
Claudia Wallace	Transaction Manager

The business address of SFM Directors Limited is Blackwell House, Guildhall Yard, London EC2V 5AE.

The directors of SFM Directors (No.2) Limited and their respective occupations are as set out in the table above.

The business address of SFM Directors (No.2) Limited is Blackwell House, Guildhall Yard, London EC2V 5AE.

The company secretary of Holdings is SFM Corporate Services Limited of Blackwell House, Guildhall Yard, London EC2V 5AE.

The registered office of Holdings is Blackwell House, Guildhall Yard, London EC2V 5AE.

The accounting reference date of Holdings is 31st December.

Holdings has no employees.

## THE POST-ENFORCEMENT CALL OPTION HOLDER

Aire Valley PECO Limited was incorporated in England and Wales on 25th June, 2004 (registered number 05163659) as a private limited company under the Companies Act 1985 (as amended).

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 two ordinary shares of £1 each, all of which are beneficially owned by Holdings. The Post-Enforcement Call Option Holder has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or 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 and to acquire any estate or interest in any real or personal property and rights of any kind. The Post-Enforcement Call Option Holder has not engaged since its incorporation in any material activities other than changing its name from Trushelfco (No. 3065) Limited on 20th July, 2004 and those activities incidental to the authorising and implementation of the Transaction Documents referred to in this document to which it is or will be a party and other matters which are incidental or ancillary to the foregoing.

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

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
SFM Directors Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
SFM Directors (No.2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
Rosemary Prudence Thorne	Bradford & Bingley plc, Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA	Company Director

Rosemary Thorne is a director of the Seller.

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective occupations are set out under *Holdings*.

The company secretary of the Post-Enforcement Call Option Holder is SFM Corporate Services Limited of Blackwell House, Guildhall Yard, London EC2V 5AE.

The registered office of the Post-Enforcement Call Option Holder is Blackwell House, Guildhall Yard, London EC2V 5AE.

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

The Post-Enforcement Call Option Holder has no employees.

## LIQUIDITY FACILITY PROVIDER

*The information contained in this section has been provided by Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International), London Branch (**Rabobank**) for use in this document. Except for the information contained in this section, Rabobank has not been involved in the preparation of, and do not accept responsibility for, this document. The delivery of this document shall not create any implication that there has been no change in the affairs of Rabobank since the date hereof or that the information contained or referred to in this section is correct at any time after the date of this document.*

The Rabobank Group is one of the largest banking organisations in the Netherlands and the largest mortgage lending and savings organisation in the Netherlands by market share. Rabobank is one of the 25 largest banking institutions in the world in terms of assets and Tier 1 capital (at 30th June, 2004, Rabobank's Tier 1 capital was €20.5 billion and the Tier 1 ratio was 10.6 per cent.). Rabobank offers a broad range of financial, insurance and asset management services across retail, corporate and commercial sectors, both domestically and internationally. The Rabobank Group has the highest credit ratings awarded by the international rating agencies Moody's (Aaa since 1986) and S&P's (AAA since 1985). On a consolidated basis, Rabobank's total assets were €440 billion at 30th June, 2004. At 30th June, 2004, Rabobank had 50,594 full-time equivalent employees.

The Rabobank Group is comprised of the cooperative Rabobank Nederland, the cooperative Local Rabobanks which are members of Rabobank Nederland and are also licensed credit institutions, and Rabobank Nederland's specialised subsidiaries. Rabobank had 321 Local Rabobanks and 1,322 branches located throughout the Netherlands at 30th June, 2004. The Local Rabobanks are themselves cooperative entities that draw all of their members from their customers.

Rabobank Nederland, the Local Rabobanks and certain subsidiaries in the Rabobank Group are linked through a "Cross-Guarantee System". The Cross-Guarantee System provides for intra-group credit support among Rabobank Nederland, all Local Rabobanks and certain of our subsidiaries that are the other participating institutions. Under the Cross-Guarantee System, funds are made available by each participating institution if another participant suffers a shortfall in its funds. If a participating institution is liquidated and has insufficient assets to cover its liabilities, the other participating institutions are liable for its debts.

The various entities within the Rabobank Group comprise a network of "competence centres" which provide financial services and products to the Local Rabobanks and to each other. This networked expertise allows Rabobank to respond actively to the growing demand from business clients and private individuals for a balanced package of financial services and products. Rabobank therefore seeks to combine the best of both worlds: the local presence of the Local Rabobanks and the expertise and scale of a large organisation. The underlying purpose of Rabobank Nederland's cooperative structure is to provide high quality services and products to its customers at reasonable prices, while maintaining the financial stability of the Rabobank Group.

Historically, Rabobank engaged primarily in lending to the agricultural and horticultural sectors in the Dutch market. Since the 1990s, Rabobank has also offered a wide variety of commercial banking and other financial services not only in the Netherlands but also internationally. As part of an ongoing programme, Rabobank has increased both the number and type of products and services available to our customers in order to diversify from a traditional savings and mortgage-based business to be a provider of a full range of financial products and services, both in the Netherlands and internationally. To this end Rabobank pursues an "Allfinanz" concept, meaning that Rabobank provides an integrated range of financial services comprised primarily of retail banking, wholesale banking, asset management and investment, insurance, leasing and real estate to a wide range of both individual and corporate customers. As part of this Allfinanz strategy, Rabobank focuses on operations that produce fee-based income in addition to traditional interest-based income sources.

Through Rabobank Nederland, the Local Rabobanks and its specialised subsidiaries, the Rabobank Group provides services in the following six core business areas: Retail Banking, Wholesale Banking, Asset Management, Insurance, Leasing and Real Estate.

# BRADFORD & BINGLEY

## 1. Introduction and Constitution

Bradford & Bingley, the Seller, is an authorised institution under the FSMA and has its registered office at Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA. It is the successor to Bradford & Bingley Building Society which was formed in 1964 as a result of the merger of the Bradford Equitable Building Society and the Bingley Building Society which were both established in 1851. It converted to a public limited company (with registered number 03938288) and floated on the London Stock Exchange on 4th December, 2000.

The principal activities of Bradford & Bingley are (i) to lend on residential and commercial property, (ii) to offer a range of retail savings products and (iii) to operate as a retailer of financial services products provided by a range of third parties including mortgages, investment and insurance products (including products regulated under the FSMA). Bradford & Bingley also has subsidiaries which are engaged in offshore deposit taking and treasury activity.

The Board of Directors of Bradford & Bingley announced in May 2004 that the Estate Agency businesses, the Survey Business, the Charcol mortgage broking businesses and its associated IFA businesses were not core to the future of Bradford & Bingley's business and would therefore, be sold. The sale (subject to Financial Services Authority approval) of the IFA businesses associated with Charcol, (Charcol Holden Meehan Limited and Charcol Aitchison & Colegrave Limited) was announced in August 2004 and it is expected that the sale will be completed by the end of September 2004. It is anticipated that the disposal of the Estate Agency businesses, the Survey Business and the Charcol mortgage broking business may be completed by the end of 2004. Following the disposal of the non-core businesses, Bradford & Bingley will have approximately 50 per cent. fewer employees than it currently has.

Bradford & Bingley is active in the wholesale money markets raising funds principally through time deposits, certificates of deposit, commercial paper, bank loans, bond issues and subordinated liabilities. In 2003, it raised around £4 billion from overseas markets in Europe, the United States, Asia and Australia. Further funding diversification has been achieved by the use of securitisation; approximately £1 billion of mortgages were securitised in the name of Aire Valley Finance plc in 1997 and a further £1 billion of mortgages were securitised in the name of Aire Valley Finance (No. 2) plc in 2000.

In May 2004, Bradford & Bingley issued €2 billion of covered bonds secured on mortgaged advances. Bradford & Bingley retains substantially all of the risks and rewards associated with these advances.

## 2. Mortgage Express

Mortgage Express is a wholly-owned subsidiary of Bradford & Bingley Investments, which is in turn a wholly-owned subsidiary of Bradford & Bingley. The registered office of Mortgage Express is Endeavour House, 1 Lyonsdown Road, New Barnet, Hertfordshire EN5 1HU.

Mortgage Express offers loans secured on property. It sells "specialist mortgages" under its own "Mortgage Express" brand. This "specialist" lending strategy involves identifying needs of potential customers and the creation of innovative mortgage products which are available through intermediaries and on-line. Mortgage Express has a United Kingdom market share as at 30th June, 2004 of around 24 per cent. of the Buy-to-Let market.

In 2002, Mortgage Express' lending balances (including those in securitised vehicles) grew from £4,882 million to £7,920 million. During 2003, balances increased to £13,619 million and as at 30th June, 2004 the balances were £16,195 million. Since September 2002, Mortgage Express has supplemented its organic lending growth by the acquisition of a number of mortgage portfolios totalling approximately £2.9 billion, with these balances being included within the total £16,195 million.

Of the £4.1 billion of new residential advances during the first half of 2004, 62 per cent. were Buy-to-Let advances, 24 per cent. were Self-Certification, 11 per cent. were other specialist advances and 3 per cent. were existing Bradford & Bingley customers. At the end of 2003, Mortgage Express entered the "equity release" market and by the end of the first half of 2004, it has established itself as one of the top three lenders in this area taking a 14 per cent. market share. During the first half of 2004, £710 million of mortgage portfolios were acquired by Mortgage Express from various originators.

On the initial Closing Date, Bradford & Bingley will acquire a portfolio of residential mortgages originated by Mortgage Express. Mortgage Express will administer the Portfolio, including the

collection of payments of principal and interest from the Borrowers and the operation of arrears procedures on an agency basis for Bradford & Bingley under the terms of the Sub-Servicing Agreement.

### **3. Results for the Half-Year Ended 30th June, 2004**

The Bradford & Bingley Group (consisting of Bradford & Bingley and its subsidiaries) achieved a profit before tax and exceptional items of £140 million which includes profits on sale and lease-back of properties of £6.4 million, being an increase of £7 million on the first half of 2003. Assets (including the assets of wholly-owned subsidiaries) also increased to £34.9 billion as a result of the growth in lending assets.

Bradford & Bingley's managed residential loan book grew by 8 per cent. in the second half of 2003, thus contributing to a total managed residential book of £22.4 billion. Commercial and housing association lending increased the size of its book by almost 6 per cent. in the second half of 2003 to £5.5 billion.

On the funding side of the business, retail savings balances grew to £15.1 billion. Wholesale deposits increased to £4.6 billion during the year in support of lending growth, while debt securities in issue increased by £1.7 billion in the second half of 2003 to £12 billion.

The core distribution business increased profit before tax by 20 per cent. in the first half of 2003 to £14.4 million, while those businesses identified for disposal made a loss of £4.5 million.

Shareholders' equity, reserves and subordinated loan capital stood at £187.4 million, £1,160.3 million and £1,122.2 million, respectively, with an additional minority interest (non-equity) being securities qualifying as tier 1 regulatory capital standing at £148.6 million.

## THE LOANS

### Introduction

The following is a description of some of the characteristics of the Loans currently or previously offered since 1986 by Mortgage Express including details of Loan types, the underwriting process and Lending Criteria. Please also refer to *The Supplement – Characteristics of the Provisional Portfolio*.

The Initial Loans will be residential Loans originated by Mortgage Express which Mortgage Express has sold to the Seller. On the Closing Date the Seller will sell the Initial Loans together with their Related Security to the Mortgages Trustee and the Mortgages Trustee will pay the Seller for the Initial Loans (together with their Related Security) sold to the Mortgages Trustee pursuant to the terms of the Mortgage Sale Agreement. The Initial Loans together with their Related Security, Accrued Interest and other amounts derived from the Initial Loans, will make up the Trust Property on the Closing Date.

The statistics presented in *The Supplement – Characteristics of the Provisional Portfolio* describe the Portfolio of Initial Loans that will make up the Trust Property on the Closing Date in each case together with their Related Security, Accrued Interest and other amounts derived from such Initial Loans.

The Provisional Portfolio as at 3rd August, 2004, for which statistics are presented in *The Supplement – Characteristics of the Provisional Portfolio*, and the Provisional Portfolio as at the Closing Date may differ due to, among other things, amortisation of Loans in the Provisional Portfolio.

Unless otherwise indicated, the description that follows relates to types of Loans that may be sold to the Mortgages Trustee, either as part of the Provisional Portfolio as at the Closing Date or as a New Loan sold to the Mortgages Trustee at a later date.

The Provisional Portfolio as at 3rd August, 2004 comprised 81,795 Loans having an approximate aggregate Current Balance of £9,504,647,000 as at that date. All of the Initial Loans in the Provisional Portfolio at that date were originated by Mortgage Express between December 1996 and April 2004. No Initial Loan in the Provisional Portfolio at that date was delinquent or non-performing and no Initial Loan in the Provisional Portfolio which is to be sold to the Mortgages Trustee on the Closing Date will be delinquent or non-performing at the time of sale.

After the Closing Date, the Seller may sell New Loans and their Related Security to the Mortgages Trustee. Mortgage Express reserves the right to amend its Lending Criteria and the Seller reserves the right to sell to the Mortgages Trustee New Loans which are based upon Mortgage Terms different from those upon which the Initial Loans forming the Provisional Portfolio as at 3rd August, 2004 are based. Those New Loans may include loans which have been or are currently being offered to Borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to Borrowers or that have not yet been developed. Those New Loans may include loans originated by lenders other than Mortgage Express or the Seller. All New Loans will be required to comply with the warranties set out in the Mortgage Sale Agreement and all the material warranties in the Mortgage Sale Agreement are described in this document. See *Summary of the Transaction Documents – Mortgage Sale Agreement*. The warranties may be amended if New Loan Types are to be sold to the Mortgages Trustee. The consent of Noteholders will not be obtained in relation thereto if (among other things) the Rating Agencies have confirmed to the Security Trustee that the ratings of the Programme Notes will not be downgraded, withdrawn or qualified if those New Loan Types are sold to the Mortgages Trustee.

Each of the English Loans is governed by the laws of England and Wales, each of the Scottish Loans is governed by the laws of Scotland, and each of the Northern Irish Loans is governed by the laws of Northern Ireland.

### Characteristics of the Loans

#### *Products*

Mortgage Express has responded to the competitive mortgage market by developing a range of products with special features that are intended to attract new borrowers and retain existing customers.

Mortgage Express has offered the following non-exhaustive list of types of products to its customers which may be eligible for inclusion in the Portfolio from time to time:

- *Standard*: The Standard Mortgage was launched in 1995. The current maximum loan is 95 per cent. of the value of the property. This product is currently on offer to new borrowers.
- *Self-Certification*: The Self-Certification Mortgage was launched in 1996 and renamed in 2000. It is marketed towards the self-employed, although employed applicants are accepted. Under current procedures, the Borrower certifies their own income and Mortgage Express does not verify this income information. Mortgage Express carries out credit checks to support applications. In relation to Mortgages originated prior to 2002, an accountants' certificate was required to help verify income information. The maximum loan for the Self-Certification Mortgage is 90 per cent. of the value of the Mortgaged Property. This mortgage product is currently on offer to new borrowers.
- *Non-Status*: Between April 1996 and May 2002, Mortgage Express offered a residential non-status product. Borrowers were required to state that they can afford the Loan. Mortgage Express followed up with a credit check. The maximum LTV was 80 per cent. from June 2001 and 75 per cent. prior to that, and the maximum loan amount was £500,000. This mortgage product is no longer on offer to new borrowers.
- *100%+*: The 100%+ Mortgage was launched in its current form in January 1999 however, Mortgage Express has offered loans up to 105 per cent. since 1st February, 1996. This product enables employed individuals to obtain a mortgage loan without making a deposit and is not available for self-employed individuals. The maximum loan is for 100 per cent. of the value of the Mortgaged Property plus 5 per cent. (2 per cent. for first time buyers) on loans up to a maximum of £250,000. This mortgage product is currently on offer to new borrowers.
- *FlexAbility*: The FlexAbility Mortgage was launched in January, 2000 and renamed in January 2003. This mortgage product allows the Borrower to tailor payments to suit individual circumstances. The maximum loan is 95 per cent. of the value of the Mortgaged Property. Unlike the other mortgage products, there is no maximum overpayment limit. Capital repayments can also be made, and there are no redemption penalties or tie-ins. This mortgage product is currently on offer to new borrowers.
- *Buy-to-Let*: The Buy-to-Let Mortgage was launched in 1996. It is offered in relation to properties bought to let as a long term investment. The maximum loan is 85 per cent. of the value of the Mortgaged Property. As a condition of the Loan, the Mortgaged Property must be actively marketed for let to a local authority, to a Housing Association (as defined for the purposes of Section (1) of the Housing Association Act 1985), to a university or to a private limited company or on an assured shorthold tenancy (or such other agreement as may be authorised by Mortgage Express), within three months of purchase at a rent of at least 130 per cent. of the monthly mortgage payment on an interest-only basis. Mortgage Express does not monitor the Mortgaged Property to confirm that it has been leased within the three-month period. The Mortgaged Property must be let for the duration of the loan. The Buy-to-Let Mortgage is available to employed or self-employed individuals and limited companies. All loans are underwritten and credit scored on an individual basis to the maximum amount allowed under the loan. If the initial loan requested is less than the maximum allowable, then capital drawdowns are available during the first 12 months (prior to March 2002, drawdowns were available for seven years) up to the maximum allowable Loan. This mortgage product is currently on offer to new borrowers.
- *Let & Buy*: The Let & Buy Mortgage was launched in May 1996. It is intended to allow the Borrower to move house without selling an existing Mortgaged Property. The existing Mortgaged Property is let to enable the Borrower's income to cover both sets of mortgage repayments. The consent of the original lender to the letting of the existing property is required. The maximum loan is for 95 per cent. of the value of the property. This mortgage product is currently on offer to new borrowers.

New Loan Types may be included in the Portfolio in the future by the Seller, Mortgage Express or other Originators.

### ***Repayment terms***

Loans are typically repayable on one of the following bases:

*Repayment*: the Borrower makes Monthly Payments of both interest and principal so that, when the Loan matures, the full amount of the principal of the Loan will have been repaid; and

*Interest-Only*: 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 is repayable in one lump sum.

In either case, the required Monthly Payment may alter from month to month for various reasons, including changes in interest rates and the ability to make Overpayments or Underpayments or to take Payment Holidays – see – *Flexible Payments*.

For interest-only Loans (other than for the Buy-to-Let product), because the principal is repaid in a lump sum at the maturity of the Loan, Mortgage Express requests but does not verify that the Borrower has some repayment mechanism (such as an investment plan, a pension plan, an endowment or a life assurance policy) in place to ensure that funds will be available to repay the principal at the end of the term. Mortgage Express also requests but does not verify that all Borrowers have some repayment mechanism in place in the event of death or critical illness. The decision is the responsibility of the individual Borrower, and Mortgage Express does not take any steps to verify that such repayment mechanism is in place before releasing the funds of the Loan.

As at 3rd August, 2004, approximately 25.9 per cent. of the Loans by number in the Provisional Portfolio were repayment Loans and approximately 74.1 per cent. were interest-only Loans.

### ***Interest payments and interest rate setting***

Mortgage Express offers a range of interest rates on each of the above products. All interest rates depend on the product type and the LTV ratio. Under the 2000 Mortgage Conditions, interest rates for all of the products are linked to the Bank of England Base Rate. The 1995 Mortgage Conditions and the 1997 Mortgage Conditions enabled Mortgage Express to charge interest rates that were not specifically linked to any external rate. In practice, however, the interest rates charged under the Loans originated under the 1995 and 1997 Mortgage Conditions did in fact track the Bank of England Base Rate, and specific offer conditions for such Loans require that, notwithstanding the 1995 and 1997 Mortgage Conditions, the interest rate charged under those Loans are also linked to the Bank of England Base Rate.

A summary of the rates is as follows:

**Variable Rate Loans** are subject to a set margin over the Bank of England Base Rate which is different for each mortgage product and which is established at the origination of each Loan at the discretion of Mortgage Express, (the **Standard Variable Rate**);

**Discounted Variable Rate Loans** allow the Borrower to pay interest at a specified discount to the relevant Variable Rate; and

**Fixed Rate Loans** are subject to a fixed rate of interest.

The Discounted Variable Rate Loans and the Fixed Rate Loans are each offered for a predetermined period, usually between three and five years but occasionally for up to ten years, from the commencement of the Loan (the **Product Period**). At the end of the applicable Product Period, the rate of interest charged on Discounted Variable Rate Loans or Fixed Rate Loans, will either (a) move to some other interest rate type for a predetermined period or (b) revert to the relevant Variable Rate. The Variable Rate for each product type may vary (for example, Self-Certification Mortgages currently have a Variable Rate of 2 per cent. over the Bank of England Base Rate, while Standard Mortgages currently have a Variable Rate of up to 1.75 per cent. over the Bank of England Base Rate). Buy-to-Let Mortgages for limited companies are only available at the Variable Rate.

Interest is calculated on a monthly basis and charged monthly based on the capital and any unpaid interest outstanding on the third day (and if such day is not a London Business Day, then the next following London Business Day) in each month. Any payment by the Borrower will reduce the Borrower's balance on which interest will be calculated the following day. Monthly Payments due by Borrowers are paid by direct debit only and are due on the third London Business Day of every month.

If the interest rate changes due to a change in the Bank of England Base Rate, Mortgage Express is obliged to give notice of the change to its customers either by providing written notice or by advertising the change in two or more daily newspapers (one national daily newspaper for those Loans originated under the 1995 or 1997 Mortgage Conditions).

Except in limited circumstances as set out in *Summary of the Transaction Documents – The Servicing Agreement – Undertakings by the Servicer*, the Servicer is responsible for setting the Standard Variable

Rate on the Loans in the Portfolio as well as on any New Loans that are sold to the Mortgages Trustee.

The Servicer can only change the interest rate to reflect a change in the Bank of England Base Rate. The percentage amount of the relevant margin to be charged over the Bank of England Base Rate is set by Mortgage Express at the commencement of the Loan and is dependent on the product type and the LTV. This percentage margin is specified in the special conditions relating to the Loan as set out in the Borrower's offer letter.

In maintaining, determining or setting the Variable Rate, the Servicer will apply the factors set out here and, except in limited circumstances as set out in *Summary of the Transaction Documents – The Servicing Agreement – Undertakings by the Servicer*, has undertaken to maintain, determine or set the Variable Rate at a rate which is not higher than the Seller Variable Rate from time to time.

Until 16th April, 2000, a discount of 0.5 per cent. was available on the relevant Variable Rate for the duration of Mortgages provided under some of the products, provided that all Monthly Payments were made on time. Some of the Loans in the Provisional Portfolio may have this feature.

Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product through "Choices", a flexible payment facility. Choices provides the ability to most Borrowers to make Overpayments and then use the accumulated Overpayments to make Underpayments, take Payment Holidays and make Cash Withdrawals. Currently, all of the products listed above have the Choices option. See – *Flexible Payments*.

As at 3rd August, 2004, approximately 21.8 per cent. of the Loans (by number) in the Provisional Portfolio were Variable Rate Loans (other than Discounted Variable Rate Loans), approximately 52.2 per cent. were Discounted Variable Rate Loans and approximately 26 per cent. were Fixed Rate Loans.

### ***Portability***

The Mortgage Conditions incorporate a portability facility, which allows the Borrower to transfer the Loan balance at the same interest rate and subject to all the existing terms and conditions to a new property. Portability is not available to Buy-to-Let Borrowers.

The Borrower can have the same or a lower level of funding for the Loan for the new property as for the existing Loan subject to the maximum LTV for the product. If additional funding is required, it will be available on the terms and conditions being offered at the time. If a customer paying a fixed or discounted variable rate requires a lower level of funding for the new property, Mortgage Express may charge an Early Repayment Charge.

### ***Early Repayment***

These terms are used to describe instances when the Borrower pays back either all or part of the Loan (in an amount exceeding their normal Monthly Payments) before the maturity date of the Loan. When a Loan is redeemed in full or in part in this way, an Early Repayment Charge may be payable. Early Repayment Charges are usually (but not exclusively) payable during a fixed or discounted interest rate period.

Capital repayments (other than flexible payments made under the FlexAbility Loan or a Choices option) may be made, in whole or in part, at any time during the term of a Loan, provided that Mortgage Express is informed in advance and any Early Repayment Charges are paid. A prepayment of the entire outstanding balance of all Loans under a Mortgage Account discharges the Mortgage. Any prepayment in full must be made together with all Accrued Interest, any amounts In Arrears, any unpaid expenses and any applicable Early Repayment Charge(s).

If interest is paid at the Variable Rate and a capital repayment or redemption occurs in the first 12 months (or the first 36 months in the case of the Buy-to-Let Mortgage), the Borrower will be charged an Early Repayment Charge of three or six months' interest as applicable. If interest is paid at a Fixed or Discounted Variable Rate, an Early Repayment Charge or partial Early Repayment Charge will be charged at the rate which applies during a period stated in the conditions of the Loan.

### ***Flexible Payments***

The Mortgage Conditions incorporate the concept of "flexible payment", which is available for all products in the Portfolio through the "Choices" facility. This facility enables Borrowers to make Overpayments or Underpayments, take Payment Holidays, or make Cash Withdrawals in certain circumstances. The Choices facility is available throughout the life of the Loan or until the balance on

the Choices options is reduced to zero via Underpayments, Cash Withdrawals or Payment Holidays. The Choices facility can be utilised twice a year free of charge and, for subsequent changes in any year there is a charge of £15.

Choices options comprise the following:

- Overpayment – the minimum monthly overpayment allowed is £25, rising in multiples of £5. With the exception of the FlexAbility Mortgage, the maximum monthly overpayment allowed is the amount of the Monthly Payment. This is paid in addition to scheduled monthly repayments without the Borrower having to pay an Early Repayment Charge. There is no maximum overpayment for the FlexAbility Mortgage. Borrowers can overpay for as long and as regularly as they like. Overpayments in excess of the amount of a Monthly Payment are not permitted with the Choices facility but are allowed, without charge, on the FlexAbility product. (Note that lump sum overpayments on FlexAbility do not form part of the Choices Overpayment balance and cannot be used to support Underpayments, Payment Holidays or Cash Withdrawals).

Further, provided the LTV is below the maximum LTV for the specific product with the exception of the 100 per cent. Mortgage (where the relevant LTV is 95 per cent.) and if sufficient funds have accrued, the following options are also available to the Borrower:

- Underpayment – The Borrower may pay less each month by an amount agreed between the Borrower and Mortgage Express. The Borrower automatically reverts to full Monthly Payments when the accrued Overpayments have depleted.
- Payment Holidays – Accrued Overpayments can be used to take payment holidays during which the Borrower may suspend mortgage payments without penalty for a maximum of six months until the accrued Overpayments have been depleted. Payment holidays are limited to six months per annum.
- Cash Withdrawals – All or part of the accrued Overpayments can be taken out in cash.

Any Overpayments are deducted from the Outstanding Principal Balance on the following day but do not affect the Borrower's Monthly Payment until the next anniversary of the Loan release date, or an interest rate change if sooner. Underpayments and Cash Withdrawals can only be made and Payment Holidays can only be taken to the limit of previous Overpayments by the Borrower.

When the Monthly Payment is reviewed, it will be recalculated on a compounding basis based on the revised Outstanding Principal Balance. The Outstanding Principal Balance is increased from the day following any subsequent Underpayment, Cash Withdrawal or Payment Holiday after an Overpayment, and interest is charged on such increased Outstanding Principal Balance with the next Monthly Payment changing from the next interest payment date. The customer has access to the balance under the Choices facility in accordance with the Mortgage Conditions.

The administration of the Choices facility is undertaken by the Mortgage Express' correspondence team. The administration process is a post-completion, account-adjustment process and is triggered by customer requests to set up, use or cease use of the Choices facility. An automatic system report is generated on the anniversary of the Loan release date to review the Choices facility as appropriate.

*See – Investment Consideration – Set-off risks in relation to FlexAbility Mortgages, Choices Loans and delayed cashbacks may adversely affect the funds available to the Issuer to repay the Notes.*

### **Remortgages and Extension Advances**

Remortgages and Extension Advances can only be considered if the applicant's current mortgage has been in existence for a continuous 12-month period in the case of remortgages or (unless the property is unencumbered, or is a Buy-to-Let property) for six months in the case of Extension Advances and the advance will not cause the amount of the Loan to exceed the LTV remortgage limit for the product. Customers wishing to remortgage an existing Buy-to-Let Mortgage can apply for Mortgage Express' special portfolio lending facility, which can enable them to borrow up to £5 million. Remortgages are not available for Let & Buy Mortgages. This includes both the let property and the residential property.

Remortgaging options and Extension Advances depend on the LTV of the Loan at origination.

*LTV ≤ 85 per cent.:* Remortgages or Extension Advances are available for any legal purpose. Proof of the nature of any debts to be repaid is only required when an underwriter thinks that such repayment might influence a decision to lend.

*LTV > 85 per cent. and  $\leq$  95 per cent.:* Where further funds are being advanced on a remortgage or an Extension Advance, the following purposes will be considered: personal loans/second charges; consolidation of business loans; home improvements; purchase of further property; school fees; equity buy-out and debt consolidation (with restrictions).

An Extension Advance is a variation of an existing Loan incorporating an advance of further funds from Mortgage Express to the Borrower secured against property already mortgaged to Mortgage Express. When an Extension Advance is made, the Borrower's Loan Mortgage Terms are updated to the then current version if the existing Loan was made by reference to a previous version of the Mortgage Terms. This is to be distinguished from a Drawdown where funds are drawn against a pre-agreed credit line (agreed at initial underwriting or following a successful application to increase the drawdown facility originally granted at initial underwriting). Drawdowns are available in relation to Buy-to-Let Mortgages only.

If a Borrower wishes to take out an Extension Advance secured by the same Mortgaged Property already mortgaged to Mortgage Express, the Borrower will need to make an Extension Advance application and Mortgage Express will use the Lending Criteria applicable to Extension Advances at that time in determining whether to approve the application. None of the Initial Loans in the Provisional Portfolio obliges Mortgage Express to make Extension Advances. However, some Initial Loans in the Provisional Portfolio may have Extension Advances made on them prior to their being sold to the Mortgages Trustee, and New Loans added to the Portfolio in the future may have had Extension Advances made on them prior to the relevant Sale Date.

In certain instances, the Extension Advance may be granted subject to the completion of improvements, alterations, or repairs to the Mortgaged Property. Mortgage Express reserves the right to confirm the completion of the work, either through an inspection of the related invoices or a physical inspection of the Mortgaged Property, giving reasonable notice.

If the Loan does not meet certain Lending Criteria following an Extension Advance, then the Seller will be required to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security from the Mortgages Trustee. See – *Summary of the Transaction Documents – Product Switches and Extension Advances*.

### ***Product Switches***

A Product Switch is a variation in the financial terms and conditions applicable to the Borrower's Loan as agreed between the Borrower and Mortgage Express. If a Product Switch is made, the Borrower's Loan Mortgage Conditions may be updated to the then current version if the existing Loan was made by reference to a previous version of the Mortgage Terms. As indicated above with Extension Advances, Product Switches are distinct from Drawdowns where funds are drawn against a pre-existing credit line (agreed at initial underwriting or following a successful application to increase the drawdown facility granted at initial underwriting).

If a Borrower wishes to make a Product Switch secured by the same Mortgaged Property already mortgaged to Mortgage Express, Mortgage Express will use the lending criteria applicable to Product Switches at that time in determining whether to approve the application. None of the Loans in the Provisional Portfolio oblige Mortgage Express to make Product Switches. However, some Loans in the Provisional Portfolio may have Product Switches made on them prior to their being sold to the Mortgages Trustee, and New Loans added to the Portfolio in the future may have had Product Switches made on them prior to the relevant Sale Date.

If a Loan, following a Product Switch, does not meet certain criteria, then the Seller will be required to repurchase the Loan or Loans under the relevant Mortgage Account and their Related Security from the Mortgages Trustee. See – *Summary of the Transaction Documents – Product Switches and Extension Advances*, and *Investment Considerations – In limited circumstances, Loans subject to Product Switches will be repurchased by the Seller from the Mortgages Trustee, which will affect the prepayment rate of the Loans, and this may affect the yield to maturity of your Notes*.

### ***Origination of the Loans***

Mortgage Express currently derives substantially all of its mortgage-lending business from intermediaries, while the majority of new applications are made online. Of the Initial Loans in the Provisional Portfolio as at 3rd August, 2004, approximately 89.1 per cent. were originated through intermediaries, approximately 5.8 per cent. through the Bradford & Bingley branch network and approximately 5.1 per cent. through other channels.

Under Mortgage Express' policy, it can provide customers with an agreement in principle to lend almost immediately upon application.

Mortgage Express is subject to the Financial Ombudsman Service, which is a statutory scheme under the FSMA, and follows both the Code of Banking Practice (for the sake of good practice) and the Council of Mortgage Lender's Code of Mortgage Lending Practice.

### ***Underwriting***

Mortgage Express' decision whether to underwrite or not to underwrite a loan has traditionally been made by underwriters in Mortgage Express' business centre.

To gain the authority to approve loans, each underwriter must first undertake training conducted by Mortgage Express. Underwriters then undergo a periodic assessment of their work. Mortgage Express has established various levels of authority for its underwriters who approve loan applications. The levels are differentiated by, among other things, degree of risk, the ratio of the loan amount to the value of the Mortgaged Property and size of the loan applied for. An underwriter wishing to move to the next level of authority must undertake further training.

All mortgage underwriting decisions are subject to internal monitoring by Mortgage Express in order to ensure its procedures and policies regarding underwriting are being followed by staff. All loans underwritten are subject to Mortgage Express' underwriting policies, lending criteria and internal procedures for compliance with government regulations, such as those concerning money laundering.

### ***Lending Criteria***

Each Initial Loan in the Provisional Portfolio was originated according to Mortgage Express' Lending Criteria applicable at the time the Loan was offered, which included some or all of the criteria set out in this section. The geographical location of a Mortgaged Property (i.e. England, Wales, Scotland and Northern Ireland) has no impact upon Mortgage Express' Lending Criteria and current credit scoring tests. New Loans, including Loans with Product Switches and Extension Advances, may only be included in the Portfolio if they were or are originated in accordance with the Lending Criteria applicable at the time the Loan was or is offered and if the conditions contained in *Summary of the Transaction Documents – Sale of the Loans and their related Security* have been satisfied. Mortgage Express may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount of the Loan(s). Mortgage Express may take the following into account when exercising discretion: credit scorecard result, LTV ratio, stability of employment and regularity of overtime, bonus or commission, credit commitments, quality of security (such as type of property, repairs, location or saleability) and the increase in income needed to support the Loan. However, Mortgage Express retains the right, in its sole discretion, to revise its Lending Criteria from time to time, so the criteria applicable to New Loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are outlined below.

#### ***(a) Type of property***

Mortgaged Properties may be freehold, leasehold or feudal (Scotland). This does not include freeholds subject to a long lease. Leases must have at least 25 years remaining on the maturity of the Loan.

The Mortgaged Property must be used solely for residential purposes (with some extremely limited case-by-case exceptions) and must be in sound structural repair or be capable of being put into such state.

The property must be owner-occupied or, in the case of Buy-to-Let Mortgages only, rented. In addition, the Mortgaged Properties must be situated in the United Kingdom of Great Britain and Northern Ireland with the exception of limited company Buy-to-Let Mortgages, where properties must be in England or Wales.

The following are examples (non-exhaustive) of the types of properties considered by Mortgage Express to be unacceptable security: freehold flats, commercial properties, properties that are excluded from full buildings insurance and properties that are subject to a third-party interest.

All Mortgaged Properties require an inspection valuation by a valuer approved by Mortgage Express. If a valuation report is more than six months old and completion has not taken place, Mortgage Express may insist that a new inspection of the property is carried out.

Where negative factors, including saleability, are noted in the valuation report, an offer for a Loan on the property may be declined.

*(b) Term of the Loan*

The minimum term for Buy-to-Let Mortgages is five years. The minimum term for all other Loans is 10 years. The maximum term is dependent upon the nature of the repayment, and is generally 25 years for repayment mortgages, 35 years for interest-only mortgages backed by an endowment and 45 years for interest-only mortgages backed by a pension. The Borrower may request to extend the term of the original Loan, however, Mortgage Express will not agree to an extension beyond the maximum term allowed under its procedures.

*(c) Age of applicant*

All primary Borrowers must be aged 21 (25 in the case of Buy-to-Let Mortgages) or over. Additional joint Borrowers must be aged 18 or over. However, income will only be considered where the applicant is aged 21 or over. The current maximum age limit is 70 at the maturity of the Loan, save for Buy-to-Let Mortgages where the maximum age is 75. If the term of the Loan extends past the date that the Borrower is aged 65, Mortgage Express will attempt to ascertain the Borrower's anticipated income in retirement.

*(d) LTV*

The maximum LTV at origination depends on the product, Loan size and applicant's status. The maximum original LTV ratio of Loans at origination in the Provisional Portfolio is 105 per cent. for "full status" Loans (85 per cent. in the case of Buy-to-Let Mortgages). The value of the Mortgaged Property is reset quarterly by applying the change in the Halifax Price Index for the relevant type of houses in the same geographical band.

In the case of a property that is being purchased, value is determined by the lower of the valuation report and the purchase price. In the case of a Remortgage or an Extension Advance, value is determined on the basis of a valuation only.

*(e) Mortgage Indemnity Guarantee (MIG) policies*

Since 1995, Mortgage Express has not required cover under MIG policies for any mortgage Loans. As at the Closing Date, there will be no Loans in the Provisional Portfolio for which the underlying mortgages have the benefit of a MIG policy.

***Status of Applicants***

The maximum amount of the aggregate Loan(s) under a Mortgage Account is determined by a number of factors, including the applicant's income. In determining income, Mortgage Express distinguishes between those applicants who are "full-status", Self-Certification or "non-status". Full-status applicants are able to provide evidence in support of their application, in particular evidence supporting their income. Self-Certification applicants may have income from varying sources or may not have full evidence available (e.g. self-employed applicants who do not have current audited accounts). Applicants must state and certify their own income and are not required to provide evidence. Non-status accounts require no evidence of income and are now offered only as part of the Buy-to-Let product.

***Income Verifications***

In relation to full status PAYE (Pay As You Earn – a system whereby income tax is automatically deducted from an employee's salary) applicants, Mortgage Express requires the latest three months, computerised wage slips and latest P60 income tax form or employer's reference and includes in its calculations the employee's basic salary, along with 100 per cent. of any mortgage subsidy received or profit-related pay and 50 per cent. of regular overtime pay or bonus commissions (that has been proven over one year), although PAYE applicants whose income is derived solely from commissions cannot be considered. In relation to full-status self-employed applicants, Mortgage Express requires three years' accounts or income certified by a suitably qualified accountant or three years' self-assessments agreed with the Inland Revenue.

In the case of Self-Certification, income references will not be requested, however the applicant's income must be stated on the application form. Employment details must be completed in full and the employer may be contacted for the applicant's employment history. A lender's reference will be requested or a tenancy reference may be required for first-time buyers and customers without a mortgage.

When there are two applicants, Mortgage Express can add joint incomes together for the purpose of calculating the applicants' total income.

Positive proof of the borrower's identity and address is established in line with money laundering regulations.

### ***Credit History***

#### *(a) Credit Search*

With the exception, in some circumstances, of drawdowns on Buy-to-Let Mortgages or Extension Advances to existing Borrowers, a credit search is carried out in respect of all applicants. Applications may be accepted where an adverse credit history (for example, county court judgments (or the Scottish equivalent) or a bankruptcy notice) is revealed in limited circumstances. Applications can proceed if there is no more than one county court judgment which has been satisfied for at least one year and there is a satisfactory written explanation from the Borrower.

A record on INSIGHT/CAIS (a record from a UK credit bureau) or mortgage statements may be required for residential property owners to confirm that the previous/existing mortgage is/was not in arrears.

#### *(b) Existing lender's reference*

In some cases, Mortgage Express may also seek a reference from any existing and/or previous lender. Any reference must satisfy Mortgage Express that the account has been properly conducted and that no history of material arrears exists.

#### *(c) First-time buyers/applicants in rented accommodation*

A tenancy reference may be required for first-time buyers and other customers without a mortgage if they are renting through an agency or local authority. Private lets do not require tenancy references.

#### *(d) Bank reference*

A bank reference may be sought, or the applicant may be required to provide bank statements in support of his or her application.

### ***Credit Scorecard***

Mortgage Express uses certain criteria described in this section and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the Loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears. All initial Loan applications are subject to credit scoring.

#### *(a) Eligibility*

**UK residents** – British citizens normally resident in the UK are eligible to apply for all Loan products. Non-British citizens who have been resident and liable to pay tax in the UK for at least three years are also acceptable. However, British citizens who have been resident and liable to pay tax in the UK within the last five years and who are now working abroad are to be classed as 'expatriates', and can be considered for the Buy-to-Let Mortgage on a non-status basis only.

**Non residents** – Overseas applicants, including expatriates, can be considered for the Buy-to-Let Mortgage on a non-status basis only.

For the limited company Buy-to-Let Mortgage, the limited company must be registered in England or Wales and the individual directors must meet the residency criteria above. The maximum number of directors is three.

#### *(b) Employment*

The maximum amount of the Loan is determined by a number of factors, including the applicant's income. In determining income, Mortgage Express includes basic salary as primary income, along with 100 per cent. of mortgage subsidies or profit-related pay, and 50 per cent. of regular overtime or bonus commission that has been proven over one year.

**PAYE applicants** – PAYE applicants must have been in their present employment for a minimum of three months and be deemed a permanent employee, have had no more than two employers in the last 12 months, and have a full three-year employment history. Mortgage Express will accept contracted staff taxed under the PAYE system provided that the contract term is for a minimum of 12 months and renewable and that the current contract has a minimum of six months remaining. The Borrower must have been employed in his or her current industry during the previous three years.

Mortgage Express will also accept sub-contractors who are deemed to be taxed under the PAYE system (i.e. sub-contracted to the same contractor for more than one year and able to provide confirmation that their current contract has more than 12 months remaining).

**Self-employed applicants** – Self-employed applicants need to have been self-employed in their present business for a minimum of two years (one year for Self-Certification Mortgage applicants). A three-year employment history is required. An individual will be deemed to be self-employed when his or her shareholding is more than 20 per cent. of the total share capital of the applicant's employer, or the applicant deems him or herself to be self-employed. Sole traders will be deemed to be self-employed.

Mortgage Express will accept self-employed professional contractors provided that the applicant has been employed for a minimum of 12 months or at least one contract has successfully been completed and the subsequent contract started. The Borrower must have been employed in his or her current industry during the previous three years. Mortgage Express will also accept sub-contractors who are deemed to be self-employed (i.e. sub-contracted to more than one contractor in a year with less than 12 months remaining in the current contract).

### ***Insurance policies***

#### *(a) Insurance on the property*

A Borrower is required to insure the Mortgaged Property with buildings insurance for the duration of the Loan. The insurance may have been purchased through Mortgage Express or, alternatively, the Borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. In either case, the Borrower must ensure that the buildings insurance payments are kept up to date.

If the Borrower does not insure the Mortgaged Property, or insures the Mortgaged Property but violates a provision of the insurance contract, Mortgage Express will upon becoming aware of the same insure the Mortgaged Property itself, in which case Mortgage Express may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The Borrower will be responsible for the payment of insurance premiums. Under the 2000 Mortgage Conditions, Mortgage Express retains the right to settle all insurance claims on reasonable terms without the Borrower's consent.

#### *(b) Mortgage Express Arranged Building Insurance*

Prior to 31st August, 2004, the Borrower was able to purchase buildings insurance through Mortgage Express. Since 31st August, 2004, Borrowers are required to purchase buildings insurance by third parties. The premiums paid by the Borrower were calculated depending on the location of the Borrower's residence, the type of construction and use of the Borrower's Mortgaged Property and past claims history. The Borrower pays the premium over a 12-month period with the Borrower's Monthly Payments. The insurance premium paid monthly does not accrue interest. Any unpaid premiums will be added directly to the Loan and interest charged. The policy would be automatically renewed each year unless terminated. Mortgage Express arranged for provision of cover from the date the contracts for the purchase of the Mortgaged Property were exchanged; if the Borrower already owned the Mortgaged Property, cover started on the date that the Borrower's Loan was completed.

For Loans with Mortgage Express-arranged building insurance, the Borrower has to ensure that nothing occurs which reduces the risk coverage or the amount of the sum insured, increases the premiums or the excess, prevents or hinders any claim from being settled in full, or renders the insurance invalid.

The buildings insurance purchased by the Borrower through Mortgage Express may also cover the contents of the Borrower's home depending on the type of Loan product. In the event of a claim, the insured would receive up to the full cost of rebuilding the Mortgaged Property in the same form as before the damage occurred, including the costs of complying with local authority and other statutory requirements, professional fees and related costs. Standard policy conditions applied. Amounts paid under the insurance policy were generally utilised to fund the reinstatement of the Mortgaged Property or were otherwise paid to Mortgage Express to reduce the amount of the Loan and Mortgage Express will give notice to the relevant insurers that the respective interests of the Funding Companies and the Mortgages Trustee are to be noted by the relevant insurers in relation to each insurance policy. In the Sub-Servicing Agreement, Mortgage Express, acting in its capacity as Sub-Servicer, agrees to deal with claims under the relevant insurance policies arranged by Mortgage Express in accordance with its normal procedures. If Mortgage Express, acting in its capacity as Sub-Servicer, receives any claim

proceeds relating to a Loan which has been sold to the Mortgages Trustee, these will be required to be paid into the Mortgages Trustee's account, rather than Mortgage Express's account.

*(c) Borrower arranged building insurance*

A Borrower is required to arrange for the Mortgaged Property to be insured by a third party if he or she did not arrange for Mortgage Express to insure the Mortgaged Property on its behalf. The Mortgaged Property must be insured for the amount specified by Mortgage Express (which will not be more than the amount which Mortgage Express reasonably thinks is the current rebuilding cost of the Mortgaged Property). The sum insured must be "index-linked" so that it keeps pace with inflation in the cost of rebuilding and must be reviewed annually.

In addition, the policy must cover all the risks reasonably specified by Mortgage Express and have Mortgage Express' interest noted on the policy. If this is not possible, for example because the Mortgaged Property is leasehold and the lease provides for the landlord to insure, the Borrower must arrange for Mortgage Express' interest to be noted on the landlord's policy. The Borrower must inform Mortgage Express of any damage to the Mortgaged Property that occurs, and the Borrower must make a claim under the insurance for any damages covered by it unless the Borrower has the damage repaired.

*(d) Properties in possession cover*

When a Mortgaged Property is taken into possession by Mortgage Express and buildings insurance has not been arranged through Mortgage Express or any third party, Mortgage Express takes the necessary actions to ensure that the appropriate insurance cover is provided on the Mortgaged Property. Mortgage Express may claim under this policy for any damage occurring to the Mortgaged Property while in Mortgage Express's possession.

*(e) Title insurance*

Except in the limited case of the Mortgage Express fees free remortgage scheme, where Mortgage Express waives the usual fees in order to acquire remortgage business, as at the Closing Date there will be no Loans in the Provisional Portfolio for which the underlying mortgages have the benefit of a title insurance policy. However, the portfolio may contain Loans of this type in the future.

## **Servicing of Loans**

Servicing procedures include responding to customer enquiries, monitoring compliance with the Mortgage Terms, servicing the Loan features and facilities applicable to the Loans and management of amounts In Arrears. See – *Summary of the Transaction Documents – The Servicing Agreement* and – *The Sub-Servicing Agreement*.

Pursuant to the terms and conditions of the Loans, Borrowers must pay the Monthly Payments required under the Mortgage Terms of the Loans on or before each monthly instalment due date, within the month they are due. Interest accrues in accordance with the Mortgage Terms of each Loan and is collected from Borrowers monthly.

In the case of Variable Rate Loans, Mortgage Express, acting as Sub-Servicer, sets the Variable Rate and the margin applicable to any Variable Rate Loan on behalf of the Mortgages Trustee and the Beneficiaries, except in the limited circumstances as set out in the Servicing Agreement. In the case of some Loans that are not payable at the Variable Rate, for example Fixed Rate Loans, the Borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the Borrower's Offer Conditions. After that period ends interest will be payable at the Variable Rate. In addition, some New Loan Types may be payable or may change so as to become payable by reference to other rates not under the control of the Servicer such as LIBOR or the Bank of England Base Rate, which rates may also include a fixed or variable rate margin set by the Servicer.

The Servicer will take all steps necessary under the Mortgage Terms to notify Borrowers of any change in the interest rates applicable to the Loans, whether due to a change in the Variable Rate or any variable margin or as a consequence of any provisions of those terms.

Payments of interest and principal on repayment Loans are payable monthly in arrear. Payments of interest on interest-only Loans are paid in the month that they are due. The Servicer is responsible for ensuring that all payments are made by the relevant Borrower into the main collection accounts and subsequently transferred into the Mortgages Trustee GIC Account on the next Business Day after they are deposited in the Seller's accounts. The Mortgage Conditions provide that all Borrowers pay by direct debit on the third day of the month, other than Borrowers with arrears, who may pay

differently. All amounts which are paid to the collection accounts will be held on trust by the Seller for the Mortgages Trustee until they are transferred to the Mortgages Trustee GIC Account. Payments from Borrowers are all made by direct debits from a suitable bank or building society account or through a Bradford & Bingley banking account.

The Servicer initially credits the Mortgages Trustee GIC Account with the full amount of the Borrowers' Monthly Payments. However, direct debits may be returned unpaid up to three Business Days after the due date for payment, and a Borrower may make a claim at any time to their bank for a refund of direct debit payments. In each case, the Servicer is permitted to reclaim from the Mortgages Trustee GIC Account the corresponding amounts previously credited. In these circumstances the usual arrears procedures described in – *Arrears and default procedures* will be taken.

### **Arrears and default procedures**

The Servicer will regularly provide the Mortgages Trustee and the Beneficiaries with written details of Loans that are In Arrears. A Loan is identified as being "In Arrears" when one or more Monthly Payments in respect of a Mortgage Account is overdue. In general, the Servicer attempts to collect all payments due under or in connection with the Loans, having regard to the circumstances of the Borrower in each case. Mortgage Express uses a case control cycle featuring three stages: collection, negotiation and recovery.

Mortgage Express's system tracks arrears and advances and calculates when an amount is In Arrears. When arrears are first reported and are less than two months overdue, the Borrower is contacted and asked for payment of the arrears. Until an account reaches three months In Arrears, this is largely an automatic process in which the Borrower is contacted through a series of letters and telephone calls. Thereafter, Mortgage Express continues to contact the Borrower asking for payment of the arrears.

Where considered appropriate, the Servicer may enter into arrangements with the Borrower regarding the arrears, including:

- arrangements to make each Monthly Payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to pay only a portion of each Monthly Payment as it falls due; and
- a deferment for an agreed period of time of all payments, including interest and principal or parts of any of them.

Any arrangements may be varied from time to time at the discretion of the Servicer, the primary aim being to rehabilitate the Borrower and recover amounts In Arrears.

Once the arrears are more than two months overdue, the collection process shifts to include counsellors that are hired to meet with the Borrower at the Mortgaged Property and assess the arrears arrangements. The counsellor will contact the Borrower via telephone and attempt to reach a solution with the Borrower. The counsellors responsible for settling arrears are trained by the Servicer in counselling Borrowers and establishing viable repayment plans.

Legal proceedings do not usually commence until the arrears become at least two to three months overdue. Once legal proceedings have commenced, the Servicer or the Servicer's solicitor may send further letters to the Borrower encouraging the Borrower to enter into discussions to pay the arrears, and may still enter into an arrangement with a Borrower at any time prior to a court hearing. If a court order is made for payment and the Borrower subsequently defaults in making the payment, then the Servicer may take action as it considers appropriate, including entering into a further arrangement with the Borrower. If the Servicer applies to the court for an order for possession, the court has discretion as to whether it will grant the order.

After possession, the Servicer may take action as it considers appropriate, including to:

- secure, maintain or protect the Mortgaged Property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest on the Mortgaged Property, including a leasehold; and
- dispose of the Mortgaged Property (in whole or in part) or of any interest in the Mortgaged Property, by auction, private sale or otherwise, for a price it considers appropriate.

The Servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The Servicer may also carry out works on the property as it considers appropriate to maintain the market value of the Mortgaged Property.

The Servicer has discretion to deviate from these procedures. In particular, the Servicer may deviate from these procedures where a Borrower suffers from a mental or physical infirmity, is deceased or where the Borrower is otherwise prevented from making payment due to causes beyond the Borrower's control. This is the case for both sole and joint Borrowers.

It should also be noted that the Servicer's ability to exercise its power of sale in respect of the Mortgaged Property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the Servicer, such as whether the Borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the decision of the Servicer to exercise its power of sale and final completion of the sale.

It should also be noted in relation to Scottish mortgages that the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by the Borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, amongst other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. See *Material Legal Aspects of The Loans and Their Related Security – Scottish Loans*.

The net proceeds of sale of the Mortgaged Property are applied against the sums owed by the Borrower to the extent necessary to discharge the Mortgage including any accumulated fees, expenses of the Servicer and interest. Where the funds arising from application of these default procedures are insufficient to pay all amounts owing in respect of a Loan, the funds are applied first in paying interest and costs, and second in paying principal. The Servicer may then institute recovery proceedings against the Borrower. If after the sale of the Mortgaged Property and redemption of the Loan there are remaining funds, those funds will be distributed by the solicitor acting to the next entitled parties.

These arrears and security enforcement procedures may change over time as a result of a change in Mortgage Express, or the Servicer's business practices or legislative and regulatory changes.

### **Arrears experience**

The table summarising Loans in arrears for Loans serviced by the Servicer, including the Loans that were contained in the Provisional Portfolio as at 3rd August, 2004, is presented in *The Supplement – Characteristics of the Mortgage Express Mortgage Book*. If the property market experiences an overall decline in property values so that the value of the properties in the Portfolio falls below the principal balances of the Loans comprising the overall pool, the actual rates of arrears could be significantly higher than those previously experienced by the Servicer. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by Borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the Loans in the Portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the table set out in *The Supplement – Characteristics of the Mortgage Express Mortgage Book*. If interest rates were to rise, it is likely that the rate of arrears would rise.

## **MATERIAL LEGAL ASPECTS OF THE LOANS AND THE RELATED SECURITY**

*The following discussion is a summary of the material legal aspects of English, Northern Irish and Scottish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law.*

### **English Loans**

#### ***General***

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each English Loan will be secured by a Mortgage which has a first ranking priority over all other Mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent Mortgage or other secured interest over the relevant property without the consent of the Seller, though such other Mortgage or interest will rank below the Seller's mortgage in priority.

#### ***Nature of property as security***

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

#### ***Registered title***

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13th October, 2003 title to the land was established by a land or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land. However, pursuant to the Land Registration Act 2002, which came into force on 13th October, 2003 the provision of land certificates and charge certificates has now been abolished. Title to land is now established by reference to entries on the registers held by the Land Registry.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry, such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

#### ***Unregistered title***

All land in England and Wales is now subject to compulsory registration on the happening of any of a number of trigger events, which includes the granting of a first legal mortgage. However, a small proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Central Land Charges Registry in order to be effective against a subsequent purchaser of the land.

#### ***Taking security over land***

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds and, in relation to subsequent mortgages, by the registration of a land charge.

### ***The Seller as mortgagee***

The sale of the English Loans by the Seller to the Mortgages Trustee will take effect in equity only. The Mortgages Trustee will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the Mortgages. The consequences of this are explained in the section entitled *Investment Considerations – There may be risks associated with the fact that the Mortgages Trustee has no legal title to the Loans and their Related Security, which may adversely affect payments on the Notes.*

### ***Enforcement of Mortgages***

If a borrower defaults under a loan, the English Mortgage Conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the English Mortgage Conditions to pay or repay those amounts. In addition, the Seller or relevant Originator or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

## **Scottish Loans**

### ***General***

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is the lender and is called the heritable creditor. Each Scottish Loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent standard security over the relevant property without the consent of the Seller. Upon intimation to the Seller (in its capacity as trustee for the Mortgages Trustee pursuant to the relevant Scottish Declaration of Trust) of any subsequent standard security the prior ranking of the Seller's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the Seller or the Mortgages Trustee is obliged to advance, and interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of **Standard Conditions** into all standard securities, although the majority of these may be varied by agreement between the parties. The Seller, along with most major lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish Mortgage Conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular the notice and other procedures that require to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

### ***Nature of property as security***

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register and Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long leasehold land.

### ***Land Register***

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long leasehold interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the Land Register relating to that land. Similarly, the holder of any standard security over the land in question receives a charge certificate containing official copies of the entries relating to that security. A person registered in the Land Register owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The land certificate will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests) affecting the land. The land certificate will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the land certificate itself.

### ***Sasine Register***

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

### ***Taking security over land***

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration rather than their date of execution. There is no equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

### ***The Seller as heritable creditor***

The sale of the Scottish Mortgages by the Seller to the Mortgages Trustee will be given effect by a declaration of trust by the Seller or a declaration of trust by the relevant Originator with the consent of the Seller (and any sale of Scottish Mortgages in the future will be given effect by further declarations of trust), by which the beneficial interest in the Scottish Mortgages will be transferred to the Mortgages Trustee. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or Sasine Register. The consequences of this are explained in *Risk factors – There may be risks associated with the fact that the Mortgages Trustee has no legal title to the Loans and their Related Security, which may adversely affect the payments on the Notes.*

### ***Enforcement of Mortgages***

If a borrower defaults under a Scottish loan, the Scottish Mortgage Conditions provide that all monies under the loan will become immediately due and payable. The Seller or relevant Originator or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish Mortgage Conditions to pay or repay those amounts. In addition, the Seller or relevant Originator or its successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The heritable creditor may grant a lease of the property of up to seven years (or longer with the court's permission) to third parties.
- The heritable creditor may sell the property, subject to various duties, to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor's power of sale becomes the owner of the property.
- The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. However, this remedy is rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

### ***Borrower's right of redemption***

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

## **Northern Irish Loans**

### ***General***

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property (and is generally the only party to execute the mortgage). The second party is the mortgagee, who is the lender. Each Northern Irish Loan will be secured by a Mortgage which has a first ranking priority over all other Mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent Mortgage or other secured interest over the relevant property without the consent of the Seller, though such other Mortgage or interest will rank below the Seller's mortgage in priority but only to the extent of advances made by the Seller prior to receipt of notice of the other mortgage together with interest and expenses in respect thereof.

### ***Nature of property as security***

There are two forms of title to land in Northern Ireland: registered and unregistered. Both systems of title can include both freehold and leasehold land.

### ***Registered title***

Title to registered land is registered at the Land Registry of Northern Ireland. Each parcel of land is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the register relating to that land.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry of Northern Ireland will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act (Northern Ireland) 1970 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry of Northern Ireland such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

### ***Unregistered title***

From 1st May, 2003 all land in Northern Ireland is now subject to compulsory registration on the happening of any of a number of trigger events, which does not include the granting of a first legal mortgage alone. A substantial proportion of land in Northern Ireland (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to all land in Northern Ireland where no event has occurred to trigger registration at the Land Registry of Northern Ireland is registered at the Registry of Deeds. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Registry of Deeds in order to be effective against a subsequent purchaser of the land.

### ***Taking security over land***

Where land is registered, a mortgagee must register its mortgage at the Land Registry of Northern Ireland in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry of Northern Ireland during this priority period.

In the system of unregistered land, a mortgagee must register its mortgage at the Registry of Deeds in order to secure priority over a subsequent mortgagee. Priority of mortgages over unregistered land is governed by the date of registration of the mortgage rather than the date of creation unless there is actual notice of a prior unregistered mortgage. There is no equivalent priority period system which operates in relation to registered land.

By virtue of Article 51 of The Judgments Enforcement (Northern Ireland) Order 1981 an order charging land, i.e. a judgment mortgage, if founded on a judgment in respect of rates payable in respect of that land, shall have priority over all other charges and encumbrances whatever affecting that land except other debts owing to the Crown.

### ***The Seller as mortgagee***

The sale of the Northern Irish Loans by the Seller to the Mortgages Trustee will take effect in equity only. The Mortgages Trustee will not apply to the Land Registry of Northern Ireland or the Registry of Deeds to register or record its equitable interest in the Mortgages. The consequences of this are explained in the section *Investment Considerations – There may be risks associated with the fact that the Mortgages Trustee has no legal title to the Loans and their Related Security, which may adversely affect payments on the Notes.*

### ***Enforcement of Mortgages***

If a Borrower defaults under a Northern Irish Loan, the Northern Irish Mortgage Conditions provide that all monies under the Loan will become immediately due and payable. The Seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the Borrower contained in the Northern Irish Mortgage Conditions to pay or repay those amounts. In addition, the Seller or relevant Originator or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, in theory, available but in modern times it has not been granted by the courts.

- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Conveyancing and Law of Property Act 1881. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

## FORM OF THE NOTES

The Notes of each class offered and sold outside the United States to non-U.S. persons in reliance on Regulation S (**Regulation S**) under the Securities Act (**Regulation S Notes**) will be represented on issue by one or more global certificates of such class in fully registered form without interest coupons or principal receipts attached (each a **Regulation S Global Certificate**) which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Regulation S Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See *Book-Entry Clearance Procedures*.

The Dollar Notes of each class offered and sold in the United States to qualified institutional buyers (**QIBs**) in reliance on Rule 144A (**Rule 144A**) under the Securities Act (**Rule 144A Notes**) will be represented on issue by one or more global certificates of such class, in fully registered form without interest coupons or principal receipts attached (each a **Rule 144A Global Certificate**), which will be deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A Global Certificate may only be held through DTC or its participants at any time see (*Book-Entry Clearance Procedures*). Beneficial interests in a Rule 144A Global Certificate may only be held by persons who are QIBs holding their interests for their own account or for the account of another QIB. By acquisition of a beneficial interest in a Rule 144A Global Certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Certificate (see *Transfer Restrictions and Investor Representations*).

The Regulation S Global Certificates and the Rule 144A Global Certificates are referred to herein as **Global Certificates**. Beneficial interests in Global Certificates will be subject to certain restrictions on transfer set out therein and in the Paying Agent and Agent Bank Agreement, and such Global Certificates will bear the applicable legends regarding the restrictions set out under *Transfer Restrictions and Investor Representations*. No beneficial interest in a Regulation S Global Certificate representing Sterling Notes or Euro Notes may be exchanged for beneficial interests in a Rule 144A Global Certificate. No beneficial interest in a Regulation S Global Certificate representing Dollar Notes may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A Global Certificate unless (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Paying Agent and Agent Bank Agreement. No beneficial interest in the Rule 144A Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S Global Certificate unless the transfer is to a non-U.S. person in an offshore transaction in reliance on Regulation S and the transferor provides the Registrar with a written certification substantially in the form set out in the Paying Agent and Agent Bank Agreement.

Any beneficial interest in a Regulation S Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Certificate will, upon transfer, cease to be an interest in such Regulation S Global Certificate and become an interest in the Rule 144A Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A Global Certificate for as long as it remains such an interest. Any beneficial interest in a Rule 144A Global Certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate will, upon transfer, cease to be an interest in a Rule 144A Global Certificate and become an interest in the Regulation S Global Certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Regulation S Global Certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Note Trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

**Owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of individual certificated Notes. The Notes will not be issued in bearer or definitive form.**

### **Amendments to Conditions**

In addition, the Global Certificates will contain provisions which modify the Conditions of the Notes as they apply to the Global Certificates. The following is a summary of certain of those provisions:

*Payments:* Payments of principal and interest in respect of Notes represented by a Global Certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Certificates to or to the order of the Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Global Certificates (see also *Book-Entry Clearance Procedures*).

*Notices:* Notwithstanding Condition 15 (Notices to Noteholders) of the Notes, while all the Notes are represented by Global Certificates which are deposited with a common depositary for Euroclear and/or Clearstream, Luxembourg or, as the case may be, deposited with HSBC Bank USA, National Association, as custodian for, and registered in the name of Cede & Co. as nominee of, DTC, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or DTC (as applicable) rather than by publication in accordance with Condition 15 (Notices to Noteholders) of the Notes, for so long as the Notes are listed on the London Stock Exchange, and the rules of the London Stock Exchange so permit. Such notices shall be deemed to have been given to the Noteholders in accordance with Condition 15 (Notices to Noteholders) of the Notes on the date of delivery to Euroclear and/or Clearstream, Luxembourg or DTC (as applicable).

*Meetings:* The holder of a Global Certificate will be deemed to be two persons for the purpose of forming a quorum at a meeting of Noteholders.

*Purchase and Cancellation:* For so long as any Notes are represented by a Global Certificate, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg or DTC, as appropriate.

#### **No Exchange for Individual Certificates**

The Rule 144A Global Certificates and Regulation S Global Certificates will not be exchangeable for certificates in individual certificated form.

## BOOK-ENTRY CLEARANCE PROCEDURES

*The information set out below has been obtained from the Clearing Systems (as defined herein) and the Issuer believes that such sources are reliable, but prospective investors are advised to make their own enquiries as to such procedures. The Issuer accepts responsibility for the accurate reproduction of such information from publicly available information. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the **Clearing Systems**) currently in effect and investors wishing to use the facilities of any of the Clearing Systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Managers, the Seller, the Originator, the Funding Companies, the Mortgages Trustee, the Issuer Security Trustee, the Security Trustee, the Note Trustee, any Paying Agent, the Agent Bank, the Issuer Currency Swap Providers or any Issuer Account Bank (or any affiliate of any of the above, as defined in the Securities Act) will have any responsibility for the performance by the Clearing Systems or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.*

### **Euroclear, Clearstream, Luxembourg and DTC**

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg and DTC to facilitate the initial issue of the Notes and cross-market transfers of the Notes associated with secondary market trading see – *Settlement and Transfer of Notes below*.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such Global Certificates directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**Direct Participants**) or indirectly (**Indirect Participants** and, together with Direct Participants, **Participants**) through organisations which are accountholders therein.

### ***DTC***

DTC has advised the Issuer as follows: “DTC, the world’s largest depositary, is a limited-purpose trust company organised under the New York Banking Law, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act.” DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Investors may hold their interests in a Global Certificate directly through DTC if they are participants (**Direct Participants**) in the DTC system, or indirectly through organisations which are participants in such system (**Indirect Participants**, and together with Direct Participants, **Participants**).

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants in whose accounts with DTC interests in Global Certificates are credited and only in respect of such portion of the aggregate principal amount of the

relevant Global Certificates as to which such participant or participants has or have given such direction.

### **Book-Entry Ownership**

#### ***Euroclear and Clearstream, Luxembourg***

Each Regulation S Global Certificate will have an ISIN and a Common Code and will be deposited with HSBC Bank plc as common depository on behalf of, Euroclear and Clearstream, Luxembourg.

#### ***DTC***

Each Rule 144A Global Certificate will have an ISIN and a CUSIP number and will be deposited with HSBC Bank USA, National Association as custodian (the **Custodian**) for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC system.

### **Payments and Relationship of Participants with Clearing Systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a Note represented by a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Certificate (save in the case of payments other than in U.S. dollars outside DTC, as referred to below) and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes represented by a Global Certificate, the common depository by whom such Note is held, or nominee in whose name it is registered, will (save as provided below in respect of the Rule 144A Global Certificates) immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Certificate and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Managers, the Seller, the Originator, the Funding Companies, the Mortgages Trustee, the Issuer Security Trustee, the Security Trustee, the Note Trustee, any Paying Agent, the Agent Bank, the Issuer Currency Swap Providers or any Issuer Account Bank will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

### **Settlement and Transfer of Notes**

Subject to the rules and procedures of each applicable Clearing System, purchases of Notes held within a Clearing System must be made by or through Direct Participants, which will receive a credit for such Notes on the Clearing System's records. The ownership interest of each actual purchaser of each such Note (the **Beneficial Owner**) will in turn be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from any Clearing System of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction. Transfers of ownership interests in Notes held within the Clearing System will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. **Beneficial Owners will not receive individual certificates representing their ownership interests in such Notes.**

No Clearing System has knowledge of the actual Beneficial Owners of the Notes held within such Clearing System and their records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the Clearing Systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial

owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some States in the United States may require that certain persons take physical delivery in definitive form of securities. Consequently, it may not be possible to transfer interests in a Global Certificate to such persons. Because DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

#### ***Trading between Euroclear and/or Clearstream, Luxembourg Participants***

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds, Sterling denominated bonds and U.S. dollar denominated bonds.

#### ***Trading between DTC Participants***

Secondary market sales of book-entry interests in the Dollar Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC Participants.

#### ***Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser***

When book-entry interests in Dollar Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in a Global Certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that Global Certificate (subject to the certification procedures provided in the Paying Agent and Agent Bank Agreement), the DTC Participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the Global Certificate will instruct the Registrar to (i) decrease the amount of Dollar Notes registered in the name of Cede & Co, evidenced by the relevant Global Certificate and (ii) increase the amount of Dollar Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg evidenced by the relevant Global Certificate. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

#### ***Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser***

When book-entry interests in the Dollar Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in a Global Certificate (subject to the certification procedures provided in the Paying Agent and Agent Bank Agreement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depository for Euroclear and Clearstream, Luxembourg will: (a) transmit appropriate instructions to the custodian of the Global Certificate who will in turn deliver evidence of such book-entry interests in the Dollar Notes free of payment to the relevant account of the DTC Participant; and (b) instruct the Registrar to (i) decrease the amount of Dollar Notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant Global Certificate and (ii)

increase the amount of Dollar Notes registered in the name of Cede & Co. and evidenced by the relevant Global Certificate.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Certificates among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, 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 Managers, the Seller, Mortgage Express, the Funding Companies, the Mortgages Trustee, the Issuer Security Trustee, the Security Trustee, the Note Trustee, any Paying Agent, the Agent Bank, the Issuer Currency Swap Providers or any Issuer Account Bank will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

***Pre-issue Trades Settlement***

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Notes may be affected by such local settlement practices and purchasers of Notes who wish to trade Notes between the date of pricing and the Closing Date should consult their own adviser.

## UNITED KINGDOM TAXATION

*The following is a general description of certain United Kingdom tax considerations relating to the Notes based on current law and practice in the United Kingdom and assumes that the final documentation conforms with the description in this document. It does not purport to be a complete analysis of all tax considerations relating to the Notes. It relates to the position of persons who are the absolute beneficial owners of Notes and may not apply to certain classes of persons such as dealers. Prospective purchasers of Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the UK of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this document and is subject to any change in law that may take effect after such date.*

### **Withholding Tax**

Under current legislation, for so long as the Notes carry a right to interest and continue to be listed on a recognised stock exchange within the meaning of Section 841 of the Income and Corporation Taxes Act 1988 (ICTA) (the London Stock Exchange is currently a recognised stock exchange for this purpose and the Notes will be treated as listed on the London Stock Exchange if they are admitted to the Official List by the UK Listing Authority and admitted to trading by the London Stock Exchange), the Notes will constitute quoted Eurobonds within the meaning of Section 349(4) ICTA. Accordingly, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Interest on the Notes may also be paid without withholding or deduction for or on account of United Kingdom income tax where interest on the Notes is paid to a person whose usual place of abode is in the United Kingdom 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 person beneficially entitled to the interest in respect of which the payment is made is:

- (i) a company resident in the United Kingdom; or
- (ii) a company not resident in the United Kingdom but which carries on a trade in the United Kingdom through a permanent establishment and the payment is brought into account for the purposes of United Kingdom corporation tax; or
- (iii) that the payment is made to one of the other classes of exempt bodies or persons set out in Section 349B ICTA, provided that the Inland Revenue has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely that none of the conditions specified in Section 349B ICTA will be satisfied in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In all other cases interest on the Notes will generally be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.), subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available under any applicable double taxation convention.

The Inland Revenue has powers 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 interest to, or receives interest on behalf of, an individual. Such information, may in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of other jurisdictions.

### **Direct Assessment of Non-United Kingdom Resident Holders of Notes of United Kingdom Tax on Interest**

Interest on the Notes has a United Kingdom source. Accordingly, such interest will in principle be within the charge to United Kingdom tax even if paid without withholding or deduction. By way of an exception to this, such interest will not be chargeable to United Kingdom tax in the hands of a holder of Notes who is not resident for tax purposes in the United Kingdom unless such holder carries on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency or permanent establishment in connection with which the interest is received or to which the Notes are attributable, in which case (subject to exemptions for interest received by certain categories of agent such as some brokers and investment managers) tax may be levied on the United Kingdom branch or agency or permanent establishment. A permanent establishment will include a place of management, a branch or an office. Where interest has been paid under deduction of United

Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to obtain an exemption or reduction from United Kingdom tax payable on such interest under the provisions of an applicable double taxation convention.

### **Taxation of Returns: Companies Within the Charge to Corporation Tax**

Noteholders who are within the charge to United Kingdom corporation tax will normally be subject to tax on all profits and gains, including interest, arising on or in connection with the Notes under the loan relationship rules contained in the Finance Act 1996. For holders of Notes denominated in U.S. dollars or euro (**Non-Sterling Notes**), profits and gains will, for loan relationship purposes, generally include any exchange gains and losses arising as a result of changes in the sterling/dollar exchange rate or sterling/euro exchange rate, as applicable, during each accounting period in which such Notes are held. Any such profits and gains will generally fall to be calculated in accordance with the statutory accounting treatment of the Notes in the hands of the relevant Noteholder, and will generally be charged to tax as income in respect of each accounting period to which they are allocated, in accordance with that accounting treatment. Relief may be available in respect of losses (which will be determined as summarised above), or for related expenses, on a similar basis.

Authorised unit trusts must not bring into account credits or debits under the loan relationship rules in respect of capital profits, gains or losses arising on or in connection with the Notes. Capital profits, gains and losses are identified by reference to items dealt with under the heading “net gains/losses on investments during the period” or “other gains/losses” in the statement of total return for an accounting period required to be contained in the annual report of the authorised unit trust by the applicable Statement of Recommended Practice.

### **Taxation of Returns: Other Noteholders**

Noteholders who are not within the charge to United Kingdom corporation tax and who are resident or ordinarily resident in the United Kingdom for tax purposes or who carry on a trade, profession or vocation in the United Kingdom through a branch or agency in connection with which interest on the Notes is received or to which the Notes are attributable will generally be liable to United Kingdom tax on the amount of any interest received in respect of the Notes. A disposal of a Note other than a Non-Sterling Note by such a Noteholder will not give rise to a chargeable gain or an allowable loss for the purposes of the taxation of capital gains, because the Notes will be qualifying corporate bonds within the meaning of Section 117 of the Taxation of Chargeable Gains Act 1992 for those purposes. However, Non-Sterling Notes will not be qualifying corporate bonds and therefore a disposal of a Non-Sterling Note by such a Noteholder may give rise to a chargeable gain or an allowable loss for the purposes of United Kingdom capital gains tax.

A disposal of Notes by Noteholders who are resident or ordinarily resident in the United Kingdom for tax purposes or who carry on a trade in the United Kingdom through a branch or agency to which the Notes are attributable may also give rise to a charge to tax on income in respect of an amount representing interest accrued on the Notes since the preceding payment date. The Notes constitute variable rate securities for these purposes. Accordingly, taxation in respect of such a disposal will be computed on the basis that such amount as the Inland Revenue considers to be just and reasonable will be treated as accrued income. However, the transferee of the Note will not be entitled to any relief on such amount.

### **Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax will be payable on the issue of the Global Notes or on the issue or transfer by delivery of the Notes (including a transfer of book entry interests) or on their redemption.

## JERSEY TAXATION

Jersey is not a member of the EU and therefore is not required to implement the EU Savings Tax Directive. However, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey's policy of constructive international engagement, Jersey, in line with steps proposed by other relevant third countries, proposes to introduce a withholding tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU member state by a paying agent situated in Jersey (the terms "beneficial owner" and "paying agent" for this purpose are as defined in the EU Savings Tax Directive). The withholding tax system would apply for a transitional period prior to the implementation of a system of automatic communication to EU member states of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU member state will be entitled to request a paying agent not to withhold tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU member state in which the beneficial owner is resident.

The States of Jersey has not yet adopted measures to implement these proposals but is expected to adopt such measures on the same timetable as EU member states and other relevant third countries.

It is the opinion of Jersey counsel that the Mortgages Trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 20 per cent. in respect of the profits it makes from acting as trustee of the Mortgages Trust. The Mortgages Trustee will not be liable for any income tax in Jersey in respect of any income it receives in its capacity as Mortgages Trustee on behalf of the Beneficiaries.

## UNITED STATES FEDERAL INCOME TAXATION

*The following section summarises the material federal income tax consequences of the purchase, ownership and disposition of the Rule 144A Notes, that may be relevant to a Noteholder that is a **United States person** (as defined later in this section) or that otherwise is subject to US federal income taxation on a net income basis in respect of a Rule 144A Note (any such United States person or Noteholder, a **US holder**). In general, the summary assumes that a US holder acquires a Rule 144A Note at par at original issuance and holds such note as a capital asset. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Rule 144A Notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including dealers in stocks, securities or notional principal contracts; traders in securities electing to mark to market; banks, savings and loan associations and similar financial institutions; taxpayers whose functional currency is other than the U.S. dollar; taxpayers that hold a Rule 144A Note as part of a hedge or straddle or a conversion transaction, within the meaning of section 1258 of the US Internal Revenue Code of 1986, as amended (the **Code**); and subsequent purchasers of Rule 144A Notes. In addition, this summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the US federal government.*

### General

This summary is based on the US tax laws, regulations, rulings and decisions in effect or available on the date of this document. All of the foregoing are subject to change, and any change may apply retroactively and could affect the continued validity of this summary.

Cleary, Gottlieb, Steen & Hamilton, US tax advisers to the Issuer (**US tax counsel**), has prepared and reviewed this summary of material US federal income tax consequences. As described under – *Tax status of the Issuer, Funding 1, Mortgages Trustee and Mortgages Trust*, US tax counsel is of the opinion that the Mortgages Trustee acting as trustee of the Mortgages Trust, Funding 1 and the Issuer will not be subject to US federal income tax as a result of their contemplated activities. As described further under – *Characterisation of the Rule 144A Notes* and – *Rule 144A Notes as debt of Funding 1*, US tax counsel is also of the opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A Notes, the Rule 144A Notes will be treated as debt for US federal income tax purposes (either of the Issuer, or of Funding 1 as described below).

An opinion of US tax counsel is not binding on the US Internal Revenue Service (the **IRS**) or the courts, and no rulings will be sought from the IRS on any of the issues discussed in this section. Accordingly, the Issuer suggests that persons considering the purchase of Rule 144A Notes consult their own tax advisors as to the US federal income tax consequences of the purchase, ownership and disposition of the Rule 144A Notes, including the possible application of state, local, non-US or other tax laws, and other US tax issues affecting the transaction.

As used in this section, the term **United States person** means a person who is a citizen or resident of the United States, a US domestic corporation or partnership, any estate the income of which is subject to US federal income tax regardless of the source of its income, or any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more US persons have the authority to control all substantial decisions of the trust.

### Tax status of the Issuer, Funding 1, Mortgages Trustee and Mortgages Trust

Under the transaction documents, each of the Issuer, Funding 1 and the Mortgages Trustee acting in its capacity as trustee of the Mortgages Trust covenants not to engage in any activities in the United States (directly or through agents), not to derive any income from sources within the United States as determined under US federal income tax principles, and not to hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under US federal income tax principles. US tax counsel is of the opinion that, assuming compliance with the foregoing restrictions, none of the Issuer, Funding 1 or the Mortgages Trustee acting in its capacity as trustee of the Mortgages Trust will be subject to US federal income tax. No elections will be made to treat the Issuer, Funding 1 or the Mortgages Trust or any of their assets as a REMIC or a FASIT (two types of securitisation vehicles having a special tax status under the Code).

## Characterisation of the Rule 144A Notes

Although there is no authority regarding the treatment of instruments that are substantially similar to the Rule 144A Notes, it is the opinion of US tax counsel that the Rule 144A Notes will be treated as debt for US federal income tax purposes (either of the Issuer or of Funding 1, as described under – *Rule 144A Notes as debt of Funding 1*). The Issuer intends to treat the Rule 144A Notes as indebtedness of the Issuer for all purposes, including US tax purposes. The discussion below assumes that the Rule 144A Notes will be treated as debt for US tax purposes.

The Rule 144A Notes will not be qualifying real property loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under Sections 7701(a)(19)(C), 856(c)(5)(A) or 860G(a)(3) of the Code, respectively.

## Taxation of US holders of the Rule 144A Notes

**Qualified stated interest.** It is anticipated that a US holder of a Rule 144A Note will treat stated interest on the Rule 144A Note as ordinary interest income when paid or accrued, in accordance with its tax method of accounting, and that the Rule 144A Notes will not be considered to have original issue discount that must be included in income regardless of the US holder's tax method of accounting.

**Sales and retirement.** In general, a US holder of a Rule 144A Note will have a basis in such Rule 144A Note equal to the cost of the Rule 144A Note to such holder, reduced by any payments thereon other than payments of stated interest. Upon the sale, exchange or retirement of a Rule 144A Note, a US holder generally will recognise gain or loss equal to the difference between the amount realised on the sale, exchange or retirement (less any accrued interest, which will be taxable as such) and the US holder's tax basis in such Rule 144A Note. Such gain or loss recognised by a US holder generally will be long-term capital gain or loss if the US holder has held the Rule 144A Note for more than one year at the time of disposition. Long-term capital gains recognised by an individual US holder generally are subject to tax at a lower rate than short-term capital gains or ordinary income.

## Rule 144A Notes as debt of Funding 1

The IRS could possibly seek to characterise the Rule 144A Notes as interests in the related Term Advance between the Issuer and Funding 1 (the **related advance**), rather than as debt of the Issuer. If the IRS were successful in such a characterisation, a US holder of a Rule 144A Note would be treated as owning (i) a *pro rata* share of the related advance, which will be treated as debt for US federal income tax purposes and (ii) an interest in the related Issuer Dollar Currency Swap. Treasury regulations permit taxpayers meeting certain requirements to integrate a debt instrument and a related currency hedge and to treat them for most tax purposes as if they were a synthetic debt instrument having the terms of the debt instrument and hedge combined. Integrating the related advance and Issuer Dollar Currency Swap would create a synthetic debt instrument having the characteristics of the Rule 144A Notes and hence would produce largely the same result as if the Rule 144A Notes were not recharacterised as debt of Funding 1.

The integration regulations apply only if a taxpayer creates a record identifying the debt instrument and hedge on or before the close of the date the hedge is entered into. The Issuer will create a record that is intended to provide such identification effective for each US holder as of the date of acquisition of a Rule 144A Note. By its acquisition of a Rule 144A Note, each US holder will be treated as having appointed the Issuer as its agent for this purpose. The IRS could challenge the effectiveness of such an identification made on behalf of a group of taxpayers. The integration rules would not apply to a US holder that is related to the Issuer Dollar Currency Swap Provider.

If the Issuer Dollar Currency Swap terminated before the Rule 144A Notes were retired, and the integration regulations applied, then a US holder may be considered to recognise gain or loss as if the US holder had sold for fair market value his interest in the related advance. Moreover, for periods following such termination, the integration rules would no longer apply to the related advance except in the discretion of the IRS.

If the Issuer Dollar Currency Swap were not integrated with the related advance, then a US holder would calculate separately income and deductions from the Issuer Dollar Currency Swap and income from the related advance. For most US holders, the tax consequences of treating the Issuer Dollar Currency Swap and related advances separately would be similar to the treatment if they were combined, but there could be differences. For example, income from the Issuer Dollar Currency Swap may be sourced differently from income from the related advance and would always be computed

under an accrual method. Individual taxpayers may be allowed deductions for payments made under the Issuer Dollar Currency Swap only as a miscellaneous itemised deduction (which is allowed for regular tax purposes only subject to limitations and is not allowed for alternative minimum tax purposes). US holders may wish to consult their own tax advisers regarding the possible treatment of the Rule 144A Notes as debt of Funding 1, application of the integration rules, and the consequences of an inability to integrate the Issuer Dollar Currency Swap and the related advance.

**Information reporting and backup withholding**

The paying agent will be required to file information returns with the IRS with respect to payments on the Rule 144A Notes made to certain US holders. In addition, certain US holders may be subject to US backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the paying agent, and may also be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the Rule 144A Notes.

## UNITED STATES ERISA CONSIDERATIONS

The Rule 144A Notes are eligible for purchase by employee benefit plans and other plans subject to the US Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of Section 4975 of the Code and by governmental plans that are subject to state, local or other federal law of the United States that is substantially similar to ERISA or Section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on **employee benefit plans** (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under *Investment Considerations* and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the Rule 144A Notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The Seller, the Issuer, the Servicer, the Mortgages Trustee, Funding 1 or any other party to the transactions contemplated by the Transaction Documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Rule 144A Notes is acquired or held by a Plan with respect to which the Seller, the Issuer, the Servicer, the Mortgages Trustee, Funding 1 or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any such Rule 144A Notes and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving any such Rule 144A Notes.

In addition, the US Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the **Plan Asset Regulation**), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the 1940 Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in form debt may be considered an "equity interest" if it has "substantial equity features". If the Issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the Rule 144A Notes, such plan assets would include an undivided interest in the assets held by the Issuer and transactions by the Issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code.

Each purchaser and subsequent transferee of any Rule 144A Note will be deemed by such purchase or acquisition of any such Rule 144A Note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Rule 144A Note through and including the

date on which the purchaser or transferee disposes of such Rule 144A Note, that either (i) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (ii) its purchase, holding and disposition of such Rule 144A Note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available.

Any insurance company proposing to purchase any of the Rule 144A Notes using the assets of its general account should consider the extent to which such investment would be subject to the requirements of ERISA in light of the US Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* and under any subsequent guidance that may become available relating to that decision. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the Department of Labor for transactions involving insurance company general accounts in PTCE 95-60, 60 Fed. Reg. 35925 (July 12, 1995), the enactment of Section 401(c) of ERISA by the Small Business Job Protection Act of 1996 (including, without limitation, the expiration of any relief granted thereunder) and the Insurance Company General Account Regulations, 65 Fed. Reg. No. 3 (5th January, 2000) (to be codified at 29 C.F.R. pt. 2550) that became generally applicable on 5th July, 2001.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Rule 144A Notes should determine whether, under the documents and instruments governing the Plan, an investment in such Rule 144A Notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio. Any Plan proposing to invest in such Rule 144A Notes (including any governmental plan) should consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental plan, any substantially similar state, local or other federal law).

The sale of any Rule 144A Notes to a Plan is in no respect a representation by the Seller, the Issuer, the Servicer, the Mortgages Trustee, Funding 1 or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

The Regulation S Notes are not eligible for purchase by Plans. Each purchaser and subsequent transferee of any Regulation S Note will be deemed by such purchase or acquisition of any such Regulation S Note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Regulation S Note through and including the date on which the purchaser or transferee disposes of such Regulation S Note, that it is not and will not be a Plan and that in purchasing and holding the Regulation S Note it is not and will not be acting on behalf of a Plan or using assets of a Plan.

## UNITED STATES LEGAL INVESTMENT CONSIDERATIONS

None of the Notes will constitute “mortgage related securities” under the United States Secondary Mortgage Market Enhancement Act of 1984, as amended.

No representation is made as to the proper characterisation of the Notes for legal investment purposes, financial institutional regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the Notes under applicable legal investment restrictions. Uncertainties over such proper characterisation may adversely affect the liquidity of the Notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult their legal advisers in determining whether and to what extent the Notes constitute a legal investment or are subject to investment, capital or other restrictions.

## SUBSCRIPTION AND SALE

Under the terms of the Subscription Agreement entered into on or before the Closing Date, the Managers have jointly and severally agreed with the Issuer (subject to certain conditions) to subscribe and pay for the Notes at the issue price set out in *The Supplement – Transaction Features – The Notes*.

The Issuer will pay to the Managers an amount of commissions as set out in *The Supplement – Transaction Features – The Notes* with respect to the aggregate principal amount of the Notes (the principal amount of the relevant Series of Notes being converted where applicable into sterling at the relevant Currency Swap Rate). Funding 1 will reimburse such commissions to the Issuer pursuant to the Intercompany Loan Agreement.

The Issuer has also agreed to reimburse the Managers for certain fees and expenses in connection with the issue of the Notes. The Managers have agreed to pay a certain portion of the additional expenses in connection with the issue of the Notes.

The Subscription Agreement is subject to a number of conditions and may be terminated by the Managers in certain circumstances prior to payment for the Notes to the Issuer. The Issuer has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Notes.

Other than admission of the Notes to the Official List of the UK Listing Authority and the admission to trading on the London Stock Exchange's market for listed securities, no action has been taken by the Issuer or the Managers which would or is intended to permit a public offering of the Notes, or possession or distribution of this document or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

Each Manager has undertaken not to offer or sell, directly or indirectly, Notes, or to distribute or publish this document or any other material relating to the Notes, in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

This document 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.

In connection with the issue and distribution of the Notes, Credit Suisse First Boston (Europe) Limited may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Closing Date. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

### United States

Each Manager has acknowledged that the Notes have not been and will not be registered under the Securities Act or any State securities laws and unless so registered may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable State securities laws. Accordingly, the Notes are being offered and sold (i) in the case of Dollar Notes only, in the United States only to QIBs pursuant to Rule 144A and (ii) outside the United States to non-U.S. Persons pursuant to Regulation S.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Regulation S Notes (or any beneficial interest in a Regulation S Global Certificate) (i) as part of its distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date (the **Distribution Compliance Period**), within the United States or to, or for the account or benefit of, U.S. Persons and it will have sent to each affiliate or other dealer (if any) to which it sells any Regulation S Notes during the Distribution Compliance Period a confirmation or other notice setting forth the restrictions on offers and sales of such Regulation S Notes within the United States or to, or for the account or benefit of, U.S. Persons. See *Transfer Restrictions and Investor Representations*.

The Subscription Agreement provides that selected Managers, through their selling agents which are registered broker-dealers in the United States, may resell the Rule 144A Notes in the United States to QIBs pursuant to Rule 144A.

In addition, until 40 days after the commencement of the offering, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in compliance with Rule 144A or pursuant to another exemption from the registration requirements under the Securities Act.

The Issuer has agreed that, for so long as any of the Notes remain outstanding and are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will furnish, upon request of a holder of such a Note or of any beneficial owner or of any prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the Issuer is not a reporting company under Section 13 or 15(d) of the Exchange Act or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

### United Kingdom

Each Manager has represented, warranted and agreed with the Issuer, *inter alia*, that:

- (a) it has not offered or sold and will not offer or sell any Notes to persons in the United Kingdom prior to admission of the Notes to listing in accordance with Part VI of the FSMA except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their business or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended) or the FSMA;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any 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 any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) 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.

### The Netherlands

Under the Subscription Agreement each Manager has further represented to and agreed with the Issuer that it will verify that all Dutch Resident (as defined below) purchasers of Notes (including rights representing an interest in a Global Certificate) issued by the Issuer directly to such purchasers on or before the Closing Date or issued by the Issuer in circumstances where such Manager is reasonably able to identify the holders as Dutch Residents on or before the Closing Date are Professional Market Parties (as defined below) and the Issuer shall agree (or procure that the relevant Manager agrees) with each such purchaser that any Notes acquired by such purchaser may not be offered, sold, transferred or delivered by any such purchaser, except in accordance with the restrictions referred to in the following paragraph.

Each Manager has represented and agreed that this Offering Circular have not and will not be distributed and the Notes (including rights representing an interest in a Note in global form) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who are established, domiciled or have their residence in The Netherlands (**Dutch Residents**) other than to the following entities (**Professional Market Parties** or **PMPs**) provided they acquire the Notes for their own account or for the account of a Professional Market Party and they also trade or invest in securities in the conduct of a business or profession:

- (i) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- (ii) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*: **DNB**) or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) acting through a branch office in The Netherlands;
- (iii) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;

- (iv) the Dutch government (*de Staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, international treaty organisations and supranational organisations;
- (v) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes;
- (vi) Netherlands enterprises, entities or natural persons with a net equity (*eigen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- (vii) Netherlands subsidiaries of the entities referred to under (i) above provided such subsidiaries are subject to prudential supervision;
- (viii) Netherlands enterprises or the entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (ix) such other entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

All Notes shall bear the following legend:

THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO OR WHICH ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (**DUTCH RESIDENTS**) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION PURSUANT TO THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 (AS AMENDED) (**PMPs**).

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS A PMP AND IS ACQUIRING THIS NOTE (OR ANY INTEREST THEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST THEREIN), BY PURCHASING THIS NOTE (OR ANY INTEREST THEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) THIS NOTE (OR ANY INTEREST THEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY DUTCH RESIDENT OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT FOR THE ACCOUNT OF ANOTHER PMP AND THAT (2) IT WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.

### **Italy**

The offer of the Notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of the offering circular or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (a) to professional investors (*operatori qualificanti*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998, as amended; or
- (b) in circumstances which are exempted from the rules on solicitations of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999, as amended.

Any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the **Banking Act**); and

- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (iii) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB or the Bank of Italy.

### **Spain**

Each Manager has represented and agreed that the proposed offer of the Notes has not been registered with the Spanish *Comision Nacional del Mercado de Valores*. Accordingly, Each Manager has represented and agreed that Notes have not and will not be offered, sold, distributed or proposed in Spain nor any document or offer material be distributed in Spain or targeted to Spanish resident investors (including any legal entity set up, incorporated, domiciled or resident in the Kingdom of Spain), save in compliance and in accordance with the provisions of the Spanish Security Markets Act of 28th July, 1998 (*Ley 24/1998 de 28 de julio, del Mercado de Valores*), as amended, and the Royal Decree 291/1992 dated 27th March, 1992 (*Real Decreto 291/1992 de 27 de marzo sobre Emisiones y Ofertas Públicas de Valores*) as amended and restated or as further amended, supplemented or restated from time to time.

### **General**

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

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by the Initial Purchasers

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 in the United States or to, or for the account or benefit of, U.S. Persons except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. Accordingly, the Notes (and any interests therein) are being offered and sold: (1) in the case of Dollar Notes only, in the United States only to QIBs in transactions exempt from the registration requirements of the Securities Act pursuant to Rule 144A and in accordance with any State securities laws; and (2) outside the United States to non-U.S. Persons in compliance with Regulation S.

The Global Certificates (except for the Rule 144A Global Certificates in respect of the Rule 144A Notes) may be transferred only to another common depository for Euroclear and Clearstream, Luxembourg and, in the case of the Rule 144A Global Certificates in respect of the Rule 144A Notes, only to another custodian for DTC or DTC's nominee.

On or prior to the end of the Distribution Compliance Period, ownership of interests in a Regulation S Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg and any sale or transfer of such interests to U.S. Persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

### Investors' Representations and Restrictions on Resale

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any purchaser of beneficial interests in the Notes, including interests represented by a Global Certificate and book-entry interests) will be deemed to have represented and agreed as follows:

- (1) (A) it is a QIB and is acquiring such Notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) for investment purposes and not for distribution in violation of the Securities Act, and it is able to bear the economic risk of an investment in the Notes and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of purchasing the Notes; or (B) it is not a U.S. Person and is acquiring such Notes for its own account or as a fiduciary or agent for other non-U.S. Persons in an offshore transaction (as defined in Regulation S, an **offshore transaction**) pursuant to Regulation S;
- (2) 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 Rule 144A Notes, then it agrees that it will resell or transfer such Notes only: (A) so long as such Notes are eligible for resale pursuant to Rule 144A, to a person whom the Seller reasonably believes is a QIB acquiring the Rule 144A Notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) to whom notice is given that the resale or other transfer is being made in reliance on Rule 144A; (B) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available); (C) to a purchaser 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 (D) 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;
- (3) unless the relevant legend set out below has been removed from the Global Certificates, such purchaser shall notify each transferee of Notes (as applicable) from it that: (A) such Notes have not been registered under the Securities Act; (B) the holder of Rule 144A Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (2) above; (C) such transferee shall be deemed to have represented: (i) as to its status as a QIB or a purchaser acquiring the Notes in an offshore transaction (as the case may be); (ii) if such transferee is a QIB, that such transferee is acquiring the Notes for its own account or as a fiduciary or agent for others (which others must also be QIBs); (iii) if such purchaser is acquiring the Notes in an offshore transaction, that such transfer is made pursuant to Rule 903 or Rule 904 of Regulation

S, and (iv) that such transferee is not an underwriter within the meaning of Section 2(11) of the Securities Act; and (D) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;

- (4) each purchaser and subsequent transferee of any Rule 144A Note will be deemed by such purchase or acquisition of any such Rule 144A Note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Rule 144A Note through and including the date on which the purchaser or transferee disposes of such Rule 144A Note, either that (A) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or section 4975 of the Code or (B) its purchase, holding and disposition of such Rule 144A Note will not result in a prohibited transaction under section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available; and
- (5) each purchaser and subsequent transferee of any Regulation S Note will be deemed by such purchase or acquisition of any such Regulation S Note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Regulation S Note through and including the date on which the purchaser or transferee disposes of such Regulation S Note, that it is not and will not be a Plan and that in purchasing and holding the Regulation S Note it is not and will not be acting on behalf of a Plan or using assets of a Plan.

The Regulation S Global Certificates that represent interests sold outside the United States to purchasers that are not U.S. Persons in compliance with Regulation S will bear a legend to the following effect:

“THE NOTE REPRESENTED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, 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, 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) 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. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS THAT NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED.”

Set out below is a form of notice which may be used to notify the transferees of the foregoing restrictions on transfer. Such notice will be set out in the form of a legend on each Rule 144A Global Certificate. Additional copies of such notice may be obtained from the Principal Paying Agent, the Registrar or the Transfer Agent.

“THE NOTE REPRESENTED HEREBY HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED OR SOLD IN VIOLATION OF THE SECURITIES ACT OR SUCH STATE LAWS. THIS NOTE MAY BE TRANSFERRED ONLY IN INITIAL PRINCIPAL AMOUNTS OF \$1,000 AND \$10,000 AND INTEGRAL MULTIPLES EACH THEREOF. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS THAT IT WILL RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE, ONLY (A) (1) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A (A

“QUALIFIED INSTITUTIONAL BUYER”), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST BE QUALIFIED INSTITUTIONAL BUYERS) TO WHOM NOTICE IS GIVEN THAT THE RESALE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (3) TO A PERSON WHO IS NOT A U.S. PERSON (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT), AND WHO IS NOT ACQUIRING THE NOTE FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, OUTSIDE THE UNITED STATES IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND (B) WITH RESPECT TO THE NOTES, TO A PURCHASER WITH RESPECT TO WHOM (X) NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), OR (Y) PART OR ALL OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTE ASSETS OF AN EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE IF AND ONLY IF THE USE OF SUCH ASSETS WILL NOT CONSTITUTE, CAUSE OR RESULT IN THE OCCURRENCE OF A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE PROVIDED THAT THE AGREEMENT OF THE HOLDER HEREOF 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. THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES UNDERTAKEN OR REPRESENTED BY THE HOLDER, FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO REALES OR OTHER TRANSFERS OR RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND ANY BENEFICIAL OWNER OF ANY INTEREST THEREIN SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON) AND AGREES TO TRANSFER THIS NOTE ONLY IN ACCORDANCE WITH ANY SUCH AMENDMENT OR SUPPLEMENT IN ACCORDANCE WITH APPLICABLE LAW IN EFFECT AT THE DATE OF SUCH TRANSFER.”

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A.

*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.*

## THE SUPPLEMENT

*This supplement is qualified in its entirety by, and should be read in conjunction with, the information appearing elsewhere in this document.*

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## THE PARTIES TO THE TRANSACTION

<b>Issuer:</b>	Aire Valley Mortgages 2004 – 1 plc, a public company with limited liability incorporated under the laws of England and Wales with registered number 05154235 and having its registered office at Blackwell House, Guildhall Yard, London EC2V 5AE. See further – <i>The Issuer</i> .
<b>Issuer Cash Manager:</b>	Bradford & Bingley or such other issuer cash manager appointed pursuant to the Issuer Cash Management Agreement.
<b>Note Trustee:</b>	The Bank of New York, acting through its offices at 48th Floor, One Canada Square, London E14 5AL.
<b>Issuer Security Trustee:</b>	See further <i>Summary of Programme – The Parties</i> .
<b>Security Trustee:</b>	See further <i>Summary of Programme – The Parties</i> .
<b>Principal Paying Agent and Agent Bank:</b>	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ.
<b>US Paying Agent:</b>	HSBC Bank USA, National Association, acting through its offices at 452 Fifth Avenue, New York, NY10018-2706.
<b>Registrar:</b>	HSBC Bank USA, National Association, acting through its offices at 452 Fifth Avenue, New York, NY10018-2706.
<b>Transfer Agent:</b>	HSBC Bank USA, National Association, acting through its offices at 452 Fifth Avenue, New York, NY10018-2706.
<b>Issuer Dollar Currency Swap Provider:</b>	ABN AMRO Bank N.V., acting through its offices at 250 Bishopsgate, London EC2M 4AA. See further – <i>The Issuer Swap Providers</i> .
<b>Issuer Euro Currency Swap Providers:</b>	In respect of the Series 2 Class A2 Notes, the Series 2 Class B2 Notes and the Series 3 Class C2 Notes. Barclays Capital PLC, acting through its offices at 5 The North Colonnade, Canary Wharf, London E14 4BB and, in respect of the Series 3 Class A2 Notes, the Series 3 Class B2 Notes, the Series 3 Class C2 and the Series 3 Class D2 Notes, Credit Suisse First Boston International acting through its offices at One Cabot Square, London E14 4QJ. See further – <i>The Issuer Swap Providers</i> .
<b>Issuer Interest Rate Swap Provider, if any:</b>	Not applicable.
<b>Issuer Swap Guarantor, if any:</b>	Not applicable.
<b>Issuer Account Bank:</b>	HSBC Bank plc, acting through its offices at 8 Canada Square, London E14 5HQ.
<b>Issuer Corporate Services Provider:</b>	Structured Finance Management Limited, acting through its offices at Blackwell House, Guildhall Yard, London EC2V 5AE.
<b>Managers:</b>	Credit Suisse First Boston (Europe) Limited and HSBC Bank plc and also, but only in respect of the Series 2 Class A Notes and/or the Series 3 Class A Notes, ABN AMRO Bank N.V., Barclays Bank PLC, Citigroup Global Markets Limited and The Royal Bank of Scotland plc.

## KEY CHARACTERISTICS OF THE NOTES

### Series 1 Class A

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<b>Principal Amount:</b>	\$405,000,000
<b>Credit enhancement:</b>	Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the General Reserve Fund
<b>Interest Rate:</b>	One-month USD-LIBOR
<b>Scheduled Redemption Date:</b>	September 2005
<b>Interest Accrual Method:</b>	Actual/360
<b>Note Payment Dates:</b>	Monthly in arrear on the Note Payment Date falling in each consecutive month. If a Trigger Event occurs or the Issuer Security is enforced prior to the Note Payment Date falling in September 2005, interest and principal due and payable on the Series 1 Class A Notes will be payable quarterly in arrear on the Note Payment Dates falling in March, June, September and December in each year.
<b>First Note Payment Date:</b>	October 2004
<b>Final Maturity Date:</b>	September 2005
<b>Tax Treatment:</b>	Debt for United States federal income tax purposes, subject to the considerations contained in <i>United States Federal Income Taxation</i>
<b>ERISA Eligible:</b>	Yes, subject to the considerations in <i>United States ERISA Considerations</i>
<b>Application for Exchange Listing:</b>	UK Listing Authority and London Stock Exchange
<b>ISIN: (Reg S Notes)</b>	XS0202175294
<b>Common Code: (Reg S Notes)</b>	020217529
<b>CUSIP number: (Reg S Notes)</b>	N/A
<b>ISIN: (Rule 144A Notes)</b>	US00935MAA99
<b>Common Code: (Rule 144A Notes)</b>	020249714
<b>CUSIP number: (Rule 144A Notes)</b>	00935MAA9
<b>Expected ratings (S&amp;P/Moody's/Fitch):</b>	A-1+/P-1/F1+

	Series 2 Class A1	Series 2 Class A2	Series 2 Class A3	Series 2 Class B1	Series 2 Class B2	Series 2 Class C1	Series 2 Class C2
<b>Principal Amount:</b>	£250,000,000	€803,000,000	\$360,000,000	£20,000,000	€65,500,000	£20,000,000	€75,500,000
<b>Credit enhancement:</b>	Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class D Notes and the General Reserve Fund
<b>Interest Rate:</b>	Three-month LIBOR + margin	Three-month EURIBOR + margin	Three-month USD-LIBOR + margin	Three-month LIBOR + margin	Three-month EURIBOR + margin	Three-month LIBOR + margin	Three-month EURIBOR + margin
<b>Margin until Interest Period ending June 2011:</b>	0.17% p.a.	0.17% p.a.	0.18% p.a.	0.35% p.a.	0.33% p.a.	1.00% p.a.	0.95% p.a.
<b>Margin after Interest Period ending in June 2011:</b>	0.34% p.a.	0.34% p.a.	0.36% p.a.	0.70% p.a.	0.66% p.a.	2.00% p.a.	1.90% p.a.
<b>Scheduled Redemption Date(s):</b>	June 2007 and December 2007	June 2007 and December 2007	June 2007 and December 2007	N/A	N/A	N/A	N/A
<b>Interest Accrual Method:</b>	Actual/365	Actual/360	Actual/360	Actual/365	Actual/360	Actual/365	Actual/360
<b>Note Payment Dates:</b>	For the Series 2 Notes, quarterly in arrear on the Note Payment Dates falling in March, June, September and December in each year.						
<b>First Note Payment Date:</b>	December 2004	December 2004	December 2004	December 2004	December 2004	December 2004	December 2004
<b>Final Maturity Date:</b>	September 2034	September 2034	September 2034	September 2066	September 2066	September 2066	September 2066
<b>Tax Treatment:</b>	N/A	N/A	Debt for United States federal income tax purposes, subject to the considerations contained in <i>United States Federal Income Taxation</i>	N/A	N/A	N/A	N/A
<b>ERISA Eligible:</b>	N/A	N/A	Yes, subject to the considerations in <i>United States ERISA Considerations</i>	N/A	N/A	N/A	N/A
<b>Application for Exchange Listing:</b>	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange
<b>ISIN: (Reg S Notes)</b>	XS0201864377	XS0201878674	XS0201881629	XS0201882270	XS0201882510	XS0201882940	XS0201883088
<b>Common Code: (Reg S Notes)</b>	020186437	020187867	020188162	020188227	020188251	020188294	020188308
<b>CUSIP number: (Reg S Notes)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>ISIN: (Rule 144A Notes)</b>	N/A	N/A	US00935MAB72	N/A	N/A	N/A	N/A
<b>Common Code: (Rule 144A Notes)</b>	N/A	N/A	020249811	N/A	N/A	N/A	N/A
<b>CUSIP number: (Rule 144A Notes)</b>	N/A	N/A	0935MAB7	N/A	N/A	N/A	N/A
<b>Expected ratings (S&amp;P/Moody's/Fitch):</b>	AAA/Aaa/AAA	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	AA/Aa3/AA	BBB/Baa2/BBB	BBB/Baa2/BBB

	Series 3 Class A1	Series 3 Class A2	Series 3 Class B1	Series 3 Class B2	Series 3 Class C1	Series 3 Class C2	Series 3 Class D1	Series 3 Class D2
<b>Principal Amount:</b>	£215,000,000	€460,000,000	£20,000,000	€25,000,000	£20,000,000	€31,000,000	£15,000,000	€22,000,000
<b>Credit enhancement:</b>	Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class B Notes, the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class C Notes, the Class D Notes and the General Reserve Fund	Subordination of the Class D Notes and the General Reserve Fund	Subordination of the Class D Notes and the General Reserve Fund	Subordination of the General Reserve Fund	Subordination of the General Reserve Fund
<b>Interest Rate:</b>	Three-month LIBOR + margin	Three-month EURIBOR + margin	Three-month LIBOR + margin	Three-month EURIBOR + margin	Three-month LIBOR + margin	Three-month EURIBOR + margin	Three-month LIBOR + margin	Three-month EURIBOR + margin
<b>Margin until Interest Period ending June 2011:</b>	0.20% p.a.	0.21% p.a.	0.40% p.a.	0.38% p.a.	1.05% p.a.	1.05% p.a.	3.25% p.a.	3.25% p.a.
<b>Margin after Interest Period ending June 2011:</b>	0.40% p.a.	0.42% p.a.	0.80% p.a.	0.76% p.a.	2.05% p.a.	2.05% p.a.	4.25% p.a.	4.25% p.a.
<b>Scheduled Redemption Date(s):</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Interest Accrual Method:</b>	Actual/365	Actual/360	Actual/365	Actual/360	Actual/365	Actual/360	Actual/365	Actual/360
<b>Note Payment Dates:</b>	For the Series 3 Notes, quarterly in arrear on the Note Payment Dates falling in March, June, September and December in each year.							
<b>First Note Payment Date:</b>	December 2004	December 2004	December 2004	December 2004	December 2004	December 2004	December 2004	December 2004
<b>Final Maturity Date:</b>	September 2066	September 2066	September 2066	September 2066	September 2066	September 2066	September 2066	September 2066
<b>Tax Treatment:</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>ERISA Eligible:</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Application for Exchange Listing:</b>	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange	UK Listing Authority and London Stock Exchange
<b>ISIN (Reg S Notes):</b>	XS0201883328	XS0201883674	XS0201883914	XS0201884300	XS0201884649	XS0201885026	XS0201885455	XS0202219258
<b>Common Code (Reg S Notes):</b>	020188332	020188367	020188391	020188430	020188464	020188502	020188545	020221925
<b>CUSIP number: (Reg S Notes)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>ISIN: (Rule 144A Notes)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Common Code: (Rule 144A Notes)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>CUSIP number: (Rule 144A Notes)</b>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Expected ratings (S&amp;P/Moody's/Fitch):</b>	AAA/Aaa/AAA	AAA/Aaa/AAA	AA/Aa3/AA	AA/Aa3/AA	BBB/Baa2/BBB	BBB/Baa2/BBB	BB/Ba1/BB	BB/Ba1/BB

## TRANSACTION FEATURES

### 1. The Notes

**Closing Date:**

On or about 5th October, 2004

**Description of the Notes:**

On the Closing Date, the Issuer will issue the following series of Notes pursuant to the Note Trust Deed:

- USD 405,000,000 Series 1 Class A Asset Backed Floating Rate Notes due September 2005;
- GBP 250,000,000 Series 2 Class A1 Asset Backed Floating Rate Notes due September 2034;
- EUR 803,000,000 Series 2 Class A2 Asset Backed Floating Rate Notes due September 2034;
- USD 360,000,000 Series 2 Class A3 Asset Backed Floating Rate Notes due September 2034;
- GBP 20,000,000 Series 2 Class B1 Asset Backed Floating Rate Notes due September 2066;
- EUR 65,500,000 Series 2 Class B2 Asset Backed Floating Rate Notes due September 2066;
- GBP 20,000,000 Series 2 Class C1 Asset Backed Floating Rate Notes due September 2066;
- EUR 75,500,000 Series 2 Class C2 Asset Backed Floating Rate Notes due September 2066;
- GBP 215,000,000 Series 3 Class A1 Asset Backed Floating Rate Notes due September 2066;
- EUR 460,000,000 Series 3 Class A2 Asset Backed Floating Rate Notes due September 2066;
- GBP 20,000,000 Series 3 Class B1 Asset Backed Floating Rate Notes due September 2066;
- EUR 25,000,000 Series 3 Class B2 Asset Backed Floating Rate Notes due September 2066;
- GBP 20,000,000 Series 3 Class C1 Asset Backed Floating Rate Notes due September 2066;
- EUR 31,000,000 Series 3 Class C2 Asset Backed Floating Rate Notes due September 2066;
- GBP 15,000,000 Series 3 Class D1 Asset Backed Floating Rate Notes due September 2066; and
- EUR 22,000,000 Series 3 Class D2 Asset Backed Floating Rate Notes due September 2066.

**Interest on the Notes:**

Interest on the Notes is payable by reference to successive Interest Periods. The first Interest Period will commence on (and include) the Closing Date and end on (but exclude) the Note Payment Date falling in (in the case of the Series 1 Class A Notes) October 2004 or (in the case of the Series 2 Notes and the Series 3 Notes) December 2004. Each successive Interest Period will (subject to adjustment as specified herein for non-business days) commence on (and include) the next (or first) Note Payment Date and end on (but exclude) the following Note Payment Date.

Interest on the Dollar Notes will (except for the first Interest Period) accrue at an annual rate equal to USD-LIBOR for (in the case of the Series 1 Class A Notes) one-month dollar deposits and (in the case of all other Dollar Notes) three-month dollar deposits plus a specified margin applicable until the Note Payment Date (except in the case of the Series 1 Class A Notes) in June 2011 and thereafter at a different specified margin.

Interest on the Euro Notes will (except for the first Interest Period) accrue at an annual rate equal to EURIBOR for three-month euro deposits plus a specified margin applicable until the Note Payment Date in June 2011 and thereafter at a different specified margin.

Interest on the Sterling Notes will (except for the first Interest Period) accrue at an annual rate equal to LIBOR for three-month sterling deposits plus a specified margin applicable until the Note Payment Date in June 2011 and thereafter at a different specified margin.

See further – *Key Characteristics of the Notes* and Condition 5 of the Notes for the rates of interest and margins applicable to the Notes.

**Note Payment Dates:**

The Note Payment Dates on the Notes are as follows:

- in relation to the Series 1 Class A Notes, the 20th day of each consecutive month in each year up to and including the earliest of (i) the Note Payment Date in September 2005, (ii) the occurrence of a Trigger Event, or (iii) enforcement of the Issuer Security and, thereafter, the 20th day of March, June, September and December in each year; and
- in all other cases, the 20th day of March, June, September and December in each year,

or, in each of the preceding cases, if such day is not a Business Day, the next succeeding Business Day.

**Step-Up Date:**

20th June, 2011

**Interest Determination Date:**

The Interest Determination Dates in respect of the Notes are set out in – *Terms and Conditions of the Notes*.

**Final Maturity Date:**

The Notes will mature on the Note Payment Date (each such date a **Final Maturity Date**) falling:

- in the case of the Series 1 Class A Notes, in September 2005;
- in the case of the Series 2 Class A1 Notes, in September 2034;
- in the case of the Series 2 Class A2 Notes, in September 2034;
- in the case of the Series 2 Class A3 Notes, in September 2034;
- in the case of the Series 2 Class B1 Notes, in September 2066;
- in the case of the Series 2 Class B2 Notes, in September 2066;
- in the case of the Series 2 Class C1 Notes, in September 2066;
- in the case of the Series 2 Class C2 Notes, in September 2066;
- in the case of the Series 3 Class A1 Notes, in September 2066;
- in the case of the Series 3 Class A2 Notes, in September 2066;
- in the case of the Series 3 Class B1 Notes, in September 2066;
- in the case of the Series 3 Class B2 Notes, in September 2066;
- in the case of the Series 3 Class C1 Notes, in September 2066;
- in the case of the Series 3 Class C2 Notes, in September 2066;
- in the case of the Series 3 Class D1 Notes, in September 2066; and
- in the case of the Series 3 Class D2 Notes, in September 2066.

**Payment of the Notes:**

Unless an Asset Trigger Event or a Non-Asset Trigger Event has occurred or the Issuer Security or the Funding 1 Security has been enforced:

- the Series 1 Class A Notes will be redeemed in full on the Note Payment Date falling in September 2005;

- the Series 2 Class A1 Notes will be redeemed in two equal instalments on the Note Payment Date falling in June 2007 and December 2007;
- the Series 2 Class A2 Notes will be redeemed in two equal instalments on the Note Payment Date falling in June 2007 and December 2007;
- the Series 2 Class A3 Notes will be redeemed in two equal instalments on the Note Payment Date falling in June 2007 and December 2007;
- the Series 2 Class B1 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 2 Class A Notes have been redeemed in full;
- the Series 2 Class B2 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 2 Class A Notes have been redeemed in full;
- the Series 2 Class C1 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 2 Class B Notes have been redeemed in full;
- the Series 2 Class C2 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 2 Class B Notes have been redeemed in full;
- the Series 3 Class A1 Notes will be redeemed in full or in part on or after the Note Payment Date falling in June 2011;
- the Series 3 Class A2 Notes will be redeemed in full or in part on or after the Note Payment Date falling in June 2011;
- the Series 3 Class B1 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 3 Class A Notes have been redeemed in full;
- the Series 3 Class B2 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 3 Class A Notes have been redeemed in full;
- the Series 3 Class C1 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 3 Class B Notes have been redeemed in full;
- the Series 3 Class C2 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 3 Class B Notes have been redeemed in full;
- the Series 3 Class D1 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 3 Class C Notes have been redeemed in full; and
- the Series 3 Class D2 Notes will be redeemed in full or in part on each Note Payment Date falling on or after the Note Payment Date on which all the Series 3 Class C Notes have been redeemed in full.

**Scheduled Redemption of the Class A Notes:**

Funding 1 will seek to accumulate funds relating to principal payments of the Series 1 Class A Term Advance as a lump sum payment to the Issuer to enable the Issuer to redeem in full the Series 1 Class A Notes on the Note Payment Date falling in September 2005.

Funding 1 will also seek to accumulate sufficient funds relating to principal payments of the Series 2 Term Advances to enable the Issuer to repay the following Controlled Amortisation Instalments:

- the Series 2 Class A1 Notes in two equal instalments of £125,000,000 each on the Note Payment Dates falling in June 2007 and December 2007;
- the Series 2 Class A2 Notes in two equal instalments of €401,500,000 each on the Note Payment Dates falling in June 2007 and December 2007; and
- the Series 2 Class A3 Notes in two equal instalments of \$180,000,000 each on the Note Payment Dates falling in June 2007 and December 2007.

Each such date on which the Class A Notes are due is a **Scheduled Redemption Date**.

**Rating of the Notes:**

It is expected that, when issued, the Notes will be assigned the ratings set out above in – *Key Characteristics of the Notes – Expected Ratings*.

**Issue Price:**

100 per cent.

**Commissions:**

The Issuer will pay to the Managers an amount of £2,263,636 of commissions with respect to the aggregate principal amount of the Notes as further described in *Subscription and Sale*.

## **2. The Term Advances**

**Description of the Term Advances:**

On the Closing Date, the Issuer will make the Intercompany Loan to Funding 1 in an amount equal to the gross proceeds received by the Issuer from the issue of the Notes (and after making appropriate currency exchanges pursuant to the terms of the Issuer Currency Swaps).

The Intercompany Loan will consist of the following Term Advances:

- the Series 1 Class A Term Advance in an aggregate principal amount of £225,000,000, which will be funded by the Series 1 Class A Notes;
- the Series 2 Class A1 Term Advance in an aggregate principal amount of £250,000,000, which will be funded by the Series 2 Class A1 Notes;
- the Series 2 Class A2 Term Advance in an aggregate principal amount of £550,000,000, which will be funded by the Series 2 Class A2 Notes;
- the Series 2 Class A3 Term Advance in an aggregate principal amount of £200,000,000, which will be funded by the Series 2 Class A3 Notes;
- the Series 2 Class B1 Term Advance in an aggregate principal amount of £20,000,000, which will be funded by the Series 2 Class B1 Notes;
- the Series 2 Class B2 Term Advance in an aggregate principal amount of £44,900,000, which will be funded by the Series 2 Class B2 Notes;

- the Series 2 Class C1 Term Advance in an aggregate principal amount of £20,000,000, which will be funded by the Series 2 Class C1 Notes;
- the Series 2 Class C2 Term Advance in an aggregate principal amount of £51,800,000, which will be funded by the Series 2 Class C2 Notes;
- the Series 3 Class A1 Term Advance in an aggregate principal amount of £215,000,000, which will be funded by the Series 3 Class A1 Notes;
- the Series 3 Class A2 Term Advance in an aggregate principal amount of £315,000,000, which will be funded by the Series 3 Class A2 Notes;
- the Series 3 Class B1 Term Advance in an aggregate principal amount of £20,000,000, which will be funded by the Series 3 Class B1 Notes;
- the Series 3 Class B2 Term Advance in an aggregate principal amount of £17,000,000, which will be funded by the Series 3 Class B2 Notes;
- the Series 3 Class C1 Term Advance in an aggregate principal amount of £20,000,000, which will be funded by the Series 3 Class C1 Notes;
- the Series 3 Class C2 Term Advance in an aggregate principal amount of £21,300,000, which will be funded by the Series 3 Class C2 Notes;
- the Series 3 Class D1 Term Advance in an aggregate principal amount of £15,000,000, which will be funded by the Series 3 Class D1 Notes; and
- the Series 3 Class D2 Term Advance in an aggregate principal amount of £15,000,000, which will be funded by the Series 3 Class D2 Notes.

**Use of Proceeds of the Intercompany Loan:**

Funding 1 will apply the proceeds of the Intercompany Loan to make an Initial Contribution to the Mortgages Trustee in respect of the Funding 1 Share of the Trust Property (which sum will be applied by the Mortgages Trustee to pay the Initial Purchase Price to the Seller in relation to the sale of the Trust Property on the Closing Date).

**Interest on the Term Advances:**

Details of the interest payable on the Term Advances are set out in *Table A – Characteristics of the Term Advances*.

**Step-Up Date:**

20th June, 2011.

**Final Repayment Date:**

The Final Repayment Date in respect of the Term Advances is the Funding 1 Payment Date falling in (in respect of the Series 1 Class A Term Advances) September 2005, (in respect of the Series 2 Class A Term Advances) September 2034 and (in respect of all other Term Advances) September 2066.

**Payment of the Term Advances:**

Under the terms of the Intercompany Loan Agreement, Funding 1 is required, prior to the occurrence of a Trigger Event or enforcement of the Funding 1 Security or the Issuer Security, to:

- repay the Series 1 Class A Term Advance on the Funding 1 Payment Date falling in September 2005;
- repay the Series 2 Class A1 Term Advances in an amount equal to the applicable Controlled Amortisation Instalments due on the Funding 1 Payment Dates falling in June 2007 and December 2007, but to the extent there are insufficient funds to repay a Controlled Amortisation Instalment according to

the repayment schedule on the relevant Funding 1 Payment Date, the shortfall shall be repaid on subsequent Funding 1 Payment Dates to the extent of Funding 1 Available Principal Receipts available for that purpose, until the Series 2 Class A1 Term Advances are fully repaid;

- repay the Series 2 Class A2 Term Advances in an amount equal to the applicable Controlled Amortisation Instalments due on the Funding 1 Payment Dates falling in June 2007 and December 2007, but to the extent there are insufficient funds to repay a Controlled Amortisation Instalment according to the repayment schedule on the relevant Funding 1 Payment Date, the shortfall shall be repaid on subsequent Funding 1 Payment Dates to the extent of Funding 1 Available Principal Receipts available for that purpose, until the Series 2 Class A2 Term Advances are fully repaid;
- repay the Series 2 Class A3 Term Advances in an amount equal to the applicable Controlled Amortisation Instalments due on the Funding 1 Payment Dates falling in June 2007 and December 2007, but to the extent there are insufficient funds to repay a Controlled Amortisation Instalment according to the repayment schedule on the relevant Funding 1 Payment Date, the shortfall shall be repaid on subsequent Funding 1 Payment Dates to the extent of Funding 1 Available Principal Receipts available for that purpose, until the Series 2 Class A3 Term Advances are fully repaid;
- repay the Series 2 Class B1 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 2 Class A Term Advances have been fully repaid;
- repay the Series 2 Class B2 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 2 Class A Term Advances have been fully repaid;
- repay the Series 2 Class C1 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 2 Class B Term Advances have been fully repaid;
- repay the Series 2 Class C2 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 2 Class B Term Advances have been fully repaid;
- repay the Series 3 Class A1 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date falling in June 2011 until the Series 3 Class A1 Term Advance is fully repaid;
- repay the Series 3 Class A2 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date falling in June 2011 until the Series 3 Class A2 Term Advance is fully repaid;

- repay the Series 3 Class B1 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 3 Class A1 Term Advance and the Series 3 Class A2 Term Advance have been fully repaid;
- repay the Series 3 Class B2 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 3 Class A1 Term Advance and the Series 3 Class A2 Term Advance have been fully repaid;
- repay the Series 3 Class C1 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 3 Class B1 Term Advance and the Series 3 Class B2 Term Advance have been fully repaid;
- repay the Series 3 Class C2 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 3 Class B1 Term Advance and the Series 3 Class B2 Term Advance have been fully repaid;
- repay the Series 3 Class D1 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 3 Class C1 Term Advance and the Series 3 Class C2 Term Advance have been fully repaid; and
- repay the Series 3 Class D2 Term Advance to the extent of Funding 1 Available Principal Receipts available for that purpose on each Funding 1 Payment Date on or after the Funding 1 Payment Date on which the Series 3 Class C1 Term Advance and the Series 3 Class C2 Term Advance have been fully repaid.

**Scheduled Repayment of the Class A Term Advances:**

The repayment schedule for the Series 1 Class A Term Advance and the Series 2 Class A Term Advances is as follows:

- in respect of the Series 1 Class A Term Advance, the sum of £225,000,000 is due on the Funding 1 Payment Date falling in September 2005;
- in respect of the Series 2 Class A1 Term Advance, two equal instalments of £125,000,000 each is due on the Funding 1 Payment Dates falling in June 2007 and December 2007;
- in respect of the Series 2 Class A2 Term Advance, two equal instalments of £275,000,000 each is due on the Funding 1 Payment Dates falling in June 2007 and December 2007; and
- in respect of the Series 2 Class A3 Term Advance, two equal instalments of £100,000,000 each is due on the Funding 1 Payment Dates falling in June 2007 and December 2007;

Each such date on which the Series 1 Class A Term Advances and the Series 2 Class A Term Advances are due is a **Scheduled Repayment Date**. See further *Table B – Information relating to Programme Cash Accumulation Advances*.

**Other Scheduled Repayment Dates:**

Not applicable.

**Due and payable dates:**

Unless a Trigger Event occurs, the Issuer Security is enforced or the Funding 1 Security is enforced, the Term Advances will become due and payable, as described in *Cashflows of Funding 1 – Due and payable dates of Term Advances*, on the following dates:

- in relation to the Series 1 Class A Term Advance, the Funding 1 Payment Date falling in September 2005; and
- in relation to the Series 2 Class A1 Term Advances, the Funding 1 Payment Date falling in June 2007 in respect of the first Controlled Amortisation Instalment and December 2007 in respect of the second Controlled Amortisation Instalment;
- in relation to the Series 2 Class A2 Term Advances, the Funding 1 Payment Date falling in June 2007 in respect of the first Controlled Amortisation Instalment and December 2007 in respect of the second Controlled Amortisation Instalment;
- in relation to the Series 2 Class A3 Term Advance, the Funding 1 Payment Date falling in June 2007 in respect of the first Controlled Amortisation Instalment and December 2007 in respect of the second Controlled Amortisation Instalment;
- in relation to the Series 3 Class A1 Term Advance, the Funding 1 Payment Date falling in June 2011;
- in relation to the Series 3 Class A2 Term Advance, the Funding 1 Payment Date falling in June 2011;
- in relation to the Series 2 Class B1 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 2 Class A1 Term Advance, the Series 2 Class A2 Term Advance and the Series 2 Class A3 Term Advance have been fully repaid;
- in relation to the Series 2 Class B2 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 2 Class A1 Term Advance, the Series 2 Class A2 Term Advance and the Series 2 Class A3 Term Advance have been fully repaid;
- in relation to the Series 3 Class B1 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 3 Class A1 Term Advance and the Series 3 Class A2 Term Advance have been fully repaid;
- in relation to the Series 3 Class B2 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 3 Class A1 Term Advance and the Series 3 Class A2 Term Advance have been fully repaid;
- in relation to the Series 2 Class C1 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 2 Class B1 Term Advance and the Series 2 Class B2 Term Advance have been fully repaid;
- in relation to the Series 2 Class C2 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 2 Class B1 Term Advance and the Series 2 Class B2 Term Advance have been fully repaid;
- in relation to the Series 3 Class C1 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 3 Class B1 Term Advance and the Series 3 Class B2 Term Advance have been fully repaid;
- in relation to the Series 3 Class C2 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which

the Series 3 Class B1 Term Advance and the Series 3 Class B2 Term Advance have been fully repaid;

- in relation to the Series 3 Class D1 Term Advance, the Funding 1 Payment Date falling **on or after** the date on which the Series 3 Class C1 Term Advance and the Series 3 Class C2 Term Advance have been fully repaid; and
- in relation to the Series 3 Class D2 Term Advance, the Funding 1 Payable Date falling **on or after** the date on which the Series 3 Class C1 Term Advance and the Series 3 Class C2 Term Advance have been fully repaid.

### 3. The Mortgages Trust

**Initial Purchase Price:**

The Initial Purchase Price payable by the Mortgages Trustee to the Seller for the sale of the Initial Portfolio will be £2 billion.

**Minimum Seller Share:**

As at the Closing Date, the Minimum Seller Share will be approximately £475,000,000.

**Minimum Trust Size:**

During the period from and including the Closing Date to, but excluding, the Funding 1 Payment Date falling in December 2007, the Current Balance of the Loans in the Mortgages Trust will be not less than £7 billion and during the period from and including the Funding 1 Payment Date falling in December 2007 to, but excluding, the Funding 1 Payment Date falling in June 2011, the Current Balance of the Loans in the Mortgages Trust will be not less than £5.5 billion. During the period from and including the Funding 1 Payment Date falling in June 2011, the Current Balance of the Loans in the Mortgages Trust will not be less than £3 billion. The Minimum Trust Size may go up or down after the Closing Date.

**Seller Share/Seller Share Percentage:**

As at the Closing Date, the Seller Share will be approximately £7.05 billion and the Seller Share Percentage will be approximately 77.9 per cent.

**Funding 1 Share/Funding 1 Share Percentage:**

As at the Closing Date, the Funding 1 Share will be approximately £2 billion and the Funding 1 Share Percentage will be approximately 22.1 per cent.

**Funding 2 Share/Funding 2 Share Percentage:**

As at the Closing Date, the Funding 2 Share will be approximately £25 and the Funding 2 Share Percentage will be approximately 0.001 per cent.

**Funding 3 Share/Funding 3 Share Percentage:**

As at the Closing Date, the Funding 3 Share will be approximately £25 and the Funding 3 Share Percentage will be approximately 0.001 per cent.

**Cash Accumulation Advances:**

Details of the Class A Term Advances which are Cash Accumulation Advances are set out in *Table B – Information relating to Programme Cash Accumulation Advances*.

**Relevant Accumulation Amounts:**

Details of the Relevant Accumulation Amounts payable in respect of the Class A Term Advances are set out in *Table B – Information relating to Programme Cash Accumulation Advances*.

**Funding 1 Minimum Cash Accumulation Period:**

In respect of the Series 1 Class A Term Advance made to Funding 1, six months prior to the applicable Scheduled Repayment Date and, in respect of the Series 2 Class A Term Advances, three months prior to the applicable Scheduled Repayment Date.

### 4. Credit Structure

**General Reserve Fund:**

The portion of the Start-Up Loan used to fund the General Reserve Fund on the Closing Date is £18,000,000.

**General Reserve Fund Required Amount:**

£30,000,000.

**Additional Reserve Fund:** Not applicable.

**Start-Up Loan:** The Start-Up Loan is in an amount of £21,900,000. The Start-Up Loan will bear interest until but excluding the Funding 1 Payment Date ending in June 2011, at the rate of LIBOR for three-month sterling deposits plus 3.25 per cent. per annum and from and including the Funding 1 Payment Date in June 2011 at the rate of LIBOR for three-month sterling deposits at 4.25 per cent. per annum. For the first Interest Period, LIBOR will be determined on the basis of a linear interpolation between LIBOR for two-month and three-month sterling deposits.

**Previous Start-Up Loans:** Not applicable.

## 5. Tables

**Table A – Characteristics of the Term Advances**

<u>Series name</u>	<u>Designated Term Advance Rating</u>	<u>Initial principal amount of each Term Advance</u>	<u>Initial margin up to Step-Up Date per annum</u>	<u>Margin after Step-Up Date per annum</u>	<u>Final Repayment Date</u>
Series 1 Class A	AAA	£225,000,000	0.10%	N/A	September 2005
Series 2 Class A1	AAA	£250,000,000	0.17%	0.34%	September 2034
Series 2 Class A2	AAA	£550,000,000	0.19%	0.39%	September 2034
Series 2 Class A3	AAA	£200,000,000	0.21%	0.41%	September 2034
Series 2 Class B1	AA	£20,000,000	0.35%	0.70%	September 2066
Series 2 Class B2	AA	£44,900,000	0.39%	0.77%	September 2066
Series 2 Class C1	BBB	£20,000,000	1.00%	2.00%	September 2066
Series 2 Class C2	BBB	£51,800,000	1.04%	2.09%	September 2066
Series 3 Class A1	AAA	£215,000,000	0.20%	0.40%	September 2066
Series 3 Class A2	AAA	£315,000,000	0.25%	0.50%	September 2066
Series 3 Class B1	AA	£20,000,000	0.40%	0.80%	September 2066
Series 3 Class B2	AA	£17,000,000	0.44%	0.89%	September 2066
Series 3 Class C1	BBB	£20,000,000	1.05%	2.05%	September 2066
Series 3 Class C2	BBB	£21,300,000	1.25%	2.43%	September 2066
Series 3 Class D1	BB	£15,000,000	3.25%	4.25%	September 2066
Series 3 Class D2	BB	£15,000,000	3.60%	5.56%	September 2066

The margins indicated in relation to a Term Advance in the above table are in addition to a base rate of three month LIBOR.

The initial margin indicated in relation to a Term Advance in the above table will apply to that Term Advance for each Funding 1 Interest Period to and including the Funding 1 Interest Period which ends on the Step-Up Date.

The stepped-up margin indicated in relation to a Term Advance in the above table will apply to that Term Advance for each Funding 1 Interest Period from and including the Funding 1 Interest Period which starts on the Step-Up Date.

**Table B – Information relating to Programme Cash Accumulation Advances**

The following table sets out the **Scheduled Repayment Dates** (being the Funding 1 Payment Date falling in the indicated month) and the **Relevant Accumulation Amount** in relation to each Programme Cash Accumulation Advance:

<u>Cash Accumulation Advance</u>	<u>Scheduled Repayment Dates</u>	<u>Relevant Accumulation Amount(s)</u>
<b>Advances made by the Issuer</b>		
Series 1 Class A Term Advance . . . . .	September 2005	£225,000,000
Series 2 Class A1 Term Advance. . . . .	June 2007 and December 2007	£125,000,000
Series 2 Class A2 Term Advance. . . . .	June 2007 and December 2007	£275,000,000
Series 2 Class A3 Term Advance. . . . .	June 2007 and December 2007	£100,000,000
<b>Advances made by Previous Issuers . . .</b>	Not applicable	Not applicable
Any Bullet Term Advance in respect of a New Issuer . . . . .	as indicated in the relevant offering circular	the principal amount of that Bullet Term Advance
Any Controlled Amortisation Instalment in respect of a New Issuer	as indicated in the relevant offering circular	the principal amount of that Controlled Amortisation Instalment

**PREVIOUS NOTES**

None issued.

## USE OF PROCEEDS

The net proceeds of the issuance of the Notes will equal approximately £2 billion (after making appropriate currency exchanges under the Issuer Currency Swaps in the case of Dollar Notes and Euro Notes) and will be applied by the Issuer to make Term Advances to Funding 1 in accordance with the terms of the Intercompany Loan Agreement. The net proceeds of the issuance of the Notes will equal the gross proceeds of the Notes as (a) the commissions otherwise payable by the Issuer will be paid to the Managers on behalf of the Issuer by Funding 1 from part of the proceeds of the Start-Up Loan; and (b) the additional offering expenses otherwise payable by the Issuer in connection with the issuance of the Notes will be paid partly by the Seller and partly by the Managers on the Issuer's behalf (see *Subscription and Sale*).

## CASHFLOWS OF THE ISSUER

### Distribution of Issuer Revenue Receipts

**Issuer Revenue Receipts** will be calculated by the Issuer Cash Manager four Business Days prior to each Note Payment Date and will be an amount equal to the sum of:

- interest to be paid by Funding 1 on the relevant Funding 1 Payment Date in respect of the Term Advances under the Intercompany Loan;
- fees to be paid to the Issuer by Funding 1 on the relevant Funding 1 Payment Date under the terms of the Intercompany Loan;
- interest payable on the Issuer Bank Accounts and any Authorised Investments and which will be received on or before the relevant Note Payment Date in respect of the Notes;
- other net income of the Issuer including amounts received or to be received under the Issuer Swap Agreements on or before the relevant Note Payment Date (including any amount received by the Issuer in consideration for entering into a replacement issuer swap agreement but excluding (i) the return or transfer of any Excess Swap Collateral as set out under any of the Issuer Swap Agreements and (ii) in respect of each Issuer Swap Provider, prior to the designation of an early termination date under the relevant Issuer Swap Agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than Excess Swap Collateral) provided by such Issuer Swap Provider to the Issuer pursuant to the relevant Issuer Swap Agreement (and any interest or distributions in respect thereof)); and
- any additional amount the Issuer receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by an Issuer Swap Provider under an Issuer Swap Agreement.

### Distribution of Issuer Revenue Receipts prior to the service of a Note Acceleration Notice on the Issuer

The Issuer Cash Management Agreement sets out the order of priority of distribution by the Issuer Cash Manager, prior to the service of a Note Acceleration Notice on the Issuer, of amounts received by the Issuer on each Note Payment Date. As at the Closing Date, the order of priority will be as described in this section.

Except for amounts due to third parties by the Issuer under item (b) below or amounts due to the Issuer Account Bank under item (c) below, which shall be paid when due, on each applicable Note Payment Date the Issuer Cash Manager will apply Issuer Revenue Receipts according to the following **Issuer Pre-Enforcement Revenue Priority of Payments**:

- (a) *first, pari passu* and *pro rata* to pay amounts due to:
- the Issuer Security Trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due during the following Interest Period to the Issuer Security Trustee under the Issuer Deed of Charge;
  - the Note Trustee, together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due during the following Interest Period to the Note Trustee under the Note Trust Deed; and
  - the Agent Bank, the Paying Agents, the Registrar and the Transfer Agent, together with interest and any amount in respect of VAT on those amounts, and any costs, charges, liabilities and expenses then due or to become due during the following Interest Period to the Agent Bank, the Registrar, the Transfer Agent and the Paying Agents under the Paying Agent and Agent Bank Agreement;
- (b) *then*, to pay amounts due to any third party creditors of the Issuer (other than those referred to later in this order of priority of payments), which amounts have been incurred without breach by the Issuer of the Issuer Transaction Documents to which it is a party and for which payment has not been provided for elsewhere and to provide for any of those amounts expected to become due and payable during the following Interest Period by the Issuer and to pay or discharge any liability of the Issuer for corporation tax on any chargeable income or gain of the Issuer;

- (c) *then, pari passu and pro rata*, to pay amounts due to the Issuer Cash Manager, together with any amount in respect of VAT on those amounts, and to provide for any amounts due, or to become due to the Issuer Cash Manager in the immediately succeeding Interest Period, under the Issuer Cash Management Agreement and to the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement and to the Issuer Account Bank under the Issuer Bank Account Agreement;
- (d) *then, pari passu and pro rata*, to pay:
- on each Funding 1 Payment Date amounts due to the Issuer Dollar Currency Swap Provider in respect of the relevant Issuer Dollar Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the Issuer Dollar Currency Swap Provider to pay interest due and payable on the Series 1 Class A Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider to pay interest due and payable on the Series 2 Class A2 Notes;
  - amounts due to the Issuer Dollar Currency Swap Provider in respect of the relevant Issuer Dollar Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the Issuer Dollar Currency Swap Provider to pay interest due and payable on the Series 2 Class A3 Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the Issuer Euro Currency Swap Provider in relation to such swap to pay interest due and payable on the Series 3 Class A2 Notes;
  - interest due and payable on the Series 2 Class A1 Notes and the Series 3 Class A1 Notes;
- (e) *then, pari passu and pro rata*, to pay:
- amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in relation to such swap to pay interest due and payable on the Series 2 Class B2 Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in relation to such swap to pay interest due and payable on the Series 3 Class B2 Notes; and
  - interest due and payable on the Series 2 Class B1 Notes and the Series 3 Class B1 Notes;
- (f) *then, pari passu and pro rata*, to pay:
- amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in relation to such swap to pay interest due and payable on the Series 2 Class C2 Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in relation to such swap to pay interest due and payable on the Series 3 Class C2 Notes;
  - interest due and payable on the Series 2 Class C1 Notes and the Series 3 Class C1 Notes;
- (g) *then, pari passu and pro rata* to pay:
- interest due and payable on the Series 3 Class D1 Notes;

- amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in relation to such swap to pay interest due and payable on the Series 3 Class D2 Notes;
- (h) *then, pari passu and pro rata*, to pay any termination payment due (without double counting) to:
- the Issuer Dollar Currency Swap Provider as a result of an Issuer Swap Provider Default or an Issuer Swap Provider Downgrade Termination Event in respect of the Issuer Dollar Currency Swap Provider; and
  - each of the Issuer Euro Currency Swap Providers as a result of an Issuer Swap Provider Default or an Issuer Swap Provider Downgrade Termination Event in respect of such Issuer Euro Currency Swap Provider;
- (i) *then*, to the Issuer an amount equal to 0.01 per cent. of the interest received on the Term Advances, to be retained by the Issuer as profit; and
- (j) *finally*, the remaining moneys to the Issuer.

***Distribution of Issuer Revenue Receipts after the service of a Note Acceleration Notice on the Issuer but prior to the service of an Intercompany Loan Acceleration Notice on Funding 1***

Following the service of a Note Acceleration Notice on the Issuer under the Issuer Deed of Charge, but prior to the service of an Intercompany Loan Acceleration Notice on Funding 1 under the Funding 1 Deed of Charge, the Issuer Security Trustee will apply Issuer Revenue Receipts in the same order of priority as set out in the Issuer Pre-enforcement Revenue Priority of Payments, except that:

- in addition to the amounts due to the Issuer Security Trustee under item (a) of the Issuer Pre-Enforcement Revenue Priority of Payments, Issuer Revenue Receipts will be applied to pay amounts due to any receiver appointed by the Issuer Security Trustee together with interest and any amount in respect of VAT on those amounts, and to provide for any amounts due or to become due to the Receiver during the following Interest Period; and
- the Issuer Security Trustee will not be required to pay amounts due to any entity which is not an Issuer Secured Creditor.

**Distribution of Issuer Principal Receipts**

Prior to the service of a Note Acceleration Notice on the Issuer, **Issuer Principal Receipts** will be calculated by the Issuer Cash Manager four Business Days prior to each Note Payment Date and will be an amount equal to all principal amounts to be repaid by Funding 1 to the Issuer under the Intercompany Loan on the next Funding 1 Payment Date.

Following the service of a Note Acceleration Notice on the Issuer, but prior to the service of an Intercompany Loan Acceleration Notice on Funding 1, **Issuer Principal Receipts** means the sum calculated by the Issuer Security Trustee four Business Days prior to each Note Payment Date as the amount to be repaid by Funding 1 to the Issuer under the Intercompany Loan on the next Funding 1 Payment Date and/or the sum otherwise recovered by the Issuer Security Trustee (or the Receiver appointed on its behalf) representing the principal balance of the Notes.

**Distribution of Issuer Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer**

Prior to the service of a Note Acceleration Notice on the Issuer, the Issuer, or the Issuer Cash Manager on its behalf, will apply any Issuer Principal Receipts on each Note Payment Date to repay the Notes according to the following **Issuer Pre-Enforcement Principal Priority of Payments**:

**Class A Notes**

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 1 Class A Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the Issuer Dollar Currency Swap Provider, and on each applicable Note Payment Date the Series 1 Class A Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the Issuer Dollar Currency Swap Provider under the relevant Issuer Dollar Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class A1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 2 Class A1 Notes on each applicable Note Payment Date;

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class A2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment Date the Series 2 Class A2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class A3 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the Issuer Dollar Currency Swap Provider, and on each applicable Note Payment Date the Series 2 Class A3 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the Issuer Dollar Currency Swap Provider under the relevant Issuer Dollar Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class A1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class A1 Notes on each applicable Note Payment Date; and
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class A2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment Date the Series 3 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap.

#### **Class B Notes**

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class B1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 2 Class B1 Notes on each applicable Note Payment Date;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class B2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment Date the Series 2 Class B2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class B1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class B1 Notes on each applicable Note Payment Date; and
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class B2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment Date the Series 3 Class B2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap.

#### **Class C Notes**

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class C1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 2 Class C1 Notes on each applicable Note Payment Date;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class C2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment Date the Series 2 Class C2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class C1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class C1 Notes on each applicable Note Payment Date; and
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class C2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment

Date the Series 3 Class C2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap.

#### **Class D Notes**

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class D1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class D1 Notes on each applicable Note Payment Date; and
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class D2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each applicable Note Payment Date the Series 3 Class D2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap.

#### **Distribution of Issuer Principal Receipts following the service of a Note Acceleration Notice on the Issuer but prior to the service of an Intercompany Loan Acceleration Notice on Funding 1**

The Issuer Deed of Charge sets out the order of priority of distribution of Issuer Principal Receipts received or recovered by the Issuer Security Trustee (or a Receiver appointed on its behalf) following the service of a Note Acceleration Notice on the Issuer but prior to the service of an Intercompany Loan Acceleration Notice on Funding 1. In these circumstances, the Issuer Security Trustee will apply Issuer Principal Receipts on each Note Payment Date to repay the Notes in the following manner:

(a) *first, pari passu* and *pro rata*, to repay the Class A Notes as follows:

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 1 Class A Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the Issuer Dollar Currency Swap Provider, and on each Note Payment Date the Series 1 Class A Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the Issuer Dollar Currency Swap Provider under the relevant Issuer Dollar Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class A1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 2 Class A1 Notes on each applicable Note Payment Date;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class A2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each Note Payment Date the Series 2 Class A2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class A3 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the Issuer Dollar Currency Swap Provider, and on each Note Payment Date the Series 2 Class A3 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the Issuer Dollar Currency Swap Provider under the relevant Issuer Dollar Currency Swap;
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class A1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class A1 Notes on each applicable Note Payment Date; and
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class A2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each Note Payment Date the Series 3 Class A2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;

(b) *then, pari passu* and *pro rata*, to repay the Class B Notes as follows:

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class B1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 2 Class B1 Notes on each applicable Note Payment Date;

- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class B2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each Note Payment Date the Series 2 Class B2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
  - any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class B1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class B1 Notes on each applicable Note Payment Date; and
  - any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class B2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each Note Payment Date the Series 3 Class B2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
- (c) *then, pari passu and pro rata*, to repay the Class C Notes as follows:
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class C1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 2 Class C1 Notes on each applicable Note Payment Date; and
  - any principal amounts received by the Issuer from Funding 1 in respect of the Series 2 Class C2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each Note Payment Date the Series 2 Class C2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap;
  - any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class C1 Term Advance on each Funding 1 Payment Date shall be applied to redeem the Series 3 Class C1 Notes on each applicable Note Payment Date;
  - any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class C2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider, and on each Note Payment Date the Series 3 Class C2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap; and
- (d) *finally, pari passu and pro rata*, to repay the Class D Notes as follows:
- any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class D1 Term Advance on each Funding 1 Payment Date will be applied by the Issuer to redeem the Series 3 Class D1 Notes on each applicable Note Payment Date; and
  - any principal amounts received by the Issuer from Funding 1 in respect of the Series 3 Class D2 Term Advance on each Funding 1 Payment Date shall be paid by the Issuer to the relevant Issuer Euro Currency Swap Provider and, on each Note Payment Date the Series 3 Class D2 Notes will be redeemed in amounts corresponding to the Principal Exchange Amounts (if any) received from the relevant Issuer Euro Currency Swap Provider under the relevant Issuer Euro Currency Swap.

**Distribution of Issuer Principal Receipts and Issuer Revenue Receipts following the service of a Note Acceleration Notice on the Issuer and the service of an Intercompany Loan Acceleration Notice on Funding 1**

If an Intercompany Loan Acceleration Notice is served on Funding 1 under the Funding 1 Deed of Charge, then there will be an automatic enforcement of the Issuer Security under the Issuer Deed of Charge. The Issuer Deed of Charge sets out the order of priority of distribution by the Issuer Security Trustee, following the service of a Note Acceleration Notice on the Issuer and the service of an Intercompany Loan Acceleration Notice on Funding 1 (known as the **Issuer Post-Enforcement Priority of Payments**), of amounts received or recovered by the Issuer Security Trustee (or a receiver appointed on its behalf). On each Note Payment Date, the Issuer Security Trustee will apply amounts (other than amounts representing: (i) any Excess Swap Collateral which shall be returned directly to the relevant Issuer Swap Provider; and (ii) in respect of each Issuer Swap Provider, prior to the

designation of an early termination date under the relevant Issuer Swap Agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than Excess Swap Collateral) provided by such Issuer Swap Provider to the Issuer pursuant to the relevant Issuer Swap Agreement (and any interest or distributions in respect thereof)) received or recovered following enforcement of the Issuer Security as follows:

- (a) *first, pari passu* and *pro rata*, to pay amounts due to:
- the Issuer Security Trustee and any Receiver appointed by the Issuer Security Trustee together with interest and any amount in respect of VAT on those amounts and any amounts then due or to become due to the Issuer Security Trustee and the receiver under the provisions of the Issuer Deed of Charge;
  - the Note Trustee together with interest and any amount in respect of VAT on those amounts and any amounts then due or to become due and payable to the Note Trustee under the provisions of the Note Trust Deed; and
  - the Agent Bank, the Paying Agents, the Registrar and the Transfer Agent together with interest and any amount in respect of VAT on those amounts and any costs, charges, liabilities and expenses then due or to become due and payable to them under the provisions of the Paying Agent and Agent Bank Agreement;
- (b) *then, pari passu* and *pro rata*, towards payment of amounts (together with any amount in respect of VAT on those amounts) due and payable to the Issuer Cash Manager under the Issuer Cash Management Agreement and to the Issuer Corporate Services Provider under the Issuer Corporate Services Agreement and to the Issuer Account Bank;
- (c) *then, pari passu* and *pro rata*, to pay:
- amounts due to the Issuer Dollar Currency Swap Provider in respect of the relevant Issuer Dollar Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the Issuer Dollar Currency Swap Provider in respect of the relevant Issuer Dollar Currency Swap to pay interest and principal due and payable on the Series 1 Class A Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 2 Class A2 Notes;
  - amounts due to the Issuer Dollar Currency Swap Provider in respect of the relevant Issuer Dollar Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the Issuer Dollar Currency Swap Provider in respect of the relevant Issuer Dollar Currency Swap to pay interest and principal due and payable on the Series 2 Class A3 Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 3 Class A2 Notes; and
  - interest and principal on the Series 2 Class A1 Notes and the Series 3 Class A1 Notes;
- (d) *then, pari passu* and *pro rata*, to pay:
- amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 2 Class B2 Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 3 Class B2 Notes; and
  - interest and principal on the Series 2 Class B1 Notes and the Series 3 Class B1 Notes;

- (e) *then, pari passu and pro rata*, to pay:
- amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 2 Class C2 Notes;
  - amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 3 Class C2 Notes; and
  - interest and principal on the Series 2 Class C1 Notes and the Series 3 Class C1 Notes;
- (f) *then, pari passu and pro rata*, to pay:
- amounts due to the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap (including any termination payment but excluding any related Issuer Swap Excluded Termination Amount) and from amounts received from the relevant Issuer Euro Currency Swap Provider in respect of the relevant Issuer Euro Currency Swap to pay interest and principal due and payable on the Series 3 Class D2 Notes; and
  - interest and principal due on the Series 3 Class D1 Notes; and
- (g) *finally, pari passu and pro rata*, to pay any termination payment due (without double counting) to:
- the Issuer Dollar Currency Swap Provider, following an Issuer Swap Provider Default or an Issuer Swap Provider Downgrade Termination Event by the Issuer Dollar Currency Swap Provider; and
  - each of the Issuer Euro Currency Swap Providers, following an Issuer Swap Provider Default or an Issuer Swap Provider Downgrade Termination Event by such Issuer Euro Currency Swap Provider.

## ADDITIONAL INVESTMENT CONSIDERATIONS

### **You may be subject to exchange rate risks on any Series of Notes that are not denominated in sterling**

Investors will pay for the Dollar Notes in US dollars and the Euro Notes in euro, but the Term Advances to be made by the Issuer to Funding 1 and repayments of principal and payments of interest by Funding 1 under the Intercompany Loan will be in sterling.

To hedge:

- the Issuer's currency exchange rate exposure, including the interest rate exposure connected with that currency exposure;
- the difference in periodicity between quarterly Funding 1 Payment Dates and the monthly Note Payment Dates in relation to the Series 1 Class A Notes;

the Issuer will enter into the Issuer Dollar Currency Swaps and the Issuer Euro Currency Swaps for the applicable Series of Notes (see – *The Issuer Swap Agreements*).

If the Issuer fails to make timely payments of amounts due under an Issuer Swap, then the Issuer will have defaulted under that Issuer Swap. Each Issuer Swap Provider is obliged only to make payments under an Issuer Swap if and for so long as the Issuer makes payments under the same. If an Issuer Swap Provider is not obliged to make payments, or if it defaults in its obligations to make payments of amounts in US Dollars or euro, as applicable, equal to the full amount to be paid by it on the payment dates under the relevant Issuer Swap (which are the same dates as the Note Payment Dates in respect of the Notes), the Issuer will be exposed to changes in US dollar/sterling or euro/sterling currency exchange rates, in the associated interest rates on these currencies and in fixed versus floating interest rates. Unless a replacement issuer swap is entered into, the Issuer may have insufficient funds to make payments due on the Notes of any class and any Series that are then outstanding.

### **Termination payments on the Issuer Swaps may adversely affect the funds available to make payments on your Notes**

If any of the Issuer Swaps terminates, the Issuer may as a result be obliged to make a termination payment to the relevant Issuer Swap Provider. The amount of the termination payment will be based on the cost of entering into a replacement currency swap. Under the Intercompany Loan Agreement, Funding 1 will be required to pay the Issuer an amount equal to any termination payment due by the Issuer to the relevant Issuer Swap Provider. Funding 1 will also be obliged to pay the Issuer any extra amounts which the Issuer may be required to pay to enter into a replacement swap.

There is no assurance that Funding 1 will have the funds available to make that payment or that the Issuer will have sufficient funds available to make any termination payment under any of the relevant Issuer Swaps or to make subsequent payments to you in respect of the relevant Series and Class of Notes. Nor can the Issuer give you any assurance that it will be able to enter into a replacement currency swap or, if one is entered into, that the credit rating of the replacement Issuer Swap Provider will be sufficiently high to prevent a downgrading of the then current ratings of the Notes by the Rating Agencies.

Except where an Issuer Swap Provider has caused the relevant Issuer Swap to terminate by its own default or downgrade, any termination payment due by the Issuer will rank equally not only with payments due to the holders of the Series and Class of Notes to which the relevant Issuer Swap relates but also with payments due to the holders of any other Series and Class of Notes which rank equally with the Series and Class of Notes to which the relevant Issuer Swap relates. Any additional amounts required to be paid by the Issuer following termination of an Issuer Swap (including any extra costs incurred (for example, from entering into "spot" currency transactions or interest rate swaps) if the Issuer cannot immediately enter into a replacement currency swap) will also rank equally not only with payments due to the holders of the Series and Class of Notes to which the relevant Issuer Swap relates but also with payments due to the holder of any other Series and Class of Notes which rank equally with the Series and Class of Notes to which the relevant Issuer Swap relates. Furthermore, any termination payment or additional payment or additional amounts required to be paid by the Issuer following termination of an Issuer Swap will rank ahead of payments due to the holders of any Series and Class of Notes which ranks below the Series and Class of Notes to which the relevant Issuer Swap relates. Therefore, if the Issuer is obliged to make a termination payment to the relevant Issuer Swap Provider or to pay any other additional amount as a result of the termination of the relevant Issuer Swap, this may affect the funds which the Issuer has available to make payments on the Notes of any Class and any Series.

## THE ISSUER

The Issuer was incorporated in England and Wales on 15th June, 2004 (registered number 05154235) as a public limited company under the Companies Act 1985 (as amended). The authorised share capital of the Issuer comprises 100,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000, ordinary shares of £1 each, all of which are beneficially owned by Holdings.

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 and are, *inter alia*, to lend and advance money and give credit, to borrow or raise money, to secure the repayment of any money borrowed, raised or owing, by mortgage charge or lien upon the whole or any part of the company's property or assets. It was established to issue the Notes and to make the Class A Term Advance, the Class B Term Advance, the Class C Term Advance and the Class D Term Advance to Funding 1.

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this document to which it is or will be a party, changing its name from Nightlynx Public Limited Company on 5th July, 2004 and other matters which are incidental or ancillary to the foregoing.

There is no intention to accumulate surpluses in the Issuer except in the circumstances set out in *Summary of the Transaction Documents – Issuer Deed of Charge*.

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	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
SFM Directors (No.2) Limited	Blackwell House, Guildhall Yard, London EC2V 5AE	Director of special purpose companies
Rosemary Prudence Thorne	Bradford & Bingley plc Croft Road, Crossflatts, Bingley, West Yorkshire BD16 2UA	Company Director

Rosemary Thorne is a director of the Seller.

The directors of the Issuer and their respective occupations are set out under the section *Holdings* in this document.

The company secretary of the Issuer is SFM Corporate Services Limited, Blackwell House, Guildhall Yard, London EC2V 5AE.

The registered office of the Issuer is Blackwell House, Guildhall Yard, London EC2V 5AE.

The accounting reference date of the Issuer is 31st December.

The activities of the Issuer will be restricted by the Conditions of the Notes and will be limited to the issues of the Notes, advancing the Term Advances to Funding 1, the exercise of related rights and powers, and other activities referred to herein or reasonably incidental thereto.

**Capitalisation statement**

The following table shows the capitalisation of the Issuer as at 29th September, 2004 as adjusted for the issuance of the Notes (all of which will be secured and unguaranteed) assuming the Notes are issued on the Closing Date:

	As at 29th September, 2004 £
<b>Authorised share capital</b>	
100,000 ordinary shares of £1 each . . . . .	100,000
<b>Issued share capital</b>	
Two ordinary shares of £1 each fully paid . . . . .	2
49,998 ordinary shares each one quarter paid . . . . .	12,499.50
	12,501.50

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at 29th September, 2004.

There has been no material change in the capitalisation, indebtedness or contingent liabilities or guarantees since 29th September, 2004.

## Accountants' Report

The following is the text of a report received by the directors of the Issuer from KPMG Audit Plc, Chartered Accountants, the reporting accountants to the Issuer, prepared solely for the purposes of the issue of the Notes:



“The Directors  
Aire Valley Mortgages 2004 – 1 plc  
Blackwell House  
Guildhall Yard  
London EC2V 5AE

29th September, 2004

Dear Sirs

### **Aire Valley Mortgages 2004 – 1 plc (the “Company”):**

USD 405,000,000 Series 1 Class A Asset Backed Floating Rate Notes due September 2005  
GBP 250,000,000 Series 2 Class A1 Asset Backed Floating Rate Notes due September 2034  
EUR 803,000,000 Series 2 Class A2 Asset Backed Floating Rate Notes due September 2034  
USD 360,000,000 Series 2 Class A3 Asset Backed Floating Rate Notes due September 2034  
GBP 20,000,000 Series 2 Class B1 Asset Backed Floating Rate Notes due September 2066  
EUR 65,500,000 Series 2 Class B2 Asset Backed Floating Rate Notes due September 2066  
GBP 20,000,000 Series 2 Class C1 Asset Backed Floating Rate Notes due September 2066  
EUR 75,500,000 Series 2 Class C2 Asset Backed Floating Rate Notes due September 2066  
GBP 215,000,000 Series 3 Class A1 Asset Backed Floating Rate Notes due September 2066  
EUR 460,000,000 Series 3 Class A2 Asset Backed Floating Rate Notes due September 2066  
GBP 20,000,000 Series 3 Class B1 Asset Backed Floating Rate Notes due September 2066  
EUR 25,000,000 Series 3 Class B2 Asset Backed Floating Rate Notes due September 2066  
GBP 20,000,000 Series 3 Class C1 Asset Backed Floating Rates Notes due September 2066  
EUR 31,000,000 Series 3 Class C2 Asset Backed Floating Rate Notes due September 2066  
GBP 15,000,000 Series 3 Class D1 Asset Backed Floating Rate Notes due September 2066  
EUR 22,000,000 Series 3 Class D2 Asset Backed Floating Rate Notes due September 2066  
(together, the “Notes”)

We report on the financial information set out below. This financial information has been prepared for inclusion in the offering circular of the Company dated 29th September, 2004 (the “Offering Circular”).

### **Basis of Preparation**

The financial information set out in paragraphs 1 and 2 is based on the financial statements of the Company from incorporation to 29th September, 2004 prepared on the basis described in note 2.1.

### **Responsibility**

Such financial statements are the responsibility of the directors of the Company.

The directors of the Company are responsible for the contents of the Offering Circular dated 29th September, 2004 in which this report is included.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

### **Basis of Opinion**

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board of the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity’s circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial information gives, for the purposes of the Offering Circular, a true and fair view of the state of affairs of the Company at 29th September, 2004.

Yours faithfully

KPMG Audit Plc

## 1. Balance Sheet as at the date of the Offering Circular

	£
<b>Current assets</b>	
Cash at bank and in hand . . . . .	12,501.50
Capital and reserves	
<b>Share capital</b>	
Called up equity share capital	
49,998 shares 25 per cent. paid, 2 shares 100 per cent. called and paid. . . . .	12,501.50

## 2. Notes

### 2.1 Accounting Policies

The financial information has been prepared under the historical cost convention and in accordance with accounting standards currently applicable in the United Kingdom.

### 2.2 Trading Activity

The Company was incorporated on 15th June, 2004. The Company has not yet commenced business, no audited financial statements have been prepared and no dividends have been declared or paid since the date of incorporation.

### 2.3 Share Capital

The Company was incorporated and registered as a public limited company on 15th June, 2004, with the name Nightlynx Public Limited Company. Its name was changed to Aire Valley Mortgages 2004 – 1 plc on 5th July, 2004.

On incorporation, the authorised share capital of the Company was divided into 100,000 ordinary shares of £1 each. One subscriber share was taken by Instant Companies Limited and one subscriber share was taken by Swift Incorporations Limited.

On 2nd July, 2004, one ordinary share was transferred from Instant Companies Limited to Aire Valley Holdings Limited for cash consideration of £1 and one ordinary share was transferred from Swift Incorporation Limited to Aire Valley Holdings Limited for cash consideration of £1 which was subsequently transferred to SFM Nominees Limited on 28th September, 2004 for a cash consideration of £1.

On 28th September, 2004, 49,998 ordinary shares were issued by the Company to Aire Valley Holdings Limited which were partially paid at £0.25, for a total cash consideration of £12,499.50.

### 2.4 Auditors

KPMG Audit Plc was appointed as auditor on 27th September, 2004.”

## THE ISSUER SWAP PROVIDERS

*The information contained in this section with respect to each Issuer Swap Provider has been provided by each such Issuer Swap Provider for use in this document. Except in relation to the following paragraphs, the Issuer Swap Providers have not been involved in the preparation of, and do not accept responsibility for, this document. The delivery of this document shall not create any implication that there has been no change in the affairs of any of the Issuer Swap Providers since the date hereof or that the information contained or referred to in this section is correct at any time after the date of this document.*

### **ABN AMRO Bank N.V.**

ABN AMRO Holding N.V. (**Holding**) is incorporated under The Netherlands law by deed of 30th May, 1990 as the holding company of ABN AMRO Bank N.V. The Articles of Association of Holding were last amended by deed of 26th May, 2003 executed before Mr. R.J.C. van Helden, Notary Public of Amsterdam. Holding's main purpose is to own ABN AMRO Bank N.V. and its subsidiaries. Holding owns 100 per cent. of the shares of the ABN AMRO Bank N.V. and is jointly and severally liable for all liabilities of ABN AMRO Bank N.V. ABN AMRO Bank N.V. is registered in the Commercial Register of Amsterdam under number 33002587. The registered office of ABN AMRO Bank N.V. is at Gustav Mahlerlaan 10, 1082 PP Amsterdam, The Netherlands.

The ABN AMRO group (**ABN AMRO**), which consists of Holding and its subsidiaries, is a global banking group offering a wide range of commercial and investment banking products and services on a global basis through its network of approximately 3,700 offices and branches in more than 60 countries and territories. ABN AMRO is the largest banking group based in The Netherlands with total consolidated assets of EUR 560.4 billion at 31st December, 2003.

The long term, unsecured, unsubordinated and unguaranteed debt obligations of ABN AMRO are currently rated "AA-" by S&P, "Aa3" by Moody's and "AA-" by Fitch. The short term, unsecured, unsubordinated and unguaranteed debt obligations of ABN AMRO are currently rated "P-1" by Moody's, "A-1+" by S&P and "F1+" by Fitch.

Any press releases issued by ABN AMRO can be obtained from the ABN AMRO website at <http://www.abnamro.com/pressroom>

### **Barclays Bank PLC**

Barclays Bank PLC is a public limited company registered in England and Wales under number 01026167. The liability of the members of Barclays Bank PLC is limited. It has its registered and head office at 54 Lombard Street, London EC3P 3AH. Barclays Bank PLC was incorporated on 7th August, 1925 under the Colonial Bank Act 1925 and on 4th October, 1971 was registered as a company limited by shares under the Companies Act 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1st January, 1985, Barclays Bank was re-registered as a public limited company and its name was changed from "Barclays Bank International Limited" to "Barclays Bank PLC".

Barclays Bank PLC and its subsidiary undertakings (taken together, the **Barclays Group**) is an international financial services group engaged primarily in banking, investment banking and asset management. In terms of assets employed, it is one of the largest financial services groups in the United Kingdom. The Barclays Group also operates in many other countries around the world and is one of the leading providers of co-ordinated global services to multinational corporations and financial institutions in the world's main financial centres. The whole of the issued ordinary share capital of Barclays Bank PLC is owned by Barclays PLC, which is the ultimate holding company of the Barclays Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1 by S&P, P-1 by Moody's and F1+ by Fitch and the long term obligations of Barclays Bank PLC are rated Aa1 by Moody's, AA by S&P and AA+ by Fitch.

As at 31st December, 2003, Barclays PLC had total assets of £443,361 million (31st December, 2002: £403,062 million), total net loans and advances of £288,743 million (31st December, 2002: £260,572 million), total deposits of £278,960 million (31st December, 2002: £258,932 million) and equity shareholders funds of £16,473 million (31st December, 2002: £15,201 million). The profit before taxation of Barclays PLC in respect of the year ended 31st December, 2003 was £3,845 million (31st December, 2002: £3,205 million) after charging net provisions for bad and doubtful debts of £1,347 million (31st December, 2002: £1,484 million).

## **Credit Suisse First Boston International**

Credit Suisse First Boston International (“CSFBI”) was incorporated in England and Wales under the Companies Act 1985, on 9th May, 1990, with registered no. 2500199 and was re-registered as an unlimited liability company under the name “Credit Suisse Financial Products” on 6th July, 1990. Its registered office and principal place of business is at One Cabot Square, London E14 4QJ. CSFBI is an English bank and is regulated as an EU credit institution by FSA under the FSMA. The FSA has issued a scope of permission notice authorising CSFBI to carry out specified regulated investment activities. With effect from 27th March, 2000, CSFBI was renamed “Credit Suisse First Boston International”.

CSFBI is an unlimited liability company and, as such, its shareholders have a joint, several and unlimited obligation to meet any insufficiency in the assets of CSFBI in the event of its liquidation. The joint, several and unlimited liability of the shareholders of CSFBI to meet any insufficiency in the assets of CSFBI will only apply upon liquidation of CSFBI.

CSFBI commenced business on 16th July, 1990. Its principal business is banking, including the trading of derivative products linked to interest rates, equities, foreign exchange, commodities and credit. The primary objective of CSFBI is to provide comprehensive treasury and risk management derivative product services worldwide. CSFBI has established a significant presence in global derivative markets through offering a full range of derivative products and continues to develop new products in response to the needs of its customers and changes in underlying markets. CSFBI is part of the Credit Suisse First Boston business unit of Credit Suisse Group. Credit Suisse First Boston is a leading global investment bank, serving institutional, corporate, government and individual clients.

Credit Suisse First Boston owns 56 per cent., Credit Suisse First Boston (International) Holding AG, a wholly owned subsidiary of Credit Suisse First Boston, owns 24 per cent. and Credit Suisse Group owns 20 per cent. of CSFBI’s ordinary voting shares. Credit Suisse First Boston and Credit Suisse First Boston (International) Holding AG have entered into a voting agreement relating to the election of directors. With respect to CSFBI’s participating non-voting shares (other than an issue of “Class A” participating non-voting shares) Credit Suisse First Boston owns 4.9 per cent., Credit Suisse First Boston (UK) Investments, a wholly owned subsidiary of Credit Suisse First Boston, owns 75.1 per cent. and Credit Suisse Group owns 20 per cent. In addition, Credit Suisse First Boston and Credit Suisse First Boston (UK) Investments each own half of CSFBI’s “Class A” participating non-voting shares and Credit Suisse First Boston (UK) Investments owns 80 per cent. and Credit Suisse Group owns 20 per cent. of CSFBI’s perpetual non-cumulative “Class A” preference shares. Credit Suisse First Boston (International) Holding AG owns 100 per cent. of CSFBI’s non-cumulative “Class B” preference shares.

CSFBI has been assigned a senior unsecured debt rating of “A+” by S&P, a senior debt rating of “Aa3 (stable outlook)” by Moody’s and a long-term rating of “AA- (negative outlook)” by Fitch.

## THE ISSUER SWAP AGREEMENTS

### The Issuer Currency Swaps

The Dollar Notes and the Euro Notes will be denominated in US dollars and euro respectively, and the Issuer will pay interest and principal on the Dollar Notes in US dollars and on the Euro Notes in euro. However, payments to the Issuer on the Term Advances will be made in sterling. In addition, each of the Dollar Notes and the Euro Notes will bear interest at a rate based on a margin over USD-LIBOR and EURIBOR respectively whereas payments of interest on the Term Advances will be at a rate based on sterling LIBOR. In order to protect itself against currency exchange rate exposure (and any related interest rate exposure in connection with such currency exchange rate exposure) in respect of the Dollar Notes and the Euro Notes, the Issuer will enter into one or more transactions (each an **Issuer Currency Swap** and, together, the **Issuer Currency Swaps**) with one or more Issuer Currency Swap Providers and the Issuer Security Trustee, each such Issuer Currency Swap governed by the 1992 ISDA Master Agreement, including a schedule and confirmation thereto (the **Issuer Currency Swap Agreements**) in respect of each class of Dollar Notes and Euro Notes of each Series.

Under the terms of each Issuer Currency Swap Agreement, on the Closing Date the Issuer will pay to the Issuer Currency Swap Providers, the gross US dollar or euro proceeds received by the Issuer on the issue of the relevant class of Dollar Notes or Euro Notes of each Series and in return, the Issuer Currency Swap Provider will pay the sterling equivalent of such proceeds, converted at the relevant Currency Swap Rate. Thereafter, the Issuer Currency Swap Provider will pay to the Issuer on each Note Payment Date an amount equal to the amount payable by way of interest and principal on the relevant class of Dollar Notes or Euro Notes of the relevant Series on such Note Payment Date. In return, the Issuer will pay to the Issuer Currency Swap Provider on each Note Payment Date: (a) an amount in sterling calculated by reference to LIBOR plus a margin and the outstanding principal amount of the relevant Notes (converted at the relevant Currency Swap Rate); and (b) the sterling equivalent (converted at the relevant Currency Swap Rate) of the principal amount of such class of Dollar Notes or Euro Notes of such Series to be redeemed on such Note Payment Date.

The relevant euro/sterling and US dollar/sterling exchange rates will be determined on or prior to the Closing Date (respectively the **Euro Currency Swap Rate** (being the euro/sterling exchange rate under the Issuer Euro Currency Swap Agreements) and the **Dollar Currency Swap Rate** (being the US dollar/sterling exchange rate under the Issuer Dollar Currency Swap Agreements) and, together and each of them, the **Currency Swap Rate**).

### Rating downgrade of the Issuer Swap Providers

Under the terms of each Issuer Swap Agreement, in the event that the short-term, unsecured, unsubordinated and unguaranteed credit rating of the Issuer Swap Provider is downgraded by a Rating Agency below the rating(s) specified in the relevant Issuer Swap Agreement (in accordance with the then current requirements of the Rating Agencies) for the Issuer Swap Provider, the relevant Issuer Swap Provider will, in accordance with the relevant Issuer Swap Agreement, be required to take certain remedial measures which may include providing collateral for its obligations under the Issuer Swap Agreement, arranging for its obligations under the Issuer Swap Agreement to be transferred to an entity with the minimum rating(s) required by the relevant Rating Agency, procuring another entity with the minimum rating(s) required by the relevant Rating Agency to become co-obligor in respect of its obligations under the Issuer Swap Agreement, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will, subject to certain conditions, allow the Issuer to terminate the Issuer Swap Agreement.

### Termination of the Issuer Swap Agreement

An Issuer Swap Agreement may also be terminated in certain other circumstances (each referred to as an **Issuer Swap Early Termination Event**), including:

- at the option of any party to the Issuer Swap Agreement, if there is a failure by the other party to pay any amounts due and payable under such Issuer Swap Agreement;
- upon the occurrence of an insolvency of the Issuer, the Issuer Swap Provider or any guarantor of the obligations of the Issuer Swap Provider, if applicable, or the merger of an Issuer Swap Provider without an assumption of the obligations under the relevant Issuer Swap Agreement;
- upon the service of a Note Acceleration Notice by the Issuer Security Trustee on the Issuer;
- it becoming unlawful for the Issuer Swap Provider or the Issuer to perform their obligations under the Issuer Swap Agreement; and

- the relevant Series or Class of Notes being redeemed in whole prior to the Final Maturity Date in respect of such Notes, including, without limitation, as a result of a certain regulatory event occurring or a change in tax law as further described in the Conditions of the Notes.

Upon the termination of an Issuer Swap Agreement, the Issuer or the Issuer Swap Provider may be liable to make a termination payment to the other in accordance with the provisions of the relevant Issuer Swap Agreement. The amount of this termination payment will be calculated and made in sterling.

### **Taxation**

If withholding taxes are imposed on payments made by the Issuer Swap Provider to the Issuer under an Issuer Swap, the Issuer Swap Provider shall always be obliged to gross up those payments however, if such withholding taxes are imposed as a result of a change in law, then the Issuer Swap Provider shall have the right to terminate the applicable Issuer Swap Agreement. If withholding taxes are imposed on payments made by the Issuer to the Issuer Swap Provider under an Issuer Swap, the Issuer shall not be obliged to gross up those payments.

### **Governing law**

The Issuer Swap Agreements will be governed by English law.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the terms and conditions of the Notes in the form (subject to amendment) in which they will be set out in the Note Trust Deed. The terms and conditions set out below will apply to the Notes in global certificated form.*

The US\$405,000,000 Series 1 Class A Asset Backed Floating Rate Notes due September 2005 (the **Series 1 Class A Notes**), the £250,000,000 Series 2 Class A1 Asset Backed Floating Rate Notes due September 2034 (the **Series 2 Class A1 Notes**), the €803,000,000 Series 2 Class A2 Asset Backed Floating Rate Notes due September 2034 (the **Series 2 Class A2 Notes**), the US\$360,000,000 Series 2 Class A3 Asset Backed Floating Rate Notes due September 2034 (the **Series 2 Class A3 Notes**), the £20,000,000 Series 2 Class B1 Asset Backed Floating Rate Notes due September 2066 (the **Series 2 Class B1 Notes**), the €65,500,000 Series 2 Class B2 Asset Backed Floating Rate Notes due September 2066 (the **Series 2 Class B2 Notes**), the £20,000,000 Series 2 Class C1 Asset Backed Floating Rate Notes due September 2066 (the **Series 2 Class C1 Notes**), the €75,500,000 Series 2 Class C2 Asset Backed Floating Rate Notes due September 2066 (the **Series 2 Class C2 Notes**) and together with the Series 2 Class A1 Notes, the Series 2 Class A2 Notes, the Series 2 Class A3 Notes, the Series 2 Class B1 Notes, the Series 2 Class B2 Notes and the Series 2 Class C1 Notes, the **Series 2 Notes**), the £215,000,000 Series 3 Class A1 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class A1 Notes**), the €460,000,000 Series 3 Class A2 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class A2 Notes**), the £20,000,000 Series 3 Class B1 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class B1 Notes**), the €25,000,000 Series 3 Class B2 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class B2 Notes**), the £20,000,000 Series 3 Class C1 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class C1 Notes**), the €31,000,000 Series 3 Class C2 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class C2 Notes**), the £15,000,000 Series 3 Class D1 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class D1 Notes**) and the €22,000,000 Series 3 Class D2 Asset Backed Floating Rate Notes due September 2066 (the **Series 3 Class D2 Notes** and together with the Series 3 Class A1 Notes, the Series 3 Class A2 Notes, the Series 3 Class B1 Notes, the Series 3 Class B2 Notes, the Series 3 Class C1 Notes, the Series 3 Class C2 Notes and the Series 3 Class D1 Notes, the **Series 3 Notes**), in each case of Aire Valley Mortgages 2004 - 1 plc (the **Issuer**) are constituted by a note trust deed (the **Note Trust Deed**) dated 5th October, 2004 (the **Closing Date**) and made between the Issuer and The Bank of New York (in such capacity, the **Note Trustee**) as trustee for the Noteholders (as defined below). Any reference in these terms and conditions (**Conditions**) to a **class** of Notes or of Noteholders shall be a reference to the Series 1 Class A Notes, Series 2 Class A1 Notes, Series 2 Class A2 Notes, Series 2 Class A3 Notes, Series 2 Class B1 Notes, Series 2 Class B2 Notes, Series 2 Class C1 Notes, Series 2 Class C2 Notes, Series 3 Class A1 Notes, Series 3 Class A2 Notes, Series 3 Class B1 Notes, Series 3 Class B2 Notes, Series 3 Class C1 Notes, Series 3 Class C2 Notes, Series 3 Class D1 Notes or Series 3 Class D2 Notes, as the case may be, or to the respective holders thereof.

The expressions Series 1 Class A Notes, Series 2 Class A1 Notes, Series 2 Class A2 Notes, Series 2 Class A3 Notes, Series 2 Class B1 Notes, Series 2 Class B2 Notes, Series 2 Class C1 Notes, Series 2 Class C2 Notes, Series 3 Class A1 Notes, Series 3 Class A2 Notes, Series 3 Class B1 Notes, Series 3 Class B2 Notes, Series 3 Class C1 Notes, Series 3 Class C2 Notes, Series 3 Class D1 Notes or Series 3 Class D2 Notes shall, in these Conditions, unless the context otherwise requires, include any Further Notes (as defined below) issued pursuant to **Condition 17.1 (Further Notes)** and forming a single series with any class.

**Class A Notes** means the Series 1 Class A Notes, Series 2 Class A1 Notes, Series 2 Class A2 Notes, Series 2 Class A3 Notes, Series 3 Class A1 Notes and Series 3 Class A2 Notes.

**Class B Notes** means the Series 2 Class B1 Notes, Series 2 Class B2 Notes, Series 3 Class B1 Notes and Series 3 Class B2 Notes.

**Class C Notes** means the Series 2 Class C1 Notes, Series 2 Class C2 Notes, Series 3 Class C1 Notes and Series 3 Class C2 Notes.

**Class D Notes** means the Series 3 Class D1 Notes and Series 3 Class D2 Notes.

**Dollar Notes** means the Series 1 Class A Notes and Series 2 Class A3 Notes.

**Euro Notes** means the Series 2 Class A2 Notes, Series 2 Class B2 Notes, Series 2 Class C2 Notes, Series 3 Class A2 Notes, Series 3 Class B2 Notes, Series 3 Class C2 Notes and Series 3 Class D2 Notes.

**Series 2 Class A Notes** means the Series 2 Class A1 Notes, Series 2 Class A2 Notes and Series 2 Class A3 Notes.

**Series 2 Class B Notes** means the Series 2 Class B1 Notes and Series 2 Class B2 Notes.

**Series 2 Class C Notes** means the Series 2 Class C1 Notes and Series 2 Class C2 Notes.

**Series 3 Class A Notes** means the Series 3 Class A1 Notes and Series 3 Class A2 Notes.

**Series 3 Class B Notes** means the Series 3 Class B1 Notes and Series 3 Class B2 Notes.

**Series 3 Class C Notes** means the Series 3 Class C1 Notes and Series 3 Class C2 Notes.

**Series 3 Class D Notes** means the Series 3 Class D1 Notes and Series 3 Class D2 Notes.

**Sterling Notes** means the Series 2 Class A1 Notes, Series 2 Class B1 Notes, Series 2 Class C1 Notes, Series 3 Class A1 Notes, Series 3 Class B1 Notes, Series 3 Class C1 Notes and Series 3 Class D1 Notes.

The security for the Notes is constituted by a deed of charge and assignment (the **Issuer Deed of Charge**) dated the Closing Date and made between, among others, the Issuer and The Bank of New York (in such capacity, the **Issuer Security Trustee**).

Pursuant to a paying agent and agent bank agreement (the **Paying Agent and Agent Bank Agreement**) dated the Closing Date and made between the Issuer, HSBC Bank plc as principal paying agent in the United Kingdom (the **Principal Paying Agent**) and as agent bank (the **Agent Bank**), HSBC Bank USA, National Association, acting through its New York office as paying agent in the United States of America (the **US Paying Agent**, together with the Principal Paying Agent and such additional or other paying agents, if any, appointed from time to time pursuant to the Paying Agent and Agent Bank Agreement, the **Paying Agents**), HSBC Bank USA, National Association as registrar (the **Registrar**) and as transfer agent (the **Transfer Agent**) and the Note Trustee, provision is made for the payment of principal, premium (if any) and interest in respect of the Notes of each class.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Note Trust Deed, the Issuer Deed of Charge, the Paying Agent and Agent Bank Agreement, the Issuer Cash Management Agreement and the master definitions and construction schedule (the **Issuer Master Definitions and Construction Schedule**) signed by Allen & Overy LLP and Slaughter and May for the purpose of identification on or about the Closing Date.

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

Capitalised terms not otherwise defined in these Conditions shall bear the meanings given to them in the Issuer 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 Issuer Master Definitions and Construction Schedule.

## **1. FORM, DENOMINATION AND TITLE**

### **1.1 Form and Denomination**

The Notes are issued in registered form in the following denominations:

- (a) Dollar Notes: \$1,000 and \$10,000, and integral multiples each thereof;
- (b) Sterling Notes: £1,000 and £10,000, and in integral multiples each thereof; and
- (c) Euro Notes: €500,000 plus integral multiples of €1,000.

A global note certificate (each a **Global Certificate**) will be issued to each Noteholder in respect of its registered holding of Notes. All Euro Notes and Sterling Notes will only be offered and sold outside the United States to non-US persons pursuant to Regulation S (**Regulation S**) under the United States Securities Act of 1933, as amended (the **Securities Act**), and will be represented by one or more Global Certificates (**Regulation S Global Certificates**). All Dollar Notes will be offered and sold either (1) outside the United States to non-US persons pursuant to Regulation S and will be represented by Regulation S Global Certificates or (2) in the United States only to qualified institutional buyers pursuant to Rule 144A (**Rule 144A**) under the Securities Act and

will be represented by one or more Global Certificates (**Rule 144A Global Certificates**). All Euro Notes, Sterling Notes and Dollar Notes sold pursuant to Regulation S are **Regulation S Notes**. All Dollar Notes sold pursuant to Rule 144A are **Rule 144A Notes**.

Each Regulation S Global Certificate will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Each Rule 144A Global Certificate will be deposited with a custodian for, and registered in the name of Cede & Co., as nominee of, DTC. Each Global Certificate will be numbered serially with an identifying number which will be recorded on the relevant Global Certificate and in the register of Noteholders (the **Register**) which the Issuer will procure to be kept by the Registrar and at the registered office of the Issuer.

*The Notes are not issuable in definitive or bearer form.*

## **1.2 Title**

Title to the Notes passes only by registration in the Register. Subject as set out below, the registered holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder.

For so long as any of the Regulation S Notes is represented by a Regulation S Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Clearstream, Luxembourg, if Clearstream, Luxembourg shall be an accountholder of Euroclear, and Euroclear, if Euroclear shall be an accountholder of Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Issuer and the Agents as the holder of such principal amount of such Regulation S Notes for all purposes other than with respect to the payment of principal, premium (if any) or interest on such principal amount of such Regulation S Notes, for which purpose the registered holder of the relevant Regulation S Global Certificate shall be treated by the Issuer and any Agent as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Regulation S Global Certificate and the expressions **Noteholder** and **holder of Notes** and related expressions shall be construed accordingly.

For so long as the DTC or its nominee is the registered owner or holder of a Rule 144A Global Certificate, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Rule 144A Global Certificate for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants in DTC.

Notes which are represented by a Global Certificate will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be. References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system.

## **2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES**

### **2.1 Transfers**

A Note may be transferred by depositing the Global Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the Agents. No transfer of a Note will be valid unless and until transferred on the Register.

Transfers of beneficial interests in Global Certificates will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Global Certificate will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for a beneficial interest in another Global Certificate only in the authorised denominations and only in

accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Rule 144A Global Certificate registered in the name of a nominee for DTC shall be limited to transfers of such Rule 144A Global Certificate, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

Transfers and exchanges of beneficial interests in the Global Certificates and entries on the Register relating to the Notes will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreements and the legend appearing on the face of the Global Certificates. In no event will a transfer of a beneficial interest in a Global Certificate be made absent compliance with the regulations referred to above, and any purported transfer in violation of such regulations shall be void *ab initio* and will not be honoured by the Issuer or the Issuer Security Trustee. The regulations referred to above may be changed by the Issuer with the prior written approval of the Issuer Security Trustee and the Registrar.

## **2.2 Delivery of new Global Certificates**

Each Global Certificate to be issued upon transfer of Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Global Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this **Condition 2.2**, business day shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Global Certificate is deposited in connection with a transfer is located.

*Issues of Global Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Paying Agent and Agent Bank Agreement and in compliance with the Securities Act Legend.*

Where some but not all of the Notes in respect of which a Global Certificate is issued are to be transferred a new Global Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Global Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

## **2.3 Formalities free of charge**

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

## **2.4 Closed Periods**

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal, premium (if any) and interest on that Note.

## **2.5 Regulations**

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Paying Agent and Agent Bank Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

- 2.6**
- (a) **Class A Noteholders** means Noteholders in respect of the Class A Notes;
  - (b) **Class B Noteholders** means Noteholders in respect of the Class B Notes;
  - (c) **Class C Noteholders** means Noteholders in respect of the Class C Notes; and
  - (d) **Class D Noteholders** means Noteholders in respect of the Class D Notes.

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

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

- (a) The Class A Notes constitute direct, secured and unconditional obligations of the Issuer. The Class A Notes rank *pari passu* without preference or priority amongst themselves.
- (b) The Class B Notes constitute direct, secured and, subject as provided in **Condition 16 (Subordination by Deferral)**, unconditional obligations of the Issuer. The Class B Notes rank *pari passu* without preference or priority among themselves but junior to the Class A Notes as provided in these Conditions and the Issuer Transaction Documents.
- (c) The Class C Notes constitute direct, secured and, subject as provided in **Condition 16 (Subordination by Deferral)**, unconditional obligations of the Issuer. The Class C Notes rank *pari passu* without preference or priority among themselves but junior to the Class A Notes and the Class B Notes as provided in these Conditions and the Issuer Transaction Documents.
- (d) The Class D Notes constitute direct, secured and, subject as provided in **Condition 16 (Subordination by Deferral)**, unconditional obligations of the Issuer. The Class D Notes rank *pari passu* without preference or priority among themselves but junior to the Class A Notes, the Class B Notes and the Class C Notes as provided in these Conditions and the Issuer Transaction Documents.
- (e) The Note Trust Deed and the Issuer Deed of Charge contain provisions requiring the Note Trustee and the Issuer Security Trustee, respectively, to have regard to the interests of the Class A Noteholders, the Class B Noteholders, the Class C Noteholders and the Class D Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Issuer Security Trustee (except where expressly provided otherwise), but requiring the Note Trustee and the Issuer Security Trustee in any such case to have regard only to:
  - (i) for so long as there are any Class A Notes outstanding, the interests of the Class A Noteholders if, in the Note Trustee's or, as the case may be, the Issuer Security Trustee's opinion, there is a conflict between the interests of:
    - (A) the Class A Noteholders; and
    - (B) the Class B Noteholders and/or the Class C Noteholders and/or the Class D Noteholders; or
  - (ii) subject to paragraph (i) above, for so long as there are Class B Notes outstanding, the interests of the Class B Noteholders if, in the Note Trustee's or, as the case may be, the Issuer Security Trustee's opinion, there is a conflict between the interests of:
    - (A) the Class B Noteholders; and
    - (B) the Class C Noteholders and/or the Class D Noteholders; or
  - (iii) subject to paragraphs (i) and (ii) above, for so long as there are Class C Notes outstanding, the interests of the Class C Noteholders if, in the Note Trustee's or, as the case may be, the Issuer Security Trustee's opinion, there is a conflict of interest between the interests of:
    - (A) the Class C Noteholders; and
    - (B) the Class D Noteholders.

So long as any of the Notes remains outstanding, the Issuer Security Trustee is not required to have regard to the interests of any persons (other than the Noteholders) entitled to the benefit of the Issuer Security (as defined below).

- (f) The Note Trust Deed and the Issuer Deed of Charge contain provisions limiting the powers of the Class B Noteholders, the Class C Noteholders and/or the Class D Noteholders to request or direct the Note Trustee or the Issuer Security Trustee to take any action or to pass an effective Extraordinary Resolution (as defined in the Note Trust Deed) which would be materially prejudicial to the interests of the Class A Noteholders and also, in the case of a request or direction or an Extraordinary Resolution of the Class C Noteholders, the Class B Noteholders and, in the case of a request or direction or an Extraordinary Resolution of the Class D Noteholders, the Class B Noteholders and/or the Class C Noteholders. Except in certain circumstances the Note Trust Deed and the Issuer Deed of

Charge contain no such limitation on the powers of the Class A Noteholders or, by reference to the effect on the interests of the Class C Noteholders, the Class B Noteholders and/or the Class D Noteholders, the exercise of which will be binding on the Class B Noteholders and/or the Class C Noteholders and/or the Class D Noteholders, irrespective of the effect thereof on their interests.

- (g) In the event of an issue of Further Notes (as defined in **Condition 17.1 (Further Notes)**) or New Notes (as defined in **Condition 17.2 (New Notes)**), the provisions of these Conditions, the Note Trust Deed, the Issuer Deed of Charge and the other Issuer Transaction Documents, including, but not limited to (in the case of New Notes), those concerning:
- (i) the basis on which the Note Trustee and the Issuer Security Trustee will be required to exercise their respective rights, powers, trusts, authorities, duties and discretions (including in circumstances where, in the opinion of the Note Trustee or the Issuer Security Trustee, there is a conflict between the interests of any class of the Noteholders and the holders of Further Notes and/or New Notes);
  - (ii) the circumstances in which the Note Trustee and the Issuer Security Trustee will become bound to take action, as referred to in **Condition 10 (Issuer Events of Default)**;
  - (iii) meetings of Noteholders and the passing of effective Extraordinary Resolutions; and
  - (iv) the order of priority of payments both prior to, and upon, enforcement of the Issuer Security,

will be modified in such manner as the Note Trustee or, as the case may be, the Issuer Security Trustee considers necessary to reflect the issue of such Further Notes or, as the case may be, New Notes and any new Issuer Transaction Documents entered into in connection with such Further Notes or, as the case may be, New Notes and the ranking thereof and of the claims of any party to any of such new Issuer Transaction Documents in relation to each class of the Notes.

### 3.2 *Security*

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

## 4. **COVENANTS**

Save with the prior written consent of the Note Trustee or unless otherwise permitted under any of the Issuer 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 in which the Issuer 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) or any employees 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) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares;
- (e) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (f) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;

- (g) **No modification or waiver:** permit any of the Issuer 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 Issuer Transaction Documents to which it is a party or permit any party to any of the Issuer Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Issuer Transaction Documents to which it is a party;
- (h) **Bank accounts:** have an interest in any bank account other than the Issuer Transaction Accounts, unless such account or interest therein is charged to the Issuer Security Trustee on terms acceptable to it;
- (i) **VAT:** apply to become part of any group for the purposes of Section 43 of the Value Added Tax Act 1994 with any other company or group of companies, or such act, regulation, order, statutory instrument or directive which may from time to time re-enact, replace, amend, vary, codify, consolidate or repeal the Value Added Tax Act 1994;
- (j) **Surrender of group relief:** unless otherwise agreed with the Issuer Security Trustee and following receipt of prior written confirmation from the Rating Agencies that the then current ratings of the Programme Notes would not be downgraded, withheld or qualified as a result of such surrender, offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988;
- (k) **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 income tax principles; or
- (l) **Purchase of Notes:** purchase or acquire any Note.

## 5. INTEREST

### 5.1 *Interest Accrual*

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 Note Trust Deed.

### 5.2 *Note Payment Dates*

The Notes (other than the Series 1 Class A Notes) bear interest on their respective Principal Amounts Outstanding from and including the Closing Date payable quarterly in arrear on the 20th day of March, June, September and December in each year (each a **Quarterly Note Payment Date** in respect of the Interest Period (as defined below) ended immediately prior thereto).

The Series 1 Class A Notes bear interest on their Principal Amounts Outstanding from and including the Closing Date payable monthly in arrear on the 20th day of each consecutive month until the earliest of the Quarterly Note Payment Date immediately following (i) the occurrence of a Trigger Event and (ii) the date upon which Issuer Security becomes enforceable (each a **Note Payment Date Change Event**), and thereafter payable quarterly in arrear on the 20th day of March, June, September and December on each Quarterly Note Payment Date (each such day a **Series 1 Note Payment Date**, and together with a Quarterly Note Payment Date, each a **Note Payment Date**).

If any Note Payment Date would otherwise fall on a day which is not a Business Day, it shall be postponed to the next day which is a Business Day unless it would then fall into the next calendar month, in which event the Note Payment Date shall be brought forward to the immediately preceding Business Day.

The first payment of interest (other than in respect of the Series 1 Class A Notes) shall be due on 20th December, 2004 and, in the case of the Series 1 Class A Notes, on 20th October, 2004.

In these Conditions, the **Interest Period** shall mean:

- (i) in respect of the Notes (other than the Series 1 Class A Notes), the period from and including a Quarterly Note Payment Date (or in respect of the first Interest Period, the Closing Date) to but excluding the next succeeding (or first) Quarterly Note Payment Date; and
- (ii) in respect of the Series 1 Class A Notes, the period from and including a Series 1 Note Payment Date (or in respect of the first Interest Period, the Closing Date) to but excluding the next succeeding (or first) Series 1 Note Payment Date.

### **5.3 Rate of Interest**

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

- (a) **USD-LIBOR** in relation to the Dollar Notes:
  - (i) on the initial Dollar Interest Determination Date (as defined below), the Agent Bank will determine the Initial Relevant Screen Rate (as defined below) in respect of each class of Dollar Notes at approximately 11.00 a.m. (London time) on that Dollar Interest Determination Date. If the Initial Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks (as defined below) to provide the Agent Bank with the rate at which Dollar deposits of \$10,000,000 are offered by it to prime banks in the London interbank market for two months and three months at approximately 11.00 a.m. (London time) on such Dollar Interest Determination Date. The Rate of Interest for the first Interest Period shall be the aggregate of (a) the Relevant Margin (as defined below) and (b) the Initial Relevant Screen Rate in respect of the Dollar Notes or, if the Initial Relevant Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, (in the case of the Series 1 Class A Notes) the linear interpolation of the arithmetic mean of such rates for two-week Dollar deposits and the arithmetic mean of such rates for one-month Dollar deposits and (in all other cases) the linear interpolation of the arithmetic mean of such rates for two-month Dollar deposits and the arithmetic mean of such rates for three-month Dollar deposits (in each case, rounded upwards, if necessary, to five decimal places);
  - (ii) on each subsequent Dollar Interest Determination Date, the Agent Bank will determine the Relevant Screen Rate (as defined below) in respect of each class of Dollar Notes at approximately 11.00 a.m. (London time) on the Dollar Interest Determination Date in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with the rate at which Dollar deposits of \$10,000,000 are offered by it to prime banks in the London interbank market for three months at 11.00 a.m. (London time) on the relevant Dollar Interest Determination Date. The Rates of Interest for the relevant Interest Period shall be the aggregate of (a) the Relevant Margin and (b) the Relevant Screen Rate or, if the Relevant Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean of such offered rates for (in the case of the Series 1 Class A Notes) one-month Dollar deposits and (in all other cases) three-month Dollar deposits (in each case, rounded upwards, if necessary, to five decimal places); and
  - (iii) if fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in London, selected by the Agent Bank in consultation with the Note Trustee (which banks are in the opinion of the Note Trustee suitable for such purpose), at approximately 11.00 a.m. (London time) on the first day of such Interest Period for loans of \$10,000,000 to leading European banks for a period of (in the case of the Series 1 Class A Notes) two weeks and (in all other cases) two months (in respect of the first Interest Period) and (in the case of the Series 1 Class A Notes) one month and (in all other cases) three months (in respect of any other Interest Period) commencing on the first day of such Interest Period plus the applicable Relevant Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Relevant Margin is to be

applied to the relevant Interest Period from that which applied to the preceding Interest Period, the Relevant Margin relating to the relevant Interest Period, in place of the Relevant Margin relating to that preceding Interest Period).

(b) **EURIBOR** in relation to the Euro Notes:

- (i) on the initial Euro Interest Determination Date (as defined below), the Agent Bank will determine the Initial Relevant Screen Rate (as defined below) in respect of each class of Euro Notes at approximately 11.00 a.m. (Brussels time) on that Euro Interest Determination Date. If the Initial Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with the rate at which Euro deposits of €10,000,000 are offered by it to prime banks in the Eurozone interbank market for two months and three months at approximately 11.00 a.m. (Brussels time) on such Euro Interest Determination Date. The Rates of Interest for the first Interest Period shall be the aggregate of (a) the Relevant Margin and (b) the Initial Relevant Screen Rate in respect of the Euro Notes or, if the Initial Relevant Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the linear interpolation of the arithmetic mean of such offered quotations rates for two-month Euro deposits and the arithmetic mean of such offered quotations rates for three-month Euro deposits (rounded upwards, if necessary, to five decimal places);
- (ii) on each subsequent Euro Interest Determination Date the Agent Bank will determine the Relevant Screen Rate in respect of the Euro Notes at approximately 11.00 a.m. (Brussels time) on the Euro Interest Determination Date in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with the rate at which Euro deposits of €10,000,000 are offered by it to prime banks in the Eurozone interbank market for three months at approximately 11.00 a.m. (Brussels time) on the relevant Euro Interest Determination Date. The Rate of Interest for the relevant Interest Period shall be the aggregate of (a) the Relevant Margin and (b) the Relevant Screen Rate or, if the Relevant Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean of such rates for three-month Euro deposits (rounded upwards, if necessary, to five decimal places); and
- (iii) if fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in the Euro-zone, selected by the Agent Bank in consultation with the Note Trustee (which banks are in the opinion of the Note Trustee suitable for such purpose), at approximately 11.00 a.m. (Brussels time) on the first day of such Interest Period for Euro loans of €10,000,000 to leading European banks for a period of three months (in respect of the first Interest Period) two months and (in respect of any other Interest Period) three months and (in respect of any other Interest Period) commencing on the first day of such Interest Period, plus the applicable Relevant Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Euro Interest Determination Date (though substituting, where a different Relevant Margin is to be applied to the relevant Interest Period from that which applied to the preceding Interest Period, the Relevant Margin relating to the relevant Interest Period, in place of the Relevant Margin relating to that preceding Interest Period).

(c) **LIBOR** in relation to the Sterling Notes:

- (i) on the initial Sterling Interest Determination Date (as defined below), the Agent Bank will determine the Initial Relevant Screen Rate in respect of the Sterling Notes, at approximately 11.00 a.m. (London time) on that Sterling Interest Determination Date. If the Initial Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with the rate at which Sterling deposits of £10,000,000 are offered by it to prime banks in the London interbank market for two months and three months at approximately 11.00 a.m. (London time) on such initial Sterling Interest Determination Date. The Rate of Interest for the first Interest Period shall be the aggregate of (a) the Relevant Margin and (b) the Initial Relevant Screen Rate in

respect of the Sterling Notes, or, if the Initial Relevant Screen Rate is unavailable and at least two of the Reference Banks provide such rates, the linear interpolation of the arithmetic mean of such rates for two-month Sterling deposits and the arithmetic mean of such rates for three-month Sterling deposits (rounded upwards, if necessary, to five decimal places);

- (ii) on each subsequent Sterling Interest Determination Date in the case of the Sterling Notes, the Agent Bank will determine the Relevant Screen Rate in respect of the Sterling Notes, as at approximately 11.00 a.m. (London time) on the Sterling Interest Determination Date in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month Sterling deposits of £10,000,000 in the London interbank market for three months as at or about approximately 11.00 a.m. (London time) on the relevant Sterling Interest Determination Date and the Rates of Interest for the relevant Interest Period shall be the aggregate of (a) the Relevant Margin and (b) the Relevant Screen Rate or, if the Relevant Screen Rate is unavailable, and at least two of the Reference Banks provide such rates, the arithmetic mean of such offered quotations rates for Sterling deposits (rounded upwards, if necessary, to five decimal places); and
  - (iii) if fewer than two rates are provided as requested, the Rate of Interest for that Interest Period will be the arithmetic mean of the rates quoted by major banks in London, selected by the Agent Bank in consultation with the Note Trustee (which banks are in the opinion of the Note Trustee suitable for such purpose), at approximately 11.00 a.m. (London time) on the first day of such Interest Period for Sterling loans of £10,000,000 to leading European banks for a period of (in respect of the first Interest Period) two months and three months and (in respect of any other Interest Period) three months commencing on the first day of such Interest Period plus the applicable Relevant Margin. If the Rate of Interest cannot be determined in accordance with the above provisions, the Rate of Interest shall be determined as at the last preceding Sterling Interest Determination Date (though substituting, where a different Relevant Margin is to be applied to the relevant Interest Period from that which applied to the preceding Interest Period, the Relevant Margin relating to the relevant Interest Period, in place of the Relevant Margin relating to that preceding Interest Period).
- (d) In these Conditions (except where otherwise defined), the expression:

**Business Day** means (except in **Conditions 6.4 (Payment on Business Days)** and **6.8 (Payment of Interest)**) a day which is a New York Business Day, a London Business Day and a TARGET Business Day. A **New York Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in the city of New York; **London Business Day** means a day (other than a Saturday or a Sunday) on which banks are generally open for business in London; and **TARGET Business Day** means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System is open;

**Dollar Interest Determination Date**, in respect of Dollar Notes, means two London Business Days before the first day of the Interest Period for which the rate will apply (or if such day is not a Business Day, the next succeeding Business Day);

**Euro Interest Determination Date**, in respect of Euro Notes, means two TARGET Business Days before the first day of the Interest Period for which the rate will apply;

**Eurozone** means the region comprised of member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25th March, 1957) as amended from time to time;

**Initial Relevant Screen Rate** means:

- (a) in respect of the Dollar Notes, (in the case of the Series 1 Class A Notes) the linear interpolation of the rate for two-week Dollar deposits and the rate for one-month Dollar deposits and (in all other cases), the linear interpolation of the rate for two-

month Dollar deposits and the rate for three-month Dollar deposits in the London interbank market (in each case) (rounded upwards, if necessary, to five decimal places), displayed on the Moneyline Telerate Monitor at Telerate page number 3750;

- (b) in respect of the Euro Notes, the linear interpolation of the rate for two-month Euro deposits and the rate for three-month Euro deposits in the Euro-zone interbank market (in each case) (rounded upwards, if necessary, to five decimal places), displayed on the Moneyline Telerate Monitor at Telerate page number 248; and
- (c) in respect of the Sterling Notes, the linear interpolation of the rate for two-month Sterling deposits and the rate in the London interbank market for three-month Sterling deposits (in each case) (rounded upwards, if necessary, to five decimal places), displayed on the Moneyline Telerate Monitor at Telerate page number 3750,

in each case, displayed on the above-mentioned page of the Moneyline Telerate Monitor (or such other replacement page on that service which displays the information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer with the approval of the Note Trustee (which shall not be unreasonably withheld) (rounded upwards, if necessary, to five decimal places).

**Reference Banks** means, in relation to the Dollar Notes and the Sterling Notes, the principal London office of each of four major banks engaged in the London interbank market or, in relation to Euro Notes, the principal Euro-zone office of each of four major banks engaged in the Euro-zone interbank market, in each case selected by the Agent Bank with the approval of the Issuer provided that, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such;

**Relevant Margin** means in respect of each class of the Notes the following per cent. per annum:

Class	Up to and including the Interest Period ending in 20th June, 2011	Thereafter
Series 1 Class A Notes . . . . .	N/A	N/A
Series 2 Class A1 Notes . . . . .	0.17%	0.34%
Series 2 Class A2 Notes . . . . .	0.17%	0.34%
Series 2 Class A3 Notes . . . . .	0.18%	0.36%
Series 2 Class B1 Notes . . . . .	0.35%	0.70%
Series 2 Class B2 Notes . . . . .	0.33%	0.66%
Series 2 Class C1 Notes . . . . .	1.00%	2.00%
Series 2 Class C2 Notes . . . . .	0.95%	1.90%
Series 3 Class A1 Notes . . . . .	0.20%	0.40%
Series 3 Class A2 Notes . . . . .	0.21%	0.42%
Series 3 Class B1 Notes . . . . .	0.40%	0.80%
Series 3 Class B2 Notes . . . . .	0.38%	0.76%
Series 3 Class C1 Notes . . . . .	1.05%	2.05%
Series 3 Class C2 Notes . . . . .	1.05%	2.05%
Series 3 Class D1 Notes . . . . .	3.25%	4.25%
Series 3 Class D2 Notes . . . . .	3.25%	4.25%

**Relevant Screen Rate** means:

- (a) in respect of each Interest Period (other than the first Interest Period) of the Dollar Notes, the rate to leading banks for (in the case of the Series 1 Class A Notes) one-month Dollar deposits and (in all other cases) three-month Dollar deposits in the London interbank market displayed on the Moneyline Telerate Monitor at Telerate page number 3750;
- (b) in respect of each Interest Period (other than the first Interest Period) of the Euro Notes, the rate to prime leading banks for three-month Euro deposits in the Eurozone interbank market displayed on the Moneyline Telerate Monitor at Telerate page number 248; and

- (c) in respect of each Interest Period (other than the first Interest Period) of the Sterling Notes, the arithmetic mean of offered quotations rates to leading banks for three-month Sterling deposits in the London interbank market displayed on the Moneyline Telerate Monitor at Telerate page number 3750;

in each case, displayed on the above-mentioned page of the Moneyline Telerate Monitor (or such replacement page on that service which displays the information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer with the approval of the Note Trustee (which shall not be unreasonably withheld) (rounded upwards, if necessary, to five decimal places); and

**Sterling Interest Determination Date**, in respect of Sterling Notes, means the first day of the Interest Period for which the rate will apply.

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

The Agent Bank shall, as soon as practicable after 11.00 a.m. (London time) on each Dollar Interest Determination Date, Euro Interest Determination Date and Sterling Interest Determination Date, determine (i) the Rate of Interest applicable in each class of Notes for the relevant Interest Period and (ii) the Dollar amount (in the case of a Dollar Note), the Euro amount (in the case of a Euro Note) and the Sterling amount (in the case of a Sterling Note) (each an **Interest Amount**) payable in respect of interest on the Principal Amount Outstanding of each class of the Notes for the relevant Interest Period.

The Interest Amount 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 (in the case of Sterling Notes) 365 and (in the case of Dollar Notes and Euro Notes) 360 and rounding the resulting figure downwards to the nearest cent (in the case of Dollar Notes), the nearest Euro 0.01 (in the case of Euro Notes) and the nearest penny (in the case of Sterling Notes) and then apportioning the resulting total between the Noteholders of the relevant class of Notes, *pari passu* without preference or priority amongst themselves. For these purposes, in the case of the Series 1 Class A Notes, following a Trigger Event or upon the Issuer Security having become enforceable in accordance with the Issuer Deed of Charge, the Principal Amount Outstanding will include any amount of interest which would otherwise be payable on a monthly Series 1 Note Payment Date, the payment of which is deferred until the next monthly Series 1 Note Payment Date and will itself bear interest at the rate of interest applicable to the subsequent Interest Periods in respect of the Series 1 Class A Notes until the next Quarterly Note Payment Date.

#### **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 the related Note Payment Date to be notified to the Issuer, the Note Trustee, the Issuer Cash Manager, the Registrar and the Paying Agents and to any stock exchange or other relevant authority on which the Notes are at the relevant time listed and to be given in accordance with **Condition 15 (Notice to Noteholders)** as soon as possible after their determination and in no event later than the second Business Day thereafter. The Interest Amounts and Note 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 shall, 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 Rates of Interest and Interest Amounts)**) and the determinations shall be deemed to be determinations 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 5.7**, whether by the Reference Banks (or any of them), the Agent Bank or the Note Trustee, will (in

the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Note Trustee, the Agent Bank, the Paying Agents and all Noteholders and (in the absence of wilful default, bad faith or manifest error) no liability to the Issuer or the Noteholders or any person shall attach to the Reference Banks (or any of them), the Agent Bank 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 5.7**.

## **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 the London office of another major bank engaged in the London 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 Payments in respect of Notes**

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Note will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Note appearing in the Register at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.\$250,000 (or its approximate equivalent in any other currency), payment will instead be made by a cheque in the relevant currency drawn on a Designated Bank (as defined below). For these purposes, **Designated Account** means the account (which, in the case of a payment in Japanese yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a Designated Bank and identified as such in the Register and **Designated Bank** means (in the case of payment in a currency other than euro) a bank in the principal financial centre of the country of such currency and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Note will be made by a cheque in the relevant currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Note appearing in the Register at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the **Record Date**) at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder.

None of the Issuer or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The holder of Global Certificates shall be the only person entitled to receive payments in respect of Notes represented by such Certificates and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Certificate in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular principal amount of Notes represented by such Global Certificates must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Certificates.

## **6.2 *Payments subject to Applicable Laws***

Payments in respect of principal, premium (if any) and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of **Condition 8 (Taxation)**.

## **6.3 *No commissions***

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this **Condition 6.3**.

## **6.4 *Payment on Business Days***

Where payment is to be made by transfer to a Designated Account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of interest due otherwise than on a Note Payment Date, if later, on the Business Day on which the relevant Global Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Global Certificate (if required to do so) or if a cheque mailed in accordance with this **Condition 6.4** arrives after the due date for payment.

In this **Condition 6.4 Business Day** means a day which is a: (i) New York Business Day; (ii) London Business Day; (iii) TARGET Business Day; and (iv) if applicable, a day on which banks are generally open for business in the place in which the Global Certificate is presented.

## **6.5 *Partial Payments***

If the amount of principal, premium (if any) or interest which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount of principal, premium (if any) or interest in fact paid.

## **6.6 *Agents***

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Notes are admitted to official listing on the London Stock Exchange shall be London or such other place as the UK Listing Authority may approve;
- (c) 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 other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) there will at all times be a Registrar; and
- (e) there will at all times be an Agent Bank.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with **Condition 15 (Notice to Noteholders)**.

## **6.7 Payment of Interest**

If interest is not paid in respect of a Note of any class on the date when due and payable (other than because the due date is not a Business Day (as defined in **Condition 6.4 (Payment on Business Days)**) or by reason of non-compliance with **Condition 6.1 (Payments in respect of Notes)**), then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note up to and excluding the date of payment of such interest and interest thereon is paid in full and notice thereof has been duly given in accordance with **Condition 15 (Notice to Noteholders)**.

## **7. REDEMPTION**

### **7.1 Redemption at Maturity**

Unless previously redeemed in full or purchased and cancelled as provided below, the Issuer will redeem the Notes at their respective Principal Amount Outstanding (as defined below) on the Note Payment Date falling in the case of the Series 1 Class A Notes, September 2005, in the case of Series 2 Class A1 Notes, September 2034, in the case of Series 2 Class A2 Notes, September 2034, in the case of Series 2 Class A3 Notes, September 2034, in the case of Series 2 Class B1 Notes, September 2066, in the case of Series 2 Class B2 Notes, September 2066, in the case of Series 2 Class C1 Notes, September 2066, in the case of Series 2 Class C2 Notes, September 2066, in the case of Series 3 Class A1 Notes, September 2066, in the case of Series 3 Class A2 Notes, September 2066, in the case of Series 3 Class B1 Notes, September 2066, in the case of Series 3 Class B2 Notes, September 2066, in the case of Series 3 Class C1 Notes, September 2066, in the case of Series 3 Class C2 Notes, September 2066, in the case of Series 3 Class D1 Notes, September 2066 and, in the case of Series 3 Class D2 Notes, September 2066 (each such date being the **Final Maturity Date** of the relevant class of Notes).

### **7.2 Mandatory redemption**

Each class of Notes shall be redeemed on each Note Payment Date other than a Note Payment Date on which the Notes are to be redeemed under **Conditions 7.1 (Redemption at Maturity)**, **7.3 (Optional Redemption)**, **7.4 (Optional Redemption for Taxation or Other Reasons)** or **7.6 (Redemption or Purchase following a Regulatory Event)**, in an amount equal to the amount (if any) repaid on the corresponding Note Payment Date in respect of, and pursuant to, the Term Advance corresponding to such class of Notes, converted, in the case of Term Advances corresponding to Notes denominated in Dollars or Euro, at the relevant Issuer Dollar Currency Exchange Rate or the relevant Issuer Euro Currency Exchange Rate, as the case may be.

### **7.3 Optional redemption**

- (a) On giving not more than 60 nor less than 30 days' notice to the relevant Noteholders in accordance with **Condition 15 (Notice to Noteholders)** and to the Registrar and the Note Trustee and provided that (A) on or prior to the Note 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, certified to the Note Trustee that it will have the necessary funds to pay all principal, premium (if any) and interest due in respect of the relevant class or classes of Notes on the relevant Note Payment Date and to discharge all other amounts required to be paid by it on the relevant Note Payment Date, the Issuer may redeem all (but not some only) of the Notes on:
- (i) any Note Payment Date falling on or after the Note Payment Date in June 2011; or
  - (ii) any Note Payment Date on which the aggregate Principal Amount Outstanding of the Notes then outstanding is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date.

Subject as provided below, the Issuer shall, on exercise of its option to redeem pursuant to this **Condition 7.3(a)**, redeem Notes in the order set out in the Issuer Pre-Enforcement Principal Priority of Payments.

- (b) Any Note redeemed pursuant to this **Condition 7.3(b)** will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note 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 Note Payment Date, the Issuer or the Paying Agents would be required to deduct or withhold from any payment of principal or interest on any 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 class) any amount for or on account of any present or future Taxes imposed, levied, collected, withheld or assessed by the government of the United Kingdom or any political sub-division thereof or any authority thereof or therein;
- (b) by reason of a change in law, which change becomes effective on or after the Closing Date it has become or will become unlawful for the Issuer to make, fund or allow to remain outstanding all or any advances made or to be made by it under the Intercompany Loan Agreement; or
- (c) 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 Note Payment Date, Funding 1 would be required to deduct or withhold from any payment of principal, interest or other sum due and payable pursuant to the Intercompany Loan Agreement any amount for or on account of any present or future Taxes imposed, levied, collected, withheld or assessed by the government of the United Kingdom or any political sub-division thereof or any authority thereof or therein,

then the Issuer shall, if the same would avoid the effect of the relevant event described in **sub-paragraph (a), (b) or (c)** 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 or as lender under the Intercompany Loan Agreement, as the case may be, provided that the Note Trustee is satisfied that such substitution will not be materially prejudicial to the interests of the Noteholders.

If the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that one or more of the events described in **sub-paragraph (a), (b) or (c)** 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 Note Payment Date and having given not more than 60 nor less than 30 days' notice (or, in the case of an event described in **sub-paragraph (b)** above, such shorter period expiring on or before the latest date permitted by relevant law) to the Noteholders in accordance with **Condition 15 (Notice to Noteholders)** and to the Registrar and the Note Trustee and having certified to the Note Trustee that it will have the necessary funds to pay all principal and interest due in respect of the Notes on the relevant Note Payment Date and to discharge all other amounts required to be paid by it on the relevant Note Payment Date, redeem all, but not some only, of the Notes at their respective Principal Amounts Outstanding together with accrued but unpaid interest up to but excluding the date of redemption.

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

The **Principal Amount Outstanding** of a Note on any date shall be its original principal amount at the Closing Date less any payments of principal in respect of such Note which have become due and payable and have been paid since the Closing Date except if and to the extent that any such payment has been improperly withheld or refused.

## **7.6 Redemption or Purchase following a Regulatory Event**

- (a) If:
- (i) the New Basel Capital Accord (as described in the new framework for the Accord published on 26th June, 2004) has been implemented in the United Kingdom, whether by rule of law, recommendation of best practices or by any other regulation,
  - (ii) a Note Acceleration Notice has not been served on the relevant Note Payment Date for the exercise of the Purchase Option or Redemption Option, as the case may be,
  - (iii) the Issuer has given not more than 60 days' and not less than 30 days' (or such shorter period as may be required by any relevant law) prior written notice to the Note Trustee, the counterparties under the Issuer Swap Agreements and the relevant Noteholders, in accordance with **Condition 15 (Notices)**, of the exercise of the Purchase Option or Redemption Option, as the case may be,
  - (iv) each Rating Agency has confirmed to the Issuer in writing that its then current ratings of the remaining Notes or Programme Notes of Programme Issuers would not be withdrawn, qualified or downgraded as a result of the exercise of the Purchase Option or Redemption Option, as the case may be, and
  - (v) prior to giving any such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that the Issuer will have sufficient funds to purchase or redeem, as the case may be, the Called Notes in accordance with this **Condition 7.6** on the relevant Note Payment Date,

then, within a period of 12 months following the later of the Note Payment Date falling in March 2009 and the implementation of the New Basel Capital Accord:

- (vi) the Issuer has the right (the **Purchase Option**) to require holders of all but not some only of one or more classes of the Notes (collectively, the **Called Notes**) to transfer the Called Notes to the Issuer on any Note Payment Date falling on or after the Note Payment Date in March 2009 for a price equal to the Specified Amount, together with any accrued interest on the Called Notes up to but excluding the date of redemption, or
  - (vii) the Issuer may redeem (the **Redemption Option**) the Called Notes on any Note Payment Date falling on or after the Note Payment Date in March 2009 at the Specified Amount, together with any accrued interest on the Called Notes up to but excluding the date of redemption.
- (b) The Called Notes transferred to the Issuer pursuant to the Purchase Option shall remain outstanding until the date on which they would otherwise be redeemed or cancelled in accordance with the Conditions.
- (c) Each holder of Called Notes shall be deemed to have authorised and instructed Euroclear, Clearstream, Luxembourg or, as the case may be, DTC to effect the transfer of its Called Notes on the relevant Note Payment Date to the Issuer, in accordance with the rules for the time being of Euroclear, Clearstream, Luxembourg or, as the case may be, DTC.
- (d) The Issuer shall procure that the Registrar will record such redemption or transfer on the Register.
- (e) **Specified Amount** means, in respect of any Called Notes, the Principal Amount Outstanding of the Called Notes.

## **7.7 Notice of redemption**

Any such notice as is referred to in **Condition 7.3(a) (Optional Redemption)**, **Condition 7.4 (Optional Redemption for Taxation or Other Reasons)** and **Condition 7.6 (Redemption or Purchase following a Regulatory Event)** 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.

## **7.8 No purchase by the Issuer**

Subject to **Condition 7.6 (Redemption or Purchase following a Regulatory Event)**, the Issuer will not be permitted to purchase any of the Notes.

## 7.9 Cancellation

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

## 7.10 Interpretation of principal

For the avoidance of doubt, any reference in these Conditions to principal in respect of the Notes shall be deemed to include, as applicable, the Specified Amount.

## 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 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 ten years (in the case of principal and premium (if any) 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, the US Paying Agent or the Note Trustee on or prior to such date) the date on which, the full amount of such moneys having been received, notice to that effect is duly given to the relevant Noteholders in accordance with **Condition 15 (Notice to Noteholders)**.

## 10. ISSUER EVENTS OF DEFAULT

### 10.1 Class A Notes

The Note Trustee at its discretion may, and if so requested in writing by the holders of at least one-quarter in aggregate Principal Amount Outstanding of the Class A Notes then outstanding or if so directed by an Extraordinary Resolution of the Class A 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) to (f), 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 A Noteholders) give notice (a **Note Acceleration Notice**) to the Issuer in any of the following events (each, an **Issuer Event of Default**):

- (a) default being made for a period of five Business Days in the payment of principal of or any interest on any Class A Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) if the Issuer fails to perform or observe any of its other obligations binding upon it under these Conditions or any Issuer Transaction Document to which it is a party and (except in any case where the Note Trustee or, in the case of the Issuer Deed of Charge, the Issuer Security 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 the period of 30 days (or such longer period as the Note Trustee or, as the case may be, the Issuer Security Trustee may permit) following the service by the Note Trustee or, as the case may be, the Issuer Security 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 an Extraordinary Resolution of the Class A 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 an Extraordinary Resolution of the Class A 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) and such proceedings are not, in the opinion of the Note Trustee or, as applicable, the Issuer Security Trustee, being disputed in good faith with reasonable prospect of success 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, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, diligence, 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); or
- (g) if any acceleration of the Term Advances shall occur pursuant to the Intercompany Loan Agreement, while any of the Class A Notes are outstanding.

### **10.2 Class B 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 B Note is outstanding, the Note Trustee at its absolute discretion may, and if so requested in writing by the holders of at least one-quarter in aggregate Principal Amount Outstanding of the Class B Notes then outstanding or if so directed by an Extraordinary Resolution of the Class B 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 (b)** below (other than an Issuer Event of Default referred to in **Condition 10.1(g)**), 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 B Noteholders), give a **Note Acceleration Notice** to the Issuer in any of the following events (each, an **Issuer Event of Default**):

- (a) default being made for a period of five Business Days in the payment of principal of or any interest on any Class B Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) if any of the events referred to in **Condition 10.1(b)** to **(g)** occurs provided that any references therein to Class A Notes and Class A Noteholders shall be read as references to Class B Notes and Class B Noteholders, respectively.

### **10.3 Class C Notes**

This **Condition 10.3** shall not apply as long as any Class A Note or Class B Note is outstanding. Subject thereto, for so long as any Class C Note is outstanding, the Note Trustee at its absolute discretion may, and if so requested in writing by the holders of at least one-quarter in aggregate Principal Amount Outstanding of the Class C Notes then outstanding or if so directed by an

Extraordinary Resolution of the Class C 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-paragraph (b)** below (other than an Issuer Event of Default referred to in **Condition 10.1(g)**), 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 C Noteholders), give a **Note Acceleration Notice** to the Issuer in any of the following events (each, an **Issuer Event of Default**):

- (a) default being made for a period of five Business Days in the payment of principal of or any interest on any Class C Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) if any of the events referred to in **Condition 10.1(b)** to **(g)** occurs provided that any references therein to Class A Notes and Class A Noteholders shall be read as references to Class C Notes and Class C Noteholders, respectively.

#### **10.4 Class D Notes**

This **Condition 10.4** shall not apply as long as any Class A Note, Class B Note or Class C Note is outstanding. Subject thereto, for so long as any Class D Note is outstanding, the Note Trustee at its absolute discretion may, and if so requested in writing by the holders of at least one-quarter in aggregate Principal Amount Outstanding of the Class D Notes then outstanding or if so directed by an Extraordinary Resolution of the Class D 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 (b) below (other than an Issuer Event of Default referred to in **Condition 10.1(g)**), 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 D Noteholders) give a **Note Acceleration Notice** to the Issuer in any of the following events (each, an **Issuer Event of Default**):

- (a) default being made for a period of five Business Days in the payment of principal of or any interest on any Class D Notes when and as the same ought to be paid in accordance with these Conditions; or
- (b) if any of the events referred to in **Condition 10.1(b)** to **(g)** occurs provided that any references therein to Class A Notes and Class A Noteholders shall be read as references to Class D Notes and Class D Noteholders, respectively.

#### **10.5 General**

Upon the service of a Note Acceleration Notice by the Note Trustee in accordance with **Condition 10.1, 10.2, 10.3, or 10.4** above, all classes of 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 Note Trust Deed. The Issuer Security will become enforceable upon service of a Note Acceleration Notice.

### **11. ENFORCEMENT**

Each of the Note Trustee and the Issuer 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 Issuer Transaction Documents as it may think fit to enforce the provisions of (in the case of the Note Trustee) the Notes or the Note Trust Deed (including these Conditions) or (in the case of the Issuer Security Trustee) the Issuer Deed of Charge or (in either case) any of the other Issuer Transaction Documents to which it is a party and at any time after the Issuer Security shall have become enforceable the Issuer Security Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Issuer Security, but neither of them shall be bound to take any such proceedings or steps or (subject to **Conditions 10.1, 10.2, 10.3 and 10.4**) take any other action in respect of the Issuer Transaction Documents unless:

- (a) (subject in all cases to restrictions contained in the Note Trust Deed or, as the case may be, the Issuer Deed of Charge 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, the Class B Noteholders, the Class C Noteholders or the Class D Noteholders or so requested in writing by the holders of at least one-quarter in aggregate of the Principal Amount Outstanding of the Class A Notes, the Class B Notes, the Class C Notes, or the Class D Notes then outstanding or, in the case of the Issuer Security Trustee

(subject to restrictions contained in the Issuer Deed of Charge to protect the interest or interests of any higher ranking class or classes of Noteholders) it has been so directed by the Note Trustee acting on the instructions of an Extraordinary Resolution of Noteholders of the relevant class, or so requested by any other Issuer Secured Creditor; and

(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 Issuer Transaction Documents unless the Note Trustee or, as the case may be, the Issuer 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 B Noteholder, Class C Noteholder or Class D Noteholder will be entitled to take proceedings for the winding up or administration of the Issuer unless:

- there are no outstanding Notes of a class with higher priority; or
- if Notes of a class with higher priority are outstanding, there is consent of holders of at least one-quarter of the aggregate Principal Amount Outstanding of the class or classes of Notes with higher priority.

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

**If, upon the Issuer Security having been enforced and realised to the maximum possible extent as certified by the Issuer Security Trustee to the Note Trustee after payment of all other claims ranking in priority to the Class B Notes, the Class C Notes and the Class D Notes (as the case may be) under the Issuer 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 B Notes, the Class C Notes and the Class D Notes (as the case may be) and all other claims ranking *pari passu* therewith, then the Class B Noteholders and/or the Class C Noteholders and/or the Class D 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 Issuer Deed of Charge). On the date of such payment (the Option Exercise Date), the Registrar will, at the request of Aire Valley PECO Limited (the Post-Enforcement Call Option Holder), on the Register transfer all (but not some only) of the Class B Notes and/or the Class C Notes and/or the Class D 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 a post-enforcement call option agreement (the Post-Enforcement Call Option Agreement) dated on or about the Closing Date between the Issuer, the Post-Enforcement Call Option Holder, the Note Trustee and the Issuer Security Trustee. Immediately upon such transfer, no such former Class B Noteholder, Class C Noteholder or Class D Noteholder shall have any further interest in the Class B Notes, the Class C Notes or the Class D Notes (as the case may be). Each of the Class B Noteholders, the Class C Noteholders and the Class D 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 B Noteholder, Class C Noteholder or Class D Noteholder (as the case may be), by subscribing for or purchasing the Class B Notes, the Class C Notes or the Class D Notes (as the case may be), agrees to be so bound.**

## **12. MEETINGS OF NOTEHOLDERS, MODIFICATION AND WAIVER**

12.1 The Note Trust Deed and the Issuer Deed of Charge contain provisions for convening meetings of the Noteholders of any series and/or class and, in certain cases, more than one series and/or class to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes (including these Conditions) or the provisions of any of the Issuer Transaction Documents.

12.2 Subject to **Condition 10.1 (Class A Notes)**, an Extraordinary Resolution passed at any meeting of the Class A Noteholders shall be binding on the Class B Noteholders, the Class C Noteholders and the Class D 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 Issuer Transaction Documents or a waiver or authorisation of any breach or proposed breach thereof or certain other matters specified in the Note Trust Deed or, as the case may be, the Issuer Deed of Charge will not take effect unless the Note Trustee or, as the case may be, the Issuer

Security Trustee is of the opinion that it would not be materially prejudicial to the interests of any of the other classes of Noteholders or it shall have been sanctioned by Extraordinary Resolutions of the Class B Noteholders, the Class C Noteholders and the Class D Noteholders.

- 12.3 An Extraordinary Resolution (other than an Extraordinary Resolution referred to in **Condition 12.2** above) passed at any meeting of the Class B Noteholders shall not be effective for any purpose unless either the Note Trustee or, as the case may be, the Issuer 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 **Condition 12.4** below.
- 12.4 Subject to **Condition 10.2 (Class B Notes)**, an Extraordinary Resolution passed at any meeting of the Class B Noteholders shall be binding on the Class C Noteholders and the Class D 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 Issuer Transaction Documents or a waiver or authorisation of any breach or proposed breach thereof or certain other matters specified in the Issuer Deed of Charge or, as the case may be, the Note Trust Deed will not take effect unless the Note Trustee or, as the case may be, the Issuer Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class C Noteholders and the Class D Noteholders or it shall have been sanctioned by an Extraordinary Resolution of the Class C Noteholders and the Class D Noteholders.
- 12.5 An Extraordinary Resolution (other than an Extraordinary Resolution referred to in **Condition 12.2** or **12.4** above) passed at any meeting of the Class C Noteholders shall not be effective for any purpose unless:
- (a) either the Note Trustee or, as the case may be, the Issuer 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; and
  - (b) either the Note Trustee or, as the case may be, the Issuer Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class B Noteholders or it is sanctioned by an Extraordinary Resolution of the Class B Noteholders.
- 12.6 Subject to **Condition 10.3 (Class C Notes)**, an Extraordinary Resolution passed at any meeting of the Class C Noteholders shall be binding on the Class D 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 Issuer Transaction Documents or a waiver or authorisation of any breach or proposed breach thereof or certain other matters specified in the Note Trust Deed or, as the case may be, the Issuer Deed of Charge will not take effect unless the Note Trustee or, as the case may be, the Issuer Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class D Noteholders or it shall have been sanctioned by an Extraordinary Resolution of the Class D Noteholders.
- 12.7 An Extraordinary Resolution (other than an Extraordinary Resolution referred to in **Condition 12.2** or **12.4** or **12.6** above) passed at any meeting of the Class D Noteholders shall not be effective for any purpose unless:
- (a) either the Note Trustee or, as the case may be, the Issuer 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;
  - (b) either the Note Trustee or, as the case may be, the Issuer Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class B Noteholders or it is sanctioned by an Extraordinary Resolution of the Class B Noteholders; and
  - (c) either the Note Trustee or, as the case may be, the Issuer Security Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class C Noteholders or it is sanctioned by an Extraordinary Resolution of the Class C Noteholders.
- 12.8 Subject as provided below, the quorum at any meeting of Noteholders of any series or class or classes for passing an Extraordinary Resolution will be one or more persons holding or representing more than 50 per cent. of the aggregate Principal Amount Outstanding of such series or class or classes of Notes then outstanding, or, at any adjourned meeting, one or more persons being or representing a Noteholder of the relevant series or class or classes, whatever the aggregate Principal Amount Outstanding of the Notes of such series or class or classes held or represented by it or them.

12.9 The quorum at any meeting of Noteholders of any series or class or classes for passing an Extraordinary Resolution to sanction a modification of the date of maturity (other than as a result of any service of a Note Acceleration Notice) 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 series or class or classes then outstanding.

12.10 The Note Trust Deed and the Issuer Deed of Charge provide that, except in the case of an Extraordinary Resolution directing the Note Trustee to give a Note Acceleration Notice, as to which the provisions of **Condition 10 (Issuer Events of Default)** shall apply:

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

In the case of a single meeting of the holders of two or more classes of the Class A Notes which are not all denominated in the same currency, the Principal Amount Outstanding of any Class A Note denominated in Dollars shall be converted into Sterling at the relevant Dollar Currency Swap Rate and the Principal Amount Outstanding of any Class A Note denominated in Euro shall be converted into Sterling at the relevant Euro Currency Swap Rate.

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

12.11 The Note Trust Deed and the Issuer Deed of Charge provide that, except in the case of an Extraordinary Resolution directing the Note Trustee to give a Note Acceleration Notice, as to which the provisions of **Condition 10 (Issuer Events of Default)** shall apply:

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

In the case of a single meeting of the holders of two or more classes of the Class B Notes which are not all denominated in the same currency, the Principal Amount Outstanding of any Class B Note denominated in Dollars shall be converted into Sterling at the relevant Dollar Currency Exchange Rate and the Principal Amount Outstanding of any Class B Note denominated in Euro shall be converted into Sterling at the relevant Euro Currency Exchange Rate.

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

12.12 The Note Trust Deed and the Issuer Deed of Charge provide that, except in the case of an Extraordinary Resolution directing the Note Trustee to give a Note Acceleration Notice, as to which the provisions of **Condition 10 (Issuer Events of Default)** shall apply:

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

In the case of a single meeting of the holders of two or more classes of the Class C Notes which are not all denominated in the same currency, the Principal Amount Outstanding of any Class C Note denominated in Dollars shall be converted into Sterling at the relevant Dollar Currency Exchange Rate and the Principal Amount Outstanding of any Class C Note denominated in Euro shall be converted into Sterling at the relevant Euro Currency Exchange Rate.

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

12.13 The Note Trust Deed and the Issuer Deed of Charge provide that, except in the case of an Extraordinary Resolution directing the Note Trustee to give a Note Acceleration Notice, as to which the provisions of **Condition 10 (Issuer Events of Default)** shall apply:

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

In the case of a single meeting of the holders of two or more classes of the Class D Notes which are not all denominated in the same currency, the Principal Amount Outstanding of any Class D Note denominated in Dollars shall be converted into Sterling at the relevant Dollar Currency Exchange Rate and the Principal Amount Outstanding of any Class D Note denominated in Euro shall be converted into Sterling at the relevant Euro Currency Exchange Rate.

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

12.14 The Note Trustee or, as the case may be, the Issuer Security Trustee, may agree, without the consent of the Noteholders or any other Issuer Secured Creditor:

- (a) to any modification, or to any waiver or authorisation of any breach or proposed breach, of these Conditions or any of the Issuer Transaction Documents which, in the opinion of the Note Trustee or, as the case may be, the Issuer Security Trustee, is not materially prejudicial to the interests of the Noteholders or, as the case may be, any other Issuer Secured Creditor (in which respect the Issuer Security Trustee may (without further enquiry) rely upon the consent in writing of any such Issuer Secured Creditor (other than Noteholders) as to the absence of material prejudice to the interests of such Issuer Secured Creditor or, if it is not of that opinion in relation to any such Issuer Secured Creditor or any such Issuer Secured Creditor (other than Noteholders) acting reasonably has informed the Issuer Security Trustee in writing that such modification will be materially prejudicial to its interests, such Issuer Secured Creditor has given its written consent to such modification; provided in all cases that the Issuer Security Trustee has not been informed in writing by any Issuer Secured Creditor (other than Noteholders) acting reasonably that such Issuer Secured Creditor will be materially prejudiced thereby (other than an Issuer Secured Creditor who has given its written consent as aforesaid); or
- (b) to any modification to these Conditions or any of the Issuer Transaction Documents which, in the opinion of the Note Trustee or, as the case may be, the Issuer Security Trustee, is to correct a manifest error or an error which is in the opinion of the Note Trustee or the Issuer Security Trustee (as the case may be), proven or is of a formal, minor or technical nature.

12.15 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 Issuer Event of Default shall not, or shall not subject to specified conditions, be treated as such.

12.16 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 Issuer Security Trustee agrees otherwise, any such modification shall be notified to the Noteholders as soon as practicable thereafter in accordance with **Condition 15 (Notices)**.

12.17 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 Issuer 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 Issuer Transaction Documents, provided that such change would not, in the opinion of the Note Trustee or, as the case may be, the Issuer Security Trustee, be materially prejudicial to the interests of the Noteholders.

12.18 In determining whether the exercising or performing of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Issuer Transaction Documents is materially prejudicial to the interests of the Noteholders of any class or the Issuer Secured Creditors, the Note Trustee and the Issuer Security Trustee (as applicable) will have regard to confirmations from each of the Rating Agencies that the then current ratings of such class of Notes would not be downgraded, withdrawn or qualified by such exercise or performance and any other confirmation which it considers, in its sole and absolute discretion, is necessary and/or appropriate.

12.19 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 Issuer Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination or substitution as referred to above), the Note Trustee or the Issuer

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 Issuer Security Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer, the Note Trustee, the Issuer Security Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.

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

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

The Note Trust Deed and the Issuer Deed of Charge also contain provisions pursuant to which the Note Trustee and the Issuer Security Trustee are entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any other party to any of the Issuer 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 Issuer 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, the 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 CERTIFICATES**

If any Certificate 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 Global 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 Certificate must be surrendered before a new one will be issued.

### **15. NOTICE TO NOTEHOLDERS**

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the Register. So long as all the Notes of a class are represented by a Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by it to their respective accountholders in substitution for the above-mentioned mailing. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the earlier of (i) the seventh day after being so delivered to Euroclear and/or Clearstream, Luxembourg and/or DTC and (ii) the date of publication or, if so published more than once or on different dates, on the date of the first publication.

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the relevant Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

## 16. SUBORDINATION BY DEFERRAL

### 16.1 Interest

In the event that, on any Note Payment Date, the amount available to the Issuer, subject to and in accordance with the Issuer Pre-Enforcement Priority of Payments (an **Interest Residual Amount**), is not sufficient to satisfy in full the aggregate amount of interest (including interest on unpaid interest) due, subject to this **Condition 16.1**, on the Class B Notes, Class C Notes or, as the case may be, the Class D Notes on such Note Payment Date (in each case, after discharging the Issuer's liabilities of a higher priority), there shall instead be payable on such Note Payment Date, by way of interest (including interest on unpaid interest) on each Class B Note, Class C Note or, as the case may be, Class D Note, only a *pro rata* share of the Interest Residual Amount attributable to the relevant class of Notes on such Note Payment Date.

In any such event, the Issuer shall create a provision in its accounts for the shortfall equal to the amount by which the aggregate amount of interest (including interest on unpaid interest) paid on the Class B Notes, Class C Notes or, as the case may be, Class D Notes on the relevant Note Payment Date in accordance with this **Condition 16.1** falls short of the aggregate amount of interest (including interest on unpaid interest) payable (but for the provisions of this **Condition 16.1**) on the Class B Notes, Class C Notes or, as the case may be, Class D Notes on that date pursuant to **Condition 5 (Interest)**. Such shortfall shall itself accrue interest at the same rate as that payable in respect of the Class B Notes, Class C Notes or, as the case may be, Class D Notes and shall be payable together with such accrued interest on the following Note Payment Dates, subject to the provisions of the preceding paragraph.

### 16.2 General

Any amounts of interest in respect of the Class B Notes, Class C Notes or Class D Notes otherwise payable under these Conditions which are not paid by virtue of this **Condition 16**, together with accrued interest thereon, shall in any event become payable on the Final Maturity Date of the Notes or on such earlier date as the Class B Notes, Class C Notes or, as the case may be, Class D Notes, become immediately due and repayable under **Condition 10 (Issuer Events of Default)**.

### 16.3 Notification

As soon as practicable after becoming aware that any part of a payment of interest on the Class B Notes, Class C Notes or, as the case may be, Class D Notes will be deferred or that a payment previously deferred will be made in accordance with this **Condition 16**, the Issuer will give notice thereof to the Class B Noteholders, the Class C Noteholders or, as the case may be, the Class D Noteholders in accordance with **Condition 15 (Notices)**.

## 17. FURTHER NOTES AND NEW NOTES

### 17.1 Further 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 notes (**Further Notes**) carrying the same terms and conditions in all respects (or 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, any class of the Notes provided that:

- (a) the aggregate principal amount of all Further Notes to be issued on such date is not less than £5,000,000 (or the equivalent in any other currency);
- (b) any Further Notes are assigned the same ratings as are then applicable to the class of Notes with which they are to be consolidated and form a single series;
- (c) the ratings of each class of Notes at that time outstanding will not be withdrawn, qualified or downgraded as a result of such issue of Further Notes and none of such ratings is lower than it was upon the date of issue of any of the Notes;
- (d) an amount equal to the aggregate principal amount of such Further Notes will be on-lent by the Issuer pursuant to the provisions of the Intercompany Loan Agreement; and
- (e) application will be made to list the Further Notes on the exchange on which the Notes then issued are then listed.

For so long as any of the Rule 144A Notes remains outstanding and is a “restricted security” within the meaning of Rule 144(a)(3) under the Securities Act, unless the Issuer is subject to Section 13 or 15(d) under the Exchange Act or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, the Issuer shall make available to any holder of Rule 144A Notes offered and sold in the United States under Rule 144A (or beneficial interest therein designated by such holder) and prospective purchaser of such Rule 144A Notes offered and sold in the United States under Rule 144A (or beneficial interest therein), in each case upon request, the information specified in Rule 144A(d)(4) under the Securities Act.

### **17.2 New Notes**

The Issuer may, without the consent of the Noteholders, raise further funds, from time to time and on any date, by the creation and issue of new notes (**New Notes**) which may rank *pari passu* with the Class A Notes, Class B Notes, Class C Notes or Class D Notes or after the Class A Notes but ahead of the Class B Notes or after the Class B Notes but ahead of the Class C Notes or after the Class C Notes but ahead of the Class D Notes or after the Class D Notes and which may have terms and conditions which differ from the Notes and which may have the benefit of a financial guarantee or similar arrangement and which do not form a single series with the Class A Notes, the Class B Notes, the Class C Notes or the Class D Notes provided that the conditions to the issue of Further Notes as set out in **Condition 17.1(a), (c), (d) and (e)** are satisfied, *mutatis mutandis*, in respect of such issue of New Notes.

### **17.3 Supplemental Note Trust Deeds and Issuer Security**

Any such Further Notes or New Notes will be constituted by a further deed or deeds supplemental to the Note Trust Deed and have the benefit of the Issuer Security. Any of the Issuer Transaction Documents may be amended, and further Issuer Transaction Documents may be entered into, in connection with the issue of such Further Notes or New Notes and the claims of the parties to any amended Issuer Transaction Document or any further Issuer Transaction Document may rank ahead of, *pari passu* with, or behind, any class or classes of the Notes, provided, in each case, that the condition set out in **Condition 17.1(c)** is satisfied, *mutatis mutandis*.

## **18. GOVERNING LAW**

The Note Trust Deed, the Global Certificates and these Conditions are governed by, and shall be construed in accordance with, English 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.

## CHARACTERISTICS OF THE PROVISIONAL PORTFOLIO

The statistical and other information contained in this document has been compiled by reference to the Loans in the Provisional Portfolio as at 3rd August, 2004. Columns stating percentages may not add up to 100 per cent. due to rounding. Weighted average calculations set out below are based on the Current Balance of the Loans. A Loan will be removed from the Provisional Portfolio if in the period up to (and including) the Closing Date such Loan is repaid in full or if such Loan does not comply with the terms of the Mortgage Sale Agreement on the Closing Date.

### *Outstanding Current Balances*

Range of outstanding Current Balances:

Range of Current Balances (including capitalised High LTV Fees and capitalised Booking Fees)	Aggregate outstanding Current Balance (£)	% of Total	No. of Loans	% of Total
<= £25,000.00 . . . . .	5,776,823.09	0.06	293	0.36
> £25,000.00 — <= £50,000.00 . . . . .	217,330,953.57	2.29	5,529	6.76
> £50,000.00 — <= £75,000.00 . . . . .	943,131,557.67	9.92	14,848	18.15
> £75,000.00 — <= £100,000.00 . . . . .	1,476,143,217.13	15.53	16,903	20.67
> £100,000.00 — <= £125,000.00 . . . . .	1,702,148,708.80	17.91	15,241	18.63
> £125,000.00 — <= £150,000.00 . . . . .	1,470,378,456.84	15.47	10,766	13.16
> £150,000.00 — <= £175,000.00 . . . . .	1,048,433,933.68	11.03	6,508	7.96
> £175,000.00 — <= £200,000.00 . . . . .	749,983,458.91	7.89	4,024	4.92
> £200,000.00 — <= £225,000.00 . . . . .	673,010,058.00	7.08	3,200	3.91
> £225,000.00 — <= £250,000.00 . . . . .	416,428,168.78	4.38	1,762	2.15
> £250,000.00 — <= £300,000.00 . . . . .	502,392,811.06	5.29	1,851	2.26
> £300,000.00 — <= £350,000.00 . . . . .	174,824,203.79	1.84	561	0.69
> £350,000.00 — <= £400,000.00 . . . . .	60,850,733.37	0.64	164	0.20
> £400,000.00 — <= £450,000.00 . . . . .	36,558,461.61	0.38	87	0.11
> £450,000.00 — <= £500,000.00 . . . . .	27,255,456.80	0.29	58	0.07
Totals . . . . .	<u>9,504,647,003.10</u>	<u>100.00</u>	<u>81,795</u>	<u>100.00</u>

The maximum Loan has a Current Balance of £495,660.00 and the minimum Loan has a Current Balance of £0.64. The average Current Balance is approximately £116,200.83.

### ***Loan-to-Value Ratios at origination***

The following table shows the range of LTV Ratios, which express the balance of a Loan as at the date of the original initial loan origination divided by the valuation of the Mortgaged Property securing that Loan.

<b>Range of original LTV Ratios (including capitalised High LTV Fees and capitalised Booking Fees)</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
> 0.00% — <= 25.00% . . . . .	21,662,212.78	0.23	268	0.33
> 25.00% — <= 50.00%. . . . .	246,217,139.20	2.59	2,544	3.11
> 50.00% — <= 75.00%. . . . .	1,632,896,841.39	17.18	13,767	16.83
> 75.00% — <= 80.00%. . . . .	1,128,382,694.50	11.87	9,658	11.81
> 80.00% — <= 85.00%. . . . .	2,200,028,562.96	23.15	19,207	23.48
> 85.00% — <= 90.00%. . . . .	3,423,307,011.59	36.02	29,679	36.28
> 90.00% — <= 95.00%. . . . .	852,152,540.68	8.97	6,672	8.16
<b>Totals. . . . .</b>	<b>9,504,647,003.10</b>	<b>100.00</b>	<b>81,795</b>	<b>100.00</b>

The weighted average original LTV Ratio of the Loans in the Provisional Portfolio (including any capitalised High LTV Fees and capitalised Booking Fees) at origination was 79.66 per cent. The maximum original LTV Ratio of any Loan (including any capitalised High LTV Fee and capitalised Booking Fees) was 95.00 per cent. and the minimum was 5.27 per cent.

The amount of the Loan for the purposes of the above table includes any capitalised High LTV Fees and capitalised Booking Fees. There has therefore been no revaluation of any of the Mortgaged Properties in connection with the issue of the Notes.

The Seller or Mortgage Express retains on its mortgage administration system the valuation of the Mortgaged Property determined as described in *The Loans – Lending Criteria*. A separate record is maintained of adjusted valuations in respect of each Mortgaged Property determined by adjusting this value on an ongoing basis by movements in a housing price index, currently published quarterly. These adjusted figures have been used to produce the table on the following page. The only Loans in the above table which will be included in the portfolio of Initial Loans on the Closing Date with a LTV Ratio greater than 100 per cent. are Loans in respect of which an Extension Advance was made with the result that the new Current Balance of the Loan (including the Extension Advance) exceeded 100 per cent. of the original valuation. The Seller or Mortgage Express would have made its decision to grant an Extension Advance on the basis of either (i) a revised valuation determined by adjusting the original value by reference to movements in a house pricing index, such that the new Current Balance of the Loan (including the Extension Advance) was less than or equal to 90 per cent. of the adjusted valuation at the time of the Extension Advance or (ii) in cases where such an indexed LTV Ratio is more than 90 per cent., on a new valuer's valuation. Any adjusted valuation at the time of the Extension Advance is not retained in the Seller's mortgage administration system. Any new valuer's valuation pursuant to (ii) will be updated onto the Seller's or Mortgage Express' mortgage administration system.

### ***Indexed Loan-to-Value Ratios***

The following table shows the range of indexed LTV Ratios, which express the outstanding Current Balance of the Loan as at 3rd August, 2004 divided by the indexed valuation of the Mortgaged Property securing that Loan at the same date.

<b>Range of indexed LTV Ratios (including capitalised High LTV Fees and capitalised Booking Fees)</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
> 0.00% — <= 25.00% . . . . .	58,656,754.66	0.62	990	1.21
> 25.00% — <= 50.00%. . . . .	1,094,888,648.91	11.52	12,333	15.08
> 50.00% — <= 75.00%. . . . .	5,260,020,110.20	55.34	44,803	54.77
> 75.00% — <= 80.00%. . . . .	2,041,917,673.16	21.48	16,195	19.80
> 80.00% — <= 85.00%. . . . .	880,589,441.49	9.26	6,235	7.62
> 85.00% — <= 90.00%. . . . .	162,743,037.89	1.71	1,204	1.47
> 90.00% — <= 95.00%. . . . .	5,201,950.26	0.05	32	0.04
> 95.00% . . . . .	629,386.53	0.01	3	0.00
<b>Totals . . . . .</b>	<b>9,504,647,003.10</b>	<b>100.00</b>	<b>81,795</b>	<b>100.00</b>

The weighted average indexed LTV Ratio of the Loans in the Provisional Portfolio (including any capitalised High LTV Fees and capitalised Booking Fees) was 67.07 per cent. The highest Indexed LTV Ratio of any Loan (including any capitalised High LTV Fees and capitalised Booking Fees) was 111.60 per cent. and the lowest was 0.00 per cent.

### ***Geographical Spread***

The following table shows the spread of Mortgaged Properties throughout England, Wales, Scotland and Northern Ireland in the Provisional Portfolio. No Mortgaged Properties are situated outside England, Wales, Scotland and Northern Ireland. The geographical location of a Mortgaged Property has no impact upon Mortgage Express' Lending Criteria and current credit scoring tests.

<b>Region</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
East Anglia . . . . .	227,657,590.20	2.40	2,446	2.99
East Midlands . . . . .	404,085,651.04	4.25	4,412	5.39
Greater London . . . . .	3,095,390,256.99	32.57	19,574	23.93
North . . . . .	177,252,245.71	1.86	1,947	2.38
North West . . . . .	499,245,481.83	5.25	5,743	7.02
Northern Ireland . . . . .	93,165,232.24	0.98	1,285	1.57
Scotland . . . . .	171,106,338.57	1.80	1,951	2.39
South East . . . . .	3,090,357,570.50	32.51	26,326	32.19
South West . . . . .	727,915,241.26	7.66	6,991	8.55
Wales . . . . .	228,708,646.93	2.41	2,557	3.13
West Midlands . . . . .	454,721,061.57	4.78	4,934	6.03
Yorkshire and Humber . . . . .	335,041,686.26	3.53	3,629	4.44
<b>Totals . . . . .</b>	<b>9,504,647,003.10</b>	<b>100.00</b>	<b>81,795</b>	<b>100.00</b>

### ***Seasoning of Loans***

The following table shows the time that has elapsed since the date of origination of the Loans. The data in this table has been extracted as at 3rd August, 2004 for the purposes of calculating the seasoning.

<b>Age of Loans</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
0 months – <= 6 months. . . . .	1,161,636,248.21	12.22	9,625	11.77
> 6 months – <= 12 months. . . . .	2,387,550,889.97	25.12	19,766	24.17
> 12 months – <= 18 months. . . . .	2,077,819,861.27	21.86	17,498	21.39
> 18 months – <= 24 months. . . . .	1,488,477,047.26	15.66	12,526	15.31
> 24 months – <= 30 months. . . . .	874,427,395.08	9.20	7,852	9.60
> 30 months – <= 36 months. . . . .	522,037,237.30	5.49	4,862	5.94
> 36 months – <= 42 months. . . . .	446,444,174.39	4.70	4,316	5.28
> 42 months – <= 48 months. . . . .	281,688,543.24	2.96	2,713	3.32
> 48 months – <= 54 months. . . . .	209,525,849.71	2.20	2,081	2.54
> 54 months – <= 60 months. . . . .	22,574,494.14	0.24	213	0.26
> 60 months – <= 66 months. . . . .	13,395,315.20	0.14	129	0.16
> 66 months – <= 72 months. . . . .	10,592,864.87	0.11	108	0.13
> 72 months – . . . . .	8,477,082.46	0.09	106	0.13
<b>Totals. . . . .</b>	<b>9,504,647,003.10</b>	<b>100.00</b>	<b>81,795</b>	<b>100.00</b>

The weighted average seasoning of the Loans in the Provisional Portfolio is 18.2 months. The maximum seasoning for any Loan is 93.1 months and the minimum seasoning for any Loan is 3.2 months.

### ***Maturity of Loans***

The following table shows the number of years of the mortgage term which remain unexpired:

<b>Years to Maturity</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
0 years – <= 5 years . . . . .	38,036,622.19	0.40	364	0.45
> 5 years – <= 10 years . . . . .	444,627,500.50	4.68	4,340	5.31
> 10 years – <= 15 years . . . . .	1,035,698,471.27	10.90	9,869	12.07
> 15 years – <= 20 years . . . . .	2,051,730,549.59	21.59	17,804	21.77
> 20 years – <= 25 years . . . . .	5,862,251,081.26	61.68	48,824	59.69
> 25 years – <= 30 years . . . . .	72,068,652.49	0.76	590	0.72
> 30 years – <= 40 years . . . . .	84,750.43	0.00	2	0.00
> 40 years – <= 45 years . . . . .	149,375.37	0.00	2	0.00
<b>Totals. . . . .</b>	<b>9,504,647,003.10</b>	<b>100.00</b>	<b>81,795</b>	<b>100.00</b>

The weighted average remaining term of the Loans in the Provisional Portfolio is 20.42 years and the maximum remaining term is 43.72 years. The minimum remaining term is 0.29 years.

### ***Range of Interest Rates on Fixed Rate Loans***

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.

<b>Fixed Rate Interest Rates</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
> 1.50% — <= 2.00%	183,174.00	0.01	1	0.00
> 2.00% — <= 2.50%	99,896,698.59	4.00	856	4.02
> 2.50% — <= 3.00%	110,713,688.03	4.43	983	4.62
> 3.00% — <= 3.50%	81,090,622.54	3.25	675	3.17
> 3.50% — <= 4.00%	20,644,940.13	0.83	183	0.86
> 4.00% — <= 4.50%	15,363,796.14	0.62	103	0.48
> 4.50% — <= 5.00%	1,166,730,472.81	46.72	9,463	44.47
> 5.00% — <= 5.50%	525,547,516.43	21.04	4,726	22.21
> 5.50% — <= 6.00%	388,053,770.69	15.54	3,371	15.84
> 6.00% — <= 6.50%	59,101,755.48	2.37	561	2.64
> 6.50% — <= 7.00%	21,993,689.82	0.88	246	1.16
> 7.00% — <= 7.50%	4,744,875.67	0.19	50	0.23
> 7.50% — <= 8.00%	2,044,085.99	0.08	36	0.17
> 8.00%	1,258,345.40	0.05	24	0.11
<b>Total</b>	<b>2,497,367,431.72</b>	<b>100.00</b>	<b>21,278</b>	<b>100.00</b>

The weighted average fixed rate of the Loans in the Provisional Portfolio is 4.99 per cent. and the maximum fixed rate is 10.99 per cent. The minimum fixed rate is 1.99 per cent.

### ***Remaining Term of Fixed Interest Rates on Fixed Rate Loans***

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.

<b>Fixed Rate Expiry Year</b>	<b>Aggregate outstanding Current Balance (£)</b>	<b>% of Total</b>	<b>No. of Loans</b>	<b>% of Total</b>
2004	448,960,561.54	17.98	3,797	17.84
2005	368,560,640.64	14.76	3,136	14.74
2006	874,686,990.42	35.02	7,389	34.73
2007	213,762,776.36	8.56	1,825	8.58
2008	455,654,997.24	18.25	3,798	17.85
2009	41,226,078.10	1.65	331	1.56
2010	4,978,162.85	0.20	87	0.41
2011	9,965,246.95	0.40	111	0.52
2012	24,974,377.76	1.00	276	1.30
2013	49,098,494.44	1.97	483	2.27
2014 and later	5,499,105.42	0.22	45	0.21
<b>Totals</b>	<b>2,497,367,431.72</b>	<b>100.00</b>	<b>21,278</b>	<b>100.00</b>

### *Characteristics of United Kingdom residential mortgage market*

The UK housing market is primarily one of owner-occupied housing, with the remainder in some form of public, private landlord or social ownership. The mortgage market, whereby loans are provided for the purchase of a property and secured on that property, is the primary source of household borrowings in the UK. At 30th June, 2004, mortgage loans outstanding in the UK amounted to approximately £826 billion, with 64 per cent. of outstanding mortgage debt being held with banks and 18 per cent. with building societies.

During the first six months of 2004, outstanding mortgage debt grew by 14.9 per cent., well above the long term average of 8 per cent. between 1994 and June 2004. The statistics in this and the preceding paragraph have been sourced from the Council of Mortgage Lenders.

Set out in the following tables are a number of characteristics of the United Kingdom mortgage market.

#### **Industry CPR rates**

This quarterly industry constant prepayment rate (**industry CPR**) data was calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the UK. These quarterly repayment rates were then annualised using mortgage industry standard methodology.

Over the past 40.5 years, quarterly industry CPRs experienced in respect of residential mortgage loans made by building societies have been between 9.5 per cent. and 14 per cent. for approximately 70.6 per cent. of that time.

CPR (%)	Aggregate quarters over 40.5 years	CPR (%)	Aggregate quarters over 40.5 years	CPR (%)	Aggregate quarters over 40.5 years	CPR (%)	Aggregate quarters over 40.5 years	CPR (%)	Aggregate quarters over 40.5 years
7.0	0	10.5	17	14.0	6	17.5	1	21.0	0
7.5	0	11.0	18	14.5	2	18.0	1	21.5	2
8.0	4	11.5	16	15.0	3	18.5	1	22.0	1
8.5	1	12.0	19	15.5	2	19.0	1	22.5	2
9.0	6	12.5	13	16.0	4	19.5	2	23.0	0
9.5	9	13.0	10	16.5	2	20.0	3	23.5	0
10.0	10	13.5	4	17.0	1	20.5	1	24.0	0

Source: Bank of England

Over the past 40.5 years, the highest single quarter industry CPR experienced in respect of residential mortgage loans made by building societies was recorded in September 2002 at a level of 22.41 per cent. The lowest level was 7.94 per cent. in June and March of 1974.

The highest four quarter rolling average industry CPR over the same 40.5-year period was 21.13 per cent. The lowest was 8.84 per cent.

Date	CPR for the quarter (%)	four quarter rolling average (%)	Date	CPR for the quarter (%)	four quarter rolling average (%)
March 1964 . . . . .	11.29	N/A	June 1964 . . . . .	12.30	N/A
September 1964 . . . . .	12.68	N/A	December 1964 . . . . .	12.82	N/A
March 1965 . . . . .	11.12	12.23	June 1965 . . . . .	10.80	11.86
September 1965 . . . . .	10.66	11.35	December 1965 . . . . .	11.51	11.02
March 1966 . . . . .	10.45	10.86	June 1966 . . . . .	11.39	11.00
September 1966 . . . . .	11.71	11.27	December 1966 . . . . .	10.60	11.04
March 1967 . . . . .	9.49	10.80	June 1967 . . . . .	10.95	10.69
September 1967 . . . . .	11.65	10.67	December 1967 . . . . .	11.51	10.90
March 1968 . . . . .	10.18	11.07	June 1968 . . . . .	10.57	10.98
September 1968 . . . . .	10.91	10.79	December 1968 . . . . .	10.24	10.48
March 1969 . . . . .	9.15	10.22	June 1969 . . . . .	10.23	10.13
September 1969 . . . . .	10.65	10.07	December 1969 . . . . .	10.01	10.01
March 1970 . . . . .	8.92	9.95	June 1970 . . . . .	10.68	10.07
September 1970 . . . . .	11.60	10.30	December 1970 . . . . .	11.46	10.67
March 1971 . . . . .	9.33	10.77	June 1971 . . . . .	11.44	10.96
September 1971 . . . . .	12.17	11.10	December 1971 . . . . .	12.30	11.31
March 1972 . . . . .	10.72	11.66	June 1972 . . . . .	11.81	11.75
September 1972 . . . . .	12.24	11.77	December 1972 . . . . .	11.74	11.63
March 1973 . . . . .	10.11	11.48	June 1973 . . . . .	10.54	11.16
September 1973 . . . . .	11.06	10.86	December 1973 . . . . .	10.55	10.57

Date	CPR for the quarter (%)	four quarter rolling average (%)	Date	CPR for the quarter (%)	four quarter rolling average (%)
March 1974	7.94	10.02	June 1974	7.94	9.37
September 1974	9.58	9.00	December 1974	10.83	9.07
March 1975	9.96	9.58	June 1975	12.23	10.65
September 1975	12.76	11.45	December 1975	12.21	11.79
March 1976	10.10	11.83	June 1976	11.48	11.64
September 1976	11.86	11.41	December 1976	11.70	11.29
March 1977	8.00	10.76	June 1977	9.84	10.35
September 1977	12.13	10.42	December 1977	12.66	10.66
March 1978	11.30	11.48	June 1978	12.19	12.07
September 1978	11.71	11.97	December 1978	11.19	11.60
March 1979	9.33	11.11	June 1979	10.12	10.59
September 1979	11.36	10.50	December 1979	11.07	10.47
March 1980	8.03	10.15	June 1980	8.66	9.78
September 1980	9.87	9.41	December 1980	10.48	9.26
March 1981	9.97	9.75	June 1981	11.78	10.53
September 1981	12.53	11.19	December 1981	11.82	11.53
March 1982	9.63	11.44	June 1982	12.91	11.72
September 1982	13.96	12.08	December 1982	14.20	12.68
March 1983	12.55	13.41	June 1983	12.76	13.37
September 1983	12.48	13.00	December 1983	11.86	12.41
March 1984	10.40	11.88	June 1984	12.13	11.72
September 1984	12.40	11.70	December 1984	11.87	11.70
March 1985	10.02	11.61	June 1985	11.67	11.49
September 1985	13.46	11.76	December 1985	13.68	12.21
March 1986	11.06	12.47	June 1986	15.53	13.43
September 1986	17.52	14.45	December 1986	15.60	14.93
March 1987	10.57	14.81	June 1987	14.89	14.65
September 1987	16.79	14.46	December 1987	16.18	14.61
March 1988	13.55	15.35	June 1988	16.03	15.64
September 1988	18.23	16.00	December 1988	12.60	15.10
March 1989	8.85	13.93	June 1989	13.04	13.18
September 1989	11.53	11.51	December 1989	10.38	10.95
March 1990	8.91	10.97	June 1990	9.37	10.05
September 1990	9.66	9.58	December 1990	10.58	9.63
March 1991	9.07	9.67	June 1991	10.69	10.00
September 1991	11.57	10.48	December 1991	10.24	10.39
March 1992	9.14	10.41	June 1992	9.12	10.02
September 1992	9.75	9.56	December 1992	7.96	8.99
March 1993	8.53	8.84	June 1993	9.97	9.05
September 1993	10.65	9.28	December 1993	10.01	9.79
March 1994	8.97	9.90	June 1994	10.48	10.03
September 1994	11.05	10.13	December 1994	10.68	10.30
March 1995	9.15	10.34	June 1995	10.51	10.35
September 1995	11.76	10.53	December 1995	11.61	10.76
March 1996	10.14	11.01	June 1996	11.32	11.21
September 1996	13.20	11.57	December 1996	12.58	11.81
March 1997	9.75	11.71	June 1997	15.05	12.65
September 1997	12.18	12.39	December 1997	11.17	12.04
March 1998	10.16	12.14	June 1998	12.05	11.39
September 1998	13.79	11.79	December 1998	13.42	12.36
March 1999	11.14	12.60	June 1999	14.39	13.19
September 1999	15.58	13.63	December 1999	14.94	14.01
March 2000	13.82	14.68	June 2000	13.87	14.55
September 2000	14.90	14.38	December 2000	15.57	14.54
March 2001	15.49	14.96	June 2001	17.39	15.84
September 2001	19.17	16.91	December 2001	19.04	17.77
March 2002	18.70	18.58	June 2002	19.91	19.21
September 2002	22.41	20.02	December 2002	22.16	20.80
March 2003	19.52	21.00	June 2003	20.19	21.07
September 2003	21.66	20.88	December 2003	21.34	20.68
March 2004	20.00	20.80	June 2004	21.50	21.13

Source of prepayment and outstanding mortgage information: Bank of England

You should also note that the two prior CPR tables present the historical CPR experience only of building societies in the UK. During the late 1990s, a number of former building societies converted to stock form UK banks, and the CPR experience of these banks is therefore not included in the

foregoing building society CPR data. According to the Council of Mortgage Lenders, the four quarter rolling average CPR experience of banks during 1998 was 14.85 per cent., during 1999 was 16.08 per cent., during 2000 was 15.34 per cent., during 2001 was 18.69 per cent., during 2002 was 21.81 per cent. and during 2003 was 23.82 per cent.

### Repossession rate

The repossession rate of residential properties in the UK has steadily declined since 1991:

Year	Repossessions (%)	Year	Repossessions (%)	Year	Repossessions (%)
1982	0.11	1989	0.17	1996	0.40
1983	0.12	1990	0.47	1997	0.31
1984	0.17	1991	0.77	1998	0.31
1985	0.25	1992	0.69	1999	0.27
1986	0.30	1993	0.58	2000	0.20
1987	0.32	1994	0.47	2001	0.15
1988	0.22	1995	0.47	2002	0.11
				2003	0.07

Source: Council of Mortgage Lenders

In January 2004, the Council of Mortgage Lenders published arrears figures for the half year ended 2003, which showed that repossessions in the United Kingdom had fallen to a 22-year low. In 2003, the repossession rate in the United Kingdom was 0.07 per cent. No assurance can be given as to whether, or for how long, this downward trend will continue.

### House price to earnings ratio

The following table shows the ratio for any one year of the average annual value of houses (sourced prior to and including 1993 from the DETR/BSA 5 per cent. Sample Survey of Building Society Mortgage Completions, and sourced from and including 1994 from the DETR/CML Survey of Mortgage Lenders) compared with the average annual salary in the UK. The average annual earnings figures are constructed referring to weekly earnings in April of each year for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1988	5.22	1996	3.40
1989	4.72	1997	3.62
1990	4.24	1998	3.86
1991	3.79	1999	4.08
1992	3.48	2000	4.44
1993	3.46	2001	4.51
1994	3.42	2002	5.09
1995	3.37	2003	5.64

Source: Council of Mortgage Lenders

### House price index

UK residential property prices, as measured by the Nationwide House Price Index and Halifax Price Index (collectively the **Housing Indices**), have generally followed the UK Retail Price Index over an extended period. Nationwide is a UK building society and Halifax is a UK bank.

The housing market has been through three economic cycles since 1976. The greatest year-to-year increases in the Housing Indices occurred in the late 1970s and late 1980s with the greatest decrease in the early 1990s.

The Housing Indices have generally increased since 1996.

Time in Quarters	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>
1973 Q4	24.9	10.1	19.5	N/A	N/A	N/A
1974 Q1	26.0	12.6	19.8	N/A	N/A	N/A
1974 Q2	27.6	15.3	20.0	N/A	N/A	N/A
1974 Q3	28.1	15.8	20.2	N/A	N/A	N/A
1974 Q4	29.6	17.5	20.4	4.4	N/A	N/A
1975 Q1	31.5	19.2	20.7	4.5	N/A	N/A
1975 Q2	34.8	23.2	21.4	6.8	N/A	N/A
1975 Q3	35.6	23.5	21.9	7.9	N/A	N/A
1975 Q4	37.0	22.2	22.5	10.1	N/A	N/A
1976 Q1	38.2	19.2	23.0	10.3	N/A	N/A
1976 Q2	39.5	12.9	23.4	9.0	N/A	N/A
1976 Q3	40.7	13.4	23.9	8.9	N/A	N/A
1976 Q4	42.6	14.0	24.4	7.8	N/A	N/A
1977 Q1	44.6	15.5	24.8	7.4	N/A	N/A
1977 Q2	46.5	16.3	25.3	7.8	N/A	N/A
1977 Q3	47.1	14.5	25.9	7.8	N/A	N/A
1977 Q4	47.8	11.5	26.2	7.4	N/A	N/A
1978 Q1	48.6	8.7	27.6	10.8	N/A	N/A
1978 Q2	50.0	7.2	28.9	13.3	N/A	N/A
1978 Q3	50.8	7.5	31.7	20.4	N/A	N/A
1978 Q4	51.8	8.0	33.6	24.6	N/A	N/A
1979 Q1	53.4	9.3	35.5	25.3	N/A	N/A
1979 Q2	55.7	10.8	38.1	27.5	N/A	N/A
1979 Q3	59.1	15.2	40.9	25.3	N/A	N/A
1979 Q4	60.7	15.9	43.8	26.7	N/A	N/A
1980 Q1	63.9	18.0	45.2	24.3	N/A	N/A
1980 Q2	67.4	19.0	46.6	20.2	N/A	N/A
1980 Q3	68.5	14.7	47.1	14.3	N/A	N/A
1980 Q4	69.9	14.1	46.9	6.7	N/A	N/A
1981 Q1	72.0	11.9	47.3	4.5	N/A	N/A
1981 Q2	75.0	10.7	48.1	3.2	N/A	N/A
1981 Q3	76.3	10.8	48.3	2.3	N/A	N/A
1981 Q4	78.3	11.4	47.5	1.3	N/A	N/A
1982 Q1	79.4	9.8	48.2	1.9	N/A	N/A
1982 Q2	81.9	8.8	49.2	2.4	N/A	N/A
1982 Q3	81.9	7.0	49.8	3.2	N/A	N/A
1982 Q4	82.5	5.3	51.0	7.2	N/A	N/A
1983 Q1	83.1	4.5	52.5	8.4	97.1	N/A
1983 Q2	84.8	3.6	54.6	10.4	99.4	N/A
1983 Q3	86.1	5.0	56.2	12.1	101.5	N/A
1983 Q4	86.9	5.2	57.1	11.2	102.3	N/A
1984 Q1	87.5	5.1	59.2	12.0	104.1	7.0
1984 Q2	89.2	5.0	61.5	11.9	106.0	6.4
1984 Q3	90.1	4.6	62.3	10.4	108.4	6.6
1984 Q4	90.9	4.5	64.9	12.8	111.0	8.2
1985 Q1	92.8	5.9	66.2	11.2	113.5	8.6
1985 Q2	95.4	6.7	68.2	10.3	115.4	8.5
1985 Q3	95.4	5.7	69.2	10.5	116.8	7.5
1985 Q4	96.1	5.5	70.7	8.5	120.6	8.3
1986 Q1	96.7	4.1	71.1	7.1	124.0	8.8
1986 Q2	97.8	2.5	73.8	8.0	128.1	10.4
1986 Q3	98.3	3.0	76.3	9.7	132.2	12.4
1986 Q4	99.6	3.6	79.0	11.1	136.8	12.6
1987 Q1	100.6	3.9	81.6	13.7	142.3	13.8

Time in Quarters	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>
1987 Q2	101.9	4.1	85.8	15.0	146.7	13.6
1987 Q3	102.4	4.1	88.6	15.0	151.5	13.6
1987 Q4	103.3	3.6	88.5	11.4	158.0	14.4
1988 Q1	104.1	3.4	90.0	9.8	167.0	16.0
1988 Q2	106.6	4.5	97.6	13.0	179.4	20.1
1988 Q3	108.4	5.7	108.4	20.1	197.4	26.5
1988 Q4	110.3	6.6	114.2	25.5	211.8	29.3
1989 Q1	112.3	7.6	118.8	27.8	220.7	27.9
1989 Q2	115.4	7.9	124.2	24.1	226.1	23.1
1989 Q3	116.6	7.3	125.2	14.4	225.5	13.3
1989 Q4	118.8	7.4	122.7	7.2	222.5	4.9
1990 Q1	121.4	7.8	118.9	0.1	223.7	1.4
1990 Q2	126.7	9.3	117.7	(5.4)	223.3	(1.2)
1990 Q3	129.3	10.3	114.2	(9.2)	222.7	(1.2)
1990 Q4	129.9	8.9	109.6	(11.3)	223.0	0.2
1991 Q1	131.4	7.9	108.8	(8.8)	223.1	(0.3)
1991 Q2	134.1	5.7	110.6	(6.2)	221.9	(0.6)
1991 Q3	134.6	4.0	109.5	(4.2)	219.5	(1.4)
1991 Q4	135.7	4.4	107.0	(2.4)	217.7	(2.4)
1992 Q1	136.7	4.0	104.1	(4.4)	213.2	(4.5)
1992 Q2	139.3	3.8	105.1	(5.1)	208.8	(6.1)
1992 Q3	139.4	3.5	104.2	(5.0)	206.9	(5.9)
1992 Q4	139.2	2.5	100.1	(6.7)	199.5	(8.7)
1993 Q1	139.3	1.9	100.0	(4.0)	199.6	(6.6)
1993 Q2	141.0	1.2	103.6	(1.4)	201.7	(3.5)
1993 Q3	141.9	1.8	103.2	(1.0)	202.6	(2.1)
1993 Q4	141.9	1.9	101.8	1.7	203.5	2.0
1994 Q1	142.5	2.3	102.4	2.4	204.6	2.5
1994 Q2	144.7	2.6	102.5	(1.1)	202.9	0.6
1994 Q3	145.0	2.2	103.2	0.0	202.7	0.0
1994 Q4	146.0	2.8	104.0	2.1	201.9	(0.8)
1995 Q1	147.5	3.4	101.9	(0.5)	201.8	(1.4)
1995 Q2	149.8	3.5	103.0	0.5	199.3	(1.8)
1995 Q3	150.6	3.8	102.4	(0.8)	197.8	(2.4)
1995 Q4	150.7	3.2	101.6	(2.3)	199.2	(1.3)
1996 Q1	151.5	2.7	102.5	0.6	202.1	0.1
1996 Q2	153.0	2.1	105.8	2.7	206.7	3.6
1996 Q3	153.8	2.1	107.7	5.1	208.8	5.4
1996 Q4	154.4	2.4	110.1	8.0	213.9	7.1
1997 Q1	155.4	2.5	111.3	8.3	216.7	7.0
1997 Q2	157.5	2.9	116.5	9.6	220.2	6.3
1997 Q3	159.3	3.5	121.2	11.8	222.6	6.4
1997 Q4	160.0	3.6	123.3	11.4	225.4	5.2
1998 Q1	160.8	3.4	125.5	12.0	228.4	5.3
1998 Q2	163.4	3.7	130.1	11.0	232.1	5.3
1998 Q3	164.4	3.2	132.4	8.8	234.8	5.3
1998 Q4	164.4	2.7	132.3	7.0	237.2	5.1
1999 Q1	164.1	2.0	134.6	7.0	238.6	4.4
1999 Q2	165.6	1.3	139.7	7.1	245.5	5.6
1999 Q3	166.2	1.1	144.4	8.6	255.5	8.4
1999 Q4	167.3	1.7	148.9	11.8	264.1	10.7
2000 Q1	168.4	2.6	155.0	14.1	273.1	13.5
2000 Q2	171.1	3.3	162.0	14.8	272.8	10.5
2000 Q3	171.7	3.3	161.5	11.2	275.9	7.7
2000 Q4	172.2	2.9	162.8	9.0	278.6	5.3

Time in Quarters	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>
2001 Q1 .....	172.2	2.2	167.5	7.8	281.7	3.1
2001 Q2 .....	174.4	1.9	174.8	7.6	293.2	7.2
2001 Q3 .....	174.6	1.7	181.6	11.8	302.4	9.2
2001 Q4 .....	173.4	0.7	184.6	12.5	311.8	11.3
2002 Q1 .....	174.5	1.3	190.2	12.7	327.3	15.0
2002 Q2 .....	176.2	1.0	206.5	16.6	343.7	15.9
2002 Q3 .....	177.6	1.7	221.1	19.7	366.1	19.1
2002 Q4 .....	178.5	2.9	231.3	22.6	392.1	22.9
2003 Q1 .....	179.9	3.0	239.3	22.9	405.6	21.4
2003 Q2 .....	181.3	2.9	250.1	19.2	419.8	20.0
2003 Q3 .....	182.5	2.7	258.9	15.8	435.3	17.3
2003 Q4 .....	183.5	2.8	267.1	14.4	452.2	14.3
2004 Q1 .....	184.6	2.6	279.7	15.6	480.4	16.9
2004 Q2 .....	186.8	3.0	298.7	17.8	508.9	19.2

<sup>1</sup> The percentage annual change is calculated in accordance with the following formula:

In (x/y) where "x" is equal to the current quarter's index value and "y" is equal to the index value of the previous year's corresponding quarter.

Source: Office for National Statistics, Nationwide, Halifax.

## CHARACTERISTICS OF THE MORTGAGE EXPRESS MORTGAGE BOOK

The Loans and Related Security in the Provisional Portfolio have been drawn from the Mortgage Express Mortgage Book (the **Mortgage Book**). Set out below is some information relating to the characteristics of the Mortgage Book. You should note that the information set out below is not audited and there is no assurance that the future performance of the Loans will reflect the historical performance of the loans in the Mortgage Book.

### *Mortgage portfolio performance as at 31st July, 2004*

For further information regarding Mortgage Express see *Bradford & Bingley*.

As at 31st July, 2004 the value of the Mortgage Book was approximately £13.3 billion. Approximately 1.60 per cent. of customers in the Mortgage Book were In Arrears with 0.61 per cent. having missed three or more Monthly Payments.

### *In Arrears experience of residential mortgage loans in the Mortgage Book*

Year Ending	1997	1998	1999	2000	2001	2002	2003	2004 (July)
<b>Outstanding Loan</b>								
<b>Balance (£) (including arrears)</b> . . . . .	1,310,559,882.05	1,571,415,305.98	2,394,132,650.81	3,446,793,098.59	4,729,351,065.83	7,154,732,647.81	11,579,527,928.21	13,276,777,336.57
<b>Number of Loans</b>								
<b>Outstanding (including arrears)</b> . . . . .	23,285	26,985	37,739	49,117	60,648	78,320	110,066	129,069.00
<b>Year on Year Growth (%)</b> . . . . .		19.9	52.4	44.0	37.2	51.3	61.8	14.7
<b>Arrears (1 Month)</b>								
<b>Number of Customers</b> . . . . .	804	723	446	478	806	677	597	866
<b>Amount (£m)</b> . . . . .	47,456,200.21	43,018,198.26	26,913,322.84	28,956,723.04	60,517,317.79	53,876,816.13	64,329,332.04	101,114,940.07
<b>Percentage of Arrears to Total Outstanding Balance (by mortgage balance outstanding)</b> . . . . .	3.62	2.74	1.12	0.84	1.28	0.75	0.56	0.76
<b>Arrears (2 Months)</b>								
<b>Number of Customers</b> . . . . .	479	375	225	260	325	263	244	279
<b>Amount (£m)</b> . . . . .	29,426,403.74	22,526,985.39	13,703,582.90	15,494,599.68	20,275,607.93	19,730,873.17	24,878,863.62	33,381,844.46
<b>Percentage of Arrears to Total Outstanding Balance (by mortgage balance outstanding)</b> . . . . .	2.25	1.43	0.57	0.45	0.43	0.28	0.21	0.25
<b>Serious Arrears (&gt; 2 Months)</b>								
<b>Number of Customers</b> . . . . .	2,714	2,093	1,489	1,339	1,651	1,207	914	790
<b>Amount (£m)</b> . . . . .	216,390,801.03	162,743,080.42	117,913,546.29	105,836,157.31	125,973,826.07	91,886,767.54	76,096,469.55	77,312,410.63
<b>Percentage of Serious Arrears to Total Outstanding Balance (by mortgage balance outstanding)</b> . . . . .	16.51	10.36	4.93	3.07	2.66	1.28	0.66	0.58
<b>Provisions (£m)</b> . . . . .	32	22	17	19	23	31	32	37
<b>(Losses)/Recoveries (£m)</b> . . . . .	N/A	(5)	(3)	(3)	(1)	(1)	(0.5)	1
<b>Percentage of Losses to Total Outstanding Balance (%)</b> . . . . .	N/A	0.33	0.13	0.09	0.02	0.01	0.00	(0.01)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004 (July)</u>
Outstanding balance (£) . . . . .	4,729,351,066	7,154,732,648	11,579,527,928	13,276,777,337
Number of loans outstanding . . . . .	60,648	78,320	110,066	129,069
<b>Outstanding balance of loans in arrears</b>				
1 mth in arrears. . . . .	60,517,318	53,876,816	64,329,332	101,114,940
2 mths in arrears . . . . .	20,275,608	19,730,873	24,878,864	33,381,844
3 mths in arrears . . . . .	15,853,527	12,151,416	12,784,908	18,447,846
4-5 mths in arrears. . . . .	21,773,606	15,169,672	16,109,783	22,076,849
6 mths or more in arrears. . . . .	88,346,694	64,565,679	47,201,779	36,787,715
<b>Total outstanding balance of loans in arrears (£)</b> . . . . .	<u>206,766,752</u>	<u>165,494,456</u>	<u>165,304,666</u>	<u>211,809,194</u>
<b>Number of loans outstanding in arrears.</b>				
1 mth in arrears. . . . .	806	677	597	866
2 mths in arrears . . . . .	325	263	244	279
3 mths in arrears . . . . .	234	176	134	165
4-5 mths in arrears. . . . .	292	228	184	200
6 mths or more in arrears. . . . .	1,125	803	596	425
<b>Total number of loans outstanding in arrears</b> . . . . .	<u>2,782</u>	<u>2,147</u>	<u>1,755</u>	<u>1,935</u>
Balance of loans outstanding 3 mths or more in arrears (£). . . . .	125,973,827	91,886,767	76,096,470	77,312,410
Balance of loans outstanding 3 mths or more in arrears as a % of the total outstanding balance . . . . .	2.66	1.28	0.66	0.58
Total number of loans outstanding 3 mths or more in arrears . . . . .	1,651	1,207	914	790
Total number of loans outstanding 3 mths or more in arrears as a % of the total number of loans. . . . .	<u>2.72</u>	<u>1.54</u>	<u>0.83</u>	<u>0.61</u>
Losses (write-offs) . . . . .	<u>(1,064,256)</u>	<u>(563,021)</u>	<u>493,373</u>	<u>814,177</u>
<b>Losses as % of total outstanding balance</b>	<u>0.02</u>	<u>0.01</u>	<u>0.00</u>	<u>(0.01)</u>

There can be no assurance that the arrears experience with respect to Loans in the Portfolio will correspond to the experience of the Mortgage Book as set forth in the foregoing table. The statistics in the preceding table represent only the arrears experience for the years presented, whereas the arrears experience on Loans in the Portfolio after the Closing Date will depend on results obtained over the life of the Loans in the Portfolio. The foregoing statistics include loans with a variety of payment and other characteristics that may not correspond to those of the Loans in the Portfolio. The above information has not been audited.

## MATURITY AND PREPAYMENT CONSIDERATIONS IN RELATION TO THE NOTES

The average lives of the Series 1 Class A Notes, the Series 2 Notes and the Series 3 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. However, calculations of the possible average lives of the Series 1 Class A Notes, the Series 2 Notes and the Series 3 Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (1) none of the Issuer Security nor the Funding 1 Security has been enforced;
- (2) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (3) the Seller sells no New Loans to the Mortgages Trustee after the Closing Date and the Loans are assumed to amortise in accordance with the assumed constant repayment rate indicated in the table below (subject to assumption (4) below);
- (4) the Seller sells to the Mortgages Trustee sufficient New Loans and their Related Security (i) in the period up to but excluding the Funding 1 Payment Date in December 2007, such that the aggregate Current Balance of Loans in the Portfolio at any time is not less than £7 billion and (ii) in the period from and including the Funding 1 Payment Date in December 2007 to but excluding the Funding 1 Payment Date in June 2011, such that the aggregate Current Balance of Loans in the Portfolio at any time is not less than £5.5 billion and (iii) in the period from and including the Funding 1 Payment Date falling in June 2011, such that the aggregate Current Balance of Loans in the Portfolio at any time is not less than £3 billion or in each case such higher amount as may be required to be maintained as a result of New Issuers providing New Term Advances to Funding 1 which Funding 1 uses as consideration for the sale of New Loans to the Trust Property;
- (5) neither an Asset Trigger Event nor a Non-Asset Trigger Event occurs;
- (6) no event occurs that would cause payments on Controlled Amortisation Term Advances or the Pass-Through Term Advances to be deferred (unless such advances are deferred in accordance with Rule 1(A) or (B));
- (7) the Issuer exercises its option to redeem the Notes on the Note Payment Date falling in June 2011;
- (8) the annualised CPR as at the Closing Date is assumed to be the same as the various assumed rates in the table below;
- (9) the weighted average yield on the Loans is sterling LIBOR at 0.90 per cent. per annum;
- (10) there is no balance in the Funding 1 Cash Accumulation Ledger at the Closing Date; and
- (11) the Closing Date of the transaction is on or about 5th October, 2004,

the approximate average life of the Series 1 Class A Notes, the Series 2 Notes and the Series 3 Notes, at various assumed rates of repayment of the Loans, would be as follows<sup>1</sup>:

Constant repayment rate (% per annum)	Possible average life of the Series 1 Class A Notes (years)	Possible average life of the Series 2 Class A1 Notes (years)	Possible average life of the Series 2 Class A2 Notes (years)	Possible average life of the Series 2 Class A3 Notes (years)	Possible average life of the Series 2 Class B1 Notes (years)	Possible average life of the Series 2 Class B2 Notes (years)	Possible average life of the Series 2 Class C1 Notes (years)
5 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.32
10 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.21
15 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.21
20 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.21
25 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.21
30 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.21
35 . . . . .	0.96	2.96	2.96	2.96	3.21	3.21	3.21

(1) unaudited figures, based on an actual/actual calendar.

Constant repayment rate (% per annum)	Possible average life of the Series 2 Class C2 Notes (years)	Possible average life of the Series 3 Class A1 Notes (years)	Possible average life of the Series 3 Class A2 Notes (years)	Possible average life of the Series 3 Class B1 Notes (years)	Possible average life of the Series 3 Class B2 Notes (years)	Possible average life of the Series 3 Class C1 Notes (years)	Possible average life of the Series 3 Class C2 Notes (years)	Possible average life of the Series 3 Class D1 Notes (years)	Possible average life of the Series 3 Class D2 Notes (years)
5 . . . . .	3.32	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71
10 . . . . .	3.21	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71
15 . . . . .	3.21	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71
20 . . . . .	3.21	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71
25 . . . . .	3.21	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71
30 . . . . .	3.21	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71
35 . . . . .	3.21	6.71	6.71	6.71	6.71	6.71	6.71	6.71	6.71

Assumptions (1), (2), (3), (4), (5), (6), (7) and (11) relate to circumstances which are not predictable. No assurance can be given that the Issuer will be in a position to redeem the Notes on the Note Payment Date falling in June 2011. If the Issuer does not so exercise its option to redeem, then the average lives of the then outstanding Notes would be extended.

The average lives of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that these assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of these estimated average lives, see *Investment Considerations – The yield to maturity of your Notes may be adversely affected by prepayments or redemptions on the Loans.*

## EURO PRESENTATION

Translations of pounds sterling into euro, unless otherwise stated in this document, have been made at the rate of £0.6796 = €1.00, which was the noon buying rate in the City of New York for cable transfers in pounds sterling per €1.00 as certified for customs purposes by the Federal Reserve Bank of New York on 24th September, 2004. Use of this rate does not mean that pound sterling amounts actually represent those euro amounts or could be converted into euro at that rate at any particular time.

### Sterling/euro exchange rate history

	Year to September, 2004	Year ended 31st December, 2003	Year ended 31st December, 2002	Year ended 31st December, 2001	Year ended 31st December, 2000
Last <sup>(1)</sup> . . . . .	0.6796	0.7058	0.6517	0.6109	0.6299
Average <sup>(2)</sup> . . . . .	0.6691	0.6922	0.6288	0.6218	0.6093
High . . . . .	0.6867	0.7247	0.6538	0.6434	0.6388
Low . . . . .	0.6567	0.6471	0.6089	0.5961	0.5731

Notes:

(1) Last is the closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1st January or the next operating business day.

(2) Average is the average daily exchange rate during the period.

Source: Bloomberg

## US DOLLAR PRESENTATION

Unless otherwise stated in this prospectus, any translations of pounds sterling into US dollars have been made at the rate of £1.807 = US\$1.00, which was the noon buying rate in the City of New York for cable transfers in sterling per US\$1.00 as certified for customs purposes by the Federal Reserve Bank of New York on 24th September, 2004. Use of this rate does not mean that sterling amounts actually represent those US dollar amounts or could be converted into US dollars at that rate at any particular time.

### Sterling/US dollar exchange rate history

	Year to September 2004	Year ended 31st December, 2003	Year ended 31st December, 2002	Year ended 31st December, 2001	Year ended 31st December, 2000	Year ended 31st December, 1999
Last <sup>(1)</sup> . . . . .	1.8057	1.7858	1.6100	1.4546	1.4930	1.6182
Average <sup>(2)</sup> . . . . .	1.8220	1.6359	1.5038	1.4407	1.5160	1.6177
High . . . . .	1.9047	1.7858	1.6100	1.5038	1.6537	1.6746
Low . . . . .	1.7559	1.5541	1.4082	1.3727	1.3977	1.5485

Notes:

(1) Last is the closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1st January or the next operating business day.

(2) Average is the average daily exchange rate during the period.

Source: Bloomberg

## GENERAL INFORMATION

1. It is expected that the admission of the Notes to the Official List of the UK Listing Authority and the admission of the Notes to trading on the London Stock Exchange will be granted on or around 1st October, 2004 subject only to the issue of the Global Notes. 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, Funding 1, Holdings, the Post-Enforcement Call Option Holder or the Mortgages Trustee is or has been involved in any legal or arbitration proceedings which may have, or have had since its incorporation, a significant effect upon the financial position of the Issuer, Funding 1, Holding, the Post-Enforcement Call Option Holder or the Mortgages Trustee (as the case may be) nor, so far as the Issuer, Funding 1, Holdings, the Post-Enforcement Call Option Holder or the Mortgages Trustee (respectively) is aware, are any such litigation or arbitration proceedings pending or threatened.
3. No statutory or non-statutory accounts within the meaning of Section 240(5) of the Companies Act 1985 in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the London Stock Exchange 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, 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 Subscription Agreement.
6. KPMG Audit Plc, chartered accountants, whose address is 1 The Embankment, Neville Street, Leeds LS1 4DL, has given and not withdrawn its written consent to the inclusion in this document of its name and its report on the Issuer and Funding 1 and the references thereto in the form and context in which they appear, and has authorised the contents of that part of the Listing Particulars containing its report for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities Regulations 2001).
7. Save as discussed herein, since 25th June, 2004 (being the date of incorporation of the Issuer), 16th March, 2004 (being the date of incorporation of Funding 1), 25th June, 2004 (being the date of incorporation of Holdings) and 29th July, 2004 (being the date of incorporation of the Mortgages Trustee) and 25th June, 2004 (being the date of incorporation of the Post-Enforcement Call Option Holder), there has been (1) no material adverse change in the financial position or prospects of the Issuer, Funding 1, Holdings, the Post-Enforcement Call Option Holder or the Mortgages Trustee and (2) no significant change in the financial or trading position of the Issuer, Funding 1, Holdings, the Post-Enforcement Call Option Holder or the Mortgages Trustee.
8. The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 29th September, 2004.
9. The Note Trust Deed provides that the Note Trustee may rely on reports or other information from professional advisers or other experts in accordance with the provisions of the Note Trust Deed, whether or not any such report or other information entered into by the Note Trustee and the relevant person in connection therewith contains any monetary or other limit on the liability of the relevant person.

10. The Notes have been accepted for clearance through DTC, Euroclear and Clearstream, Luxembourg under the following ISIN numbers, CUSIP numbers and Common Codes:

<b>Class of Notes</b>	<b>ISIN (Reg S)</b>	<b>Common Code (Reg S)</b>	<b>CUSIP (Reg S)</b>	<b>ISIN (Rule 144A)</b>	<b>Common Code (Rule 144A)</b>	<b>CUSIP (Rule 144A)</b>
Series 1 Class A	XS0202175294	020217529	N/A	US00935MAA99	020249714	00935MAA9
Series 2 Class A1	XS0201864377	020186437	N/A	N/A	N/A	N/A
Series 2 Class A2	XS0201878674	020187867	N/A	N/A	N/A	N/A
Series 2 Class A3	XS0201881629	020188162	N/A	US00935MAB72	020249811	0935MAB7
Series 2 Class B1	XS0201882270	020188227	N/A	N/A	N/A	N/A
Series 2 Class B2	XS0201882510	020188251	N/A	N/A	N/A	N/A
Series 2 Class C1	XS0201882940	020188294	N/A	N/A	N/A	N/A
Series 2 Class C2	XS0201883088	020188308	N/A	N/A	N/A	N/A
Series 3 Class A1	XS0201883328	020188332	N/A	N/A	N/A	N/A
Series 3 Class A2	XS0201883674	020188367	N/A	N/A	N/A	N/A
Series 3 Class B1	XS0201883914	020188391	N/A	N/A	N/A	N/A
Series 3 Class B2	XS0201884300	020188430	N/A	N/A	N/A	N/A
Series 3 Class C1	XS0201884649	020188464	N/A	N/A	N/A	N/A
Series 3 Class C2	XS0201885026	020188502	N/A	N/A	N/A	N/A
Series 3 Class D1	XS0201885455	020188545	N/A	N/A	N/A	N/A
Series 3 Class D2	XS0202219258	020221925	N/A	N/A	N/A	N/A

11. Copies of the following documents may be inspected at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY during usual business hours, on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this document:

- (i) the Memorandum and Articles of Association of each of the Issuer, Funding 1, Holdings, the Mortgages Trustee and the Post-Enforcement Call Option Holder;
- (ii) the balance sheet of the Issuer as at 29th September, 2004 and the accountants report thereon;
- (iii) the profit and loss account and balance sheet of Funding 1 as at 29th September, 2004 and the accountant's report thereon;
- (iv) prior to the Closing Date, drafts (subject to modification) and after the Closing Date copies of the following Documents:
  - (a) the Subscription Agreement;
  - (b) the Note Trust Deed;
  - (c) the Paying Agent and Agent Bank Agreement;
  - (d) the Issuer Cash Management Agreement;
  - (e) the Issuer Bank Account Agreement;
  - (f) the Post-Enforcement Call Option Agreement;
  - (g) the Issuer Swap Agreements;
  - (h) the Issuer Deed of Charge;
  - (i) the Mortgages Trust Deed;
  - (j) the Intercompany Loan Agreement;
  - (k) the Mortgage Sale Agreement;
  - (l) the Intercompany Mortgage Sale Agreement;
  - (m) the Funding 1 Deed of Charge;
  - (n) the Funding 1 Swap Agreement;
  - (o) the Servicing Agreement;
  - (p) the Sub-Servicing Agreement;
  - (q) the Cash Management Agreement;
  - (r) the Mortgages Trustee Bank Account Agreement;
  - (s) the Funding 1 Bank Account Agreement;

- (t) the Liquidity Facility Agreement;
- (u) the Start-Up Loan Agreement;
- (v) each Corporate Services Agreement;
- (w) each Scottish Declaration of Trust (in relation to the Initial Loans);
- (x) the Master Definitions and Construction Schedule and the Issuer Master Definitions and Construction Schedule;
- (y) Controlling Beneficiary Deed; and
- (z) the consent letter of KPMG Audit Plc.

## GLOSSARY

In addition to terms set out in *Defined Terms* or terms set out elsewhere in this document, the principal terms used in this document are defined as follows:

<b>Accrued Interest</b>	in respect of a Mortgage Account on a given date (the <b>relevant date</b> ), the interest which has accrued but which is not yet due and payable from and including the last regular monthly payment date up to (but excluding) the relevant date
<b>Additional Liquidity Facility Agreement</b>	an agreement to be entered into between Funding 1, the Additional Funding 1 Facility Provider and the Security Trustee if the Seller's ratings fall below a certain threshold as more fully described under <i>Credit Structure – Additional Liquidity Facility</i>
<b>Additional Liquidity Facility Provider</b>	the additional liquidity facility provider under the terms of the Additional Liquidity Facility Agreement
<b>Additional Reserve Fund</b>	has the meaning given in <i>Credit Structure – Additional Reserve Funds</i>
<b>Adjusted General Reserve Fund Level</b>	the sum of:  (a) the amount standing to the credit of the General Reserve Fund; and  (b) the amount (if any) then to be credited in accordance with item (b) of the relevant Funding 1 Pre-Enforcement Principal Priority of Payments
<b>Agent Bank</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i>
<b>annualised CPR</b>	has the meaning given in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts</i>
<b>Asset Backed Floating Rate Notes</b>	details of which are set out in <i>The Supplement – Transaction Features – The Notes</i>
<b>Asset Trigger Event</b>	the occurrence of an amount being debited to the Class A Principal Deficiency Sub-Ledger of Funding 1. The definition of Asset Trigger Event may change when New Loans are added to the Portfolio or when Funding 2 or Funding 3 acquires more than a nominal interest in the Trust Property
<b>Authorised Investments</b>	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 such investments have a maturity date of 90 days or less and mature on or before the next following Note Payment Date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least equal to either A-1+ by S&P, P-1 by Moody's and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies
<b>Bank of England Base Rate</b>	the Bank of England's official dealing rate (the repo rate) as set by the UK Monetary Policy Committee
<b>Basic Terms Modification</b>	the modification of terms, including altering the amount, rate or timing of payments on the Notes, the currency of payment, the priority of payments or the quorum or majority required in relation to these terms

<b>Beneficiaries</b>	each Funding Company and the Seller as beneficiaries of the Mortgages Trust
<b>Booking Fee</b>	a fee payable by the Borrower in respect of applications for certain types of Loans
<b>Borrower</b>	in relation to a Loan, the individual or individuals or limited liability companies incorporated in England and Wales, Scotland and Northern Ireland and (any guarantor in connection therewith) specified as such in the relevant Mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such Loan or any part of it
<b>Bradford &amp; Bingley</b>	Bradford & Bingley plc
<b>Bullet Accumulation Liability</b>	on any Funding 1 Payment Date prior to any payment under item (c) of the Funding 1 Pre-Enforcement Principal Priority of Payments, the aggregate of each Relevant Accumulation Amount at that time of each Programme Bullet Term Advance which is within a Cash Accumulation Period
<b>Bullet Accumulation Shortfall</b>	at any time the amount by which the Cash Accumulation Ledger Amount is less than the Bullet Accumulation Liability
<b>Bullet Term Advance</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Business Day</b>	a day that is a London Business Day, a New York Business Day and a TARGET Business Day
<b>Buy-to-Let Loan and Buy-to-Let Mortgage</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Products</i>
<b>Calendar Year</b>	a year from the beginning of 1st January to the end of 31st December
<b>Capped Advances</b>	has the meaning given in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – Allocations involving Rule (2) or Rule (3)</i>
<b>Cash Accumulation Advance</b>	a Bullet Term Advance and/or Controlled Amortisation Instalment
<b>Cash Accumulation Ledger</b>	a ledger maintained by the Cash Manager to record the amount accumulated by a Funding Company from time to time to pay the Relevant Accumulation Amounts. There will be a separate Cash Accumulation Ledger for each Funding Company
<b>Cash Accumulation Ledger Amount</b>	at any time the amount standing to the credit of the Cash Accumulation Ledger at that time immediately prior to any drawing to be applied on that Funding 1 Payment Date under item (d) of the Funding 1 Pre-Enforcement Principal Priority of Payments
<b>Cash Accumulation Liability</b>	on any Funding 1 Payment Date prior to any payment under item (c) of the Funding 1 Pre-Enforcement Principal Priority of Payments, the sum of: <ul style="list-style-type: none"> <li>(a) the Bullet Accumulation Liability at that time; and</li> <li>(b) the aggregate of each Relevant Accumulation Amount at that time of each Controlled Amortisation Instalment which is within a Cash Accumulation Period</li> </ul>
<b>Cash Accumulation Period</b>	as applicable, a Funding 1 Cash Accumulation Period, a Funding 2 Cash Accumulation Period and/or a Funding 3 Cash Accumulation Period
<b>Cash Accumulation Requirement</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Cash Management Agreement</b>	the agreement to be entered into on the Set-Up Date between the Cash Manager, the Funding Companies, the Mortgages Trustee and the Security Trustee (as amended, supplemented and/or novated from time to time)

<b>Cash Manager</b>	Bradford & Bingley or such other cash manager appointed pursuant to the Cash Management Agreement
<b>Cash Withdrawals</b>	has the meaning described in <i>The Loans – Flexible payments</i>
<b>CCA</b>	the Consumer Credit Act 1974
<b>Choices Loans</b>	a term of a Loan which entitles Borrowers to request and, if agreed by the Seller, an Originator or the Servicer, carry out all or any of the following options: an Overpayment and, to the extent an Overpayment has been made, an Underpayment, a Payment Holiday or a Cash Withdrawal (each such option being a <b>Choice</b> )
<b>Class or class</b>	any reference to a <b>Class</b> or <b>class</b> of Notes or Noteholders are references to the class of any of the Notes issued by the Issuer
<b>Class A Notes</b>	the Class A Notes of any Series issued by the Issuer specified in <i>The Supplement – Key Characteristics of the Notes</i>
<b>Class B Notes</b>	the Class B Notes of any Series issued by the Issuer as specified in <i>The Supplement – Key Characteristics of the Notes</i>
<b>Class C Notes</b>	the Class C Notes of any Series issued by the Issuer as specified in <i>The Supplement – Key Characteristics of the Notes</i>
<b>Class D Notes</b>	the Class D Notes of any Series issued by the Issuer as specified in <i>The Supplement – Key Characteristics of the Notes</i>
<b>Class E Notes</b>	the Class E Notes of any Series issued by the Issuer, if any, as specified in <i>The Supplement – Key Characteristics of the Notes</i>
<b>Class M Notes</b>	the Class M Notes of any Series issued by the Issuer, if any, as specified in <i>The Supplement – Key Characteristics of the Notes</i>
<b>Class A Principal Deficiency Sub-Ledger</b>	one of the sub-ledgers on the Principal Deficiency Ledger, which specifically records any principal deficiency in respect of any Class A Term Advances of a Programme Issuer
<b>Class B Principal Deficiency Sub-Ledger</b>	one of the sub-ledgers on the Principal Deficiency Ledger, which specifically records any principal deficiency in respect of any Class B Term Advances of a Programme Issuer
<b>Class C Principal Deficiency Sub-Ledger</b>	one of the sub-ledgers on the Principal Deficiency Ledger, which specifically records any principal deficiency in respect of any Class C Term Advances of a Programme Issuer
<b>Class D Principal Deficiency Sub-Ledger</b>	one of the sub-ledgers on the Principal Deficiency Ledger, which specifically records any principal deficiency in respect of any Class D Term Advances of a Programme Issuer
<b>Class M Principal Deficiency Sub-Ledger</b>	one of the sub-ledgers on the Principal Deficiency Ledger, which specifically records any principal deficiency in respect of any Class M Term Advances of a Programme Issuer
<b>Class A Term Advances</b>	the Class A Term Advances made by any Programme Issuer to Funding 1 that have a Term Advance Rating of A-1+ or AAA or their equivalent
<b>Class B Term Advances</b>	the Class B Term Advances made by any Programme Issuer to Funding 1 that have a Term Advance Rating of AA or its equivalent
<b>Class C Term Advances</b>	the Class C Term Advances made by any Programme Issuer to Funding 1 that have a Term Advance Rating of BBB or its equivalent
<b>Class D Term Advances</b>	the Class D Term Advances made by any Programme Issuer to Funding 1 that have a Term Advance Rating of BB or its equivalent
<b>Class E Term Advance</b>	the Class E Term Advances made by any Programme Issuer to Funding 1 that have a Term Advance which is unrated

<b>Class M Term Advances</b>	the Class M Term Advances made by any Programme Issuer to Funding 1 that have a Term Advance Rating of A or its equivalent
<b>clearing agency</b>	an agency registered under the provisions of section 17A of the United States Securities Exchange Act of 1934
<b>clearing corporation</b>	a corporation within the meaning of the New York Uniform Commercial Code
<b>Clearstream, Luxembourg</b>	Clearstream Banking, Société anonyme
<b>Closing Date</b>	on or about 5th October, 2004
<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	the Mortgage Code issued by the CML
<b>Code</b>	United States Internal Revenue Code of 1986, as amended
<b>Collection Accounts</b>	the collection accounts in the name of the Servicer which are from time to time used for the purpose of collecting, directly or indirectly, on a daily basis, monies due in respect of the Loans and/or the Related Security forming part of the Trust Property and which will be transferred by the Servicer to the Mortgagee Trustee GIC Account on the next London Business Day
<b>Common Depository</b>	HSBC Bank plc at 8 Canada Square, London E14 5HQ
<b>Conditions</b>	the Terms and Conditions of the Notes, as set out in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Contribution</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trust</i>
<b>Controlled Amortisation Instalment</b>	that part of a Controlled Amortisation Term Advance which is payable on each of the Scheduled Repayment Dates of that Term Advance as specified in <i>The Supplement – Transaction Features – The Term Advances</i>
<b>Controlled Amortisation Repayment Restrictions</b>	means at any time on a Funding 1 Payment Date: <ul style="list-style-type: none"> <li>(1) where there is not a Bullet Accumulation Shortfall at that time, the total amount withdrawn from the Cash Accumulation Ledger on that Funding 1 Payment Date for repayment of the relevant Programme Controlled Amortisation Instalments shall not exceed the Cash Accumulation Ledger Amount less the Bullet Accumulation Liability at that time; and</li> <li>(2) where there is a Bullet Accumulation Shortfall at that time: <ul style="list-style-type: none"> <li>(a) no amount may be withdrawn from the Cash Accumulation Ledger on that Funding 1 Payment Date to be applied in repayment of the relevant Programme Controlled Amortisation Instalments; and</li> <li>(b) thereafter, an amount may only be applied in repayment of the relevant Programme Controlled Amortisation Instalments if the sum of the Cash Accumulation Ledger Amount and the amount of Funding 1 Available Principal Receipts after the application of items (a) and (b) and before item (c) of the Funding 1 Pre-Enforcement Principal Priority of Payments</li> </ul> </li> </ul>
<b>Controlled Amortisation Term Advance</b>	any Funding Company Term Advance which is scheduled to be repaid in multiple instalments (being Controlled Amortisation Instalments) on Scheduled Repayment Dates in accordance with the terms of the relevant debt instruments of the Funding Companies. In respect of any Controlled Amortisation Term Advances made to Funding 1 under a Programme Intercompany Loan Agreement, such Controlled Amortisation Term Advances will be deemed to be Pass-Through Term Advances if:

- (a) a Trigger Event occurs;
- (b) the Funding 1 Security is enforced; or
- (c) in respect of the Controlled Amortisation Term Advances made by a relevant Programme Issuer, the security granted by that particular Programme Issuer is enforced

<b>Controlling Beneficiary Deed</b>	the deed to be entered into on or prior to the Set-Up Date between the Mortgages Trustee and each Beneficiary in respect of their interests in the Trust Property, as amended and/or restated from time to time
<b>core terms</b>	the main subject matter of the contract
<b>Corporate Services Agreements</b>	the agreements to be entered into on the Set-Up Date between the relevant Corporate Services Provider and each of Funding 1, Funding 2, Funding 3, the Post-Enforcement Call Option Holder, Holdings and the Mortgages Trustee (in respect of each such agreement, as amended, supplemented and/or novated from time to time) which governs the provision of corporate services by the Corporate Services Provider to each of Funding 1, Funding 2, Funding 3, the Post-Enforcement Call Option Holder, Holdings or the Mortgages Trustee
<b>Corporate Services Provider</b>	SFM Corporate Services Limited acting through its offices at Blackwell House, Guildhall Yard, London EC2V 5AE as corporate services provider to each of Funding 1, Funding 2, Funding 3, Holdings and the Post-Enforcement Call Option Holder under the terms of the relevant Corporate Services Agreement
<b>Corporate Services Providers</b>	the Corporate Services Provider, the Issuer Corporate Services Provider and the Mortgages Trustee Corporate Services Provider
<b>CPR</b>	on any Trust Calculation Date means the annualised principal repayment rate of all the Loans comprised in the Trust Property during the previous Trust Calculation Period calculated as follows: $1 - ((1 - R) ^ 12)$ <p>where R equals the result (expressed as a percentage) of the total Principal Receipts received during the period of one month (or, if shorter, from and including the Closing Date) ending on that Trust Calculation Date divided by the aggregate Outstanding Principal Balance of the Loans comprised in the Trust Property as at the first day of that period</p>
<b>Currency Swap Rate</b>	each of or together, the Euro Currency Swap Rate and the Dollar Currency Swap Rate, as described in <i>The Supplement – The Issuer Swap Agreements – The Issuer Currency Swaps</i>
<b>Current Balance</b>	in relation to a Loan at any given date, the aggregate (without double counting) of the Outstanding Principal Balance, Accrued Interest and other amounts In Arrears relating to that Loan as at that date
<b>Deed of Accession</b>	a deed entered into from time to time between, <i>inter alios</i> , Funding 1, the Security Trustee and New Secured Creditors pursuant to the terms of the Funding 1 Deed of Charge
<b>Deferred Contribution</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trust</i>
<b>Deferred Purchase Price</b>	the deferred purchase price paid to the Seller in respect of the relevant Portfolio as further consideration for the sale of the relevant Portfolio in accordance with the provisions of the Mortgage Sale Agreement
<b>Diligence</b>	the process (under Scots law) by which a creditor attaches the property of a debtor to implement or secure a court decree or judgment
<b>Discounted Rate Loans</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Repayment terms</i>

<b>Distribution Compliance Period</b>	has the meaning given in <i>Subscription and Sale</i>
<b>Distribution Date</b>	the day falling two London Business Days after the immediately preceding Trust Calculation Date, being the date that the Mortgages Trustee will distribute Principal Receipts and Revenue Receipts to the Beneficiaries
<b>Dollar or USD or \$</b>	the lawful currency for the time being of the United States of America
<b>Dollar Notes</b>	the Series 1 Class A Notes and the Series 2 Class A3 Notes
<b>Drawdown</b>	where funds are drawn against a pre-agreed limit (agreed at initial underwriting or following a successful application to increase the drawdown facility originally granted at initial underwriting), available in relation to the Buy-to-Let mortgage only
<b>DTC</b>	The Depository Trust Company
<b>DTI</b>	The Department of Trade and Industry
<b>due and payable</b>	has the meaning given in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – Due and payable dates of Term Advances</i>
<b>Early Repayment Charge</b>	any fee (other than a redemption fee) which a Borrower is required to pay in the event that he or she is in default or his or her Loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant Loan before a specified date
<b>Eligible General Reserve Fund Principal Repayments</b>	<p>(a) prior to the occurrence of a Trigger Event:</p> <ul style="list-style-type: none"> <li>(i) repayments of principal which are then due and payable in respect of Programme Original Bullet Term Advances; and</li> <li>(ii) repayments of principal in respect of Programme Original Controlled Amortisation Term Advances on their respective Final Maturity Dates only; and</li> </ul> <p>(b) on or after the occurrence of a Non-Asset Trigger Event or an Asset Trigger Event, repayments of principal in respect of Programme Original Bullet Term Advances and Programme Original Controlled Amortisation Term Advances on their respective Final Maturity Dates only,</p> <p>in each case prior to the service of an Intercompany Loan Acceleration Notice on Funding 1</p>
<b>Eligible Liquidity Facility Principal Repayments</b>	<p>(a) prior to the occurrence of a Trigger Event:</p> <ul style="list-style-type: none"> <li>(i) repayments of principal which are then due and payable in respect of Original Bullet Term Advances; and</li> <li>(ii) repayments of principal in respect of Original Controlled Amortisation Term Advances on their respective Final Maturity Dates only; and</li> </ul> <p>(b) on or after the occurrence of a Non-Asset Trigger Event but prior to the occurrence of an Asset Trigger Event, repayments of principal in respect of Original Bullet Term Advances and Original Controlled Term Amortisation Term Advances on their respective Final Maturity Dates only,</p> <p>in each case prior to the service of an Intercompany Loan Acceleration Notice on Funding 1 and taking into account any allocation of principal to meet any deficiency in Funding 1's Available Revenue Receipts.</p>
<b>English Loan</b>	a Loan secured by an English Mortgage
<b>English Mortgage</b>	a Mortgage secured over a property in England and Wales

<b>English Mortgage Conditions</b>	the Mortgage Conditions applicable to English Loans
<b>ERISA</b>	the US Employee Retirement Income Security Act of 1974 as amended. See further <i>United States ERISA Considerations</i>
<b>EURIBOR</b>	has the meaning given in the Conditions of the Notes
<b>Euro or €</b>	the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time
<b>Euro Notes</b>	the Series 2 Class A2 Notes, Series 2 Class B2 Notes, Series 2 Class C2 Notes, Series 3 Class A2 Notes, the Series 3 Class B2 Notes, the Series 3 Class C2 Notes and the Series 3 Class D2 Notes
<b>Euroclear</b>	Euroclear Bank S.A./N.V., as operator of the Euroclear System or the successor for the time being to such business
<b>Excess Swap Collateral</b>	an amount equal to the value of the collateral (or the applicable part of any collateral) provided by an Issuer Swap Provider to the Issuer in respect of that Issuer Swap Provider's obligations to transfer collateral under the relevant Issuer Swap Agreement which is in excess of that Issuer Swap Provider's liability under the relevant Issuer Swap Agreement as at the date of termination of the relevant Issuer Swap Agreement or which it is otherwise entitled to have returned to it under the terms of the relevant Issuer Swap Agreement
<b>Exchange Act</b>	the United States Securities Exchange Act of 1934, as amended
<b>Extension Advance</b>	means a variation of an existing Loan pursuant to an advance of further funds from Mortgage Express, as Originator, to the Borrower secured against a residential property already mortgaged to Mortgage Express
<b>Final Maturity Date</b>	in respect of each Class of Notes of the Issuer, means the Note Payment Date falling in the month specified in <i>The Supplement – Transaction Features – The Notes</i>
<b>Final Repayment Date</b>	in respect of the Intercompany Loan of the Issuer, means the Funding 1 Payment Date falling in the month specified in <i>The Supplement – Transaction Features – The Terms Advances</i>
<b>Fitch</b>	Fitch Ratings Ltd. and any successor to its ratings business
<b>Fixed Rate Loans</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Interest Payments and interest rate setting</i>
<b>FlexAbility Mortgage or FlexAbility Loan</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Products</i>
<b>Flexible Draw Capacity</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Minimum Seller Share</i>
<b>FSA</b>	the Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000
<b>Funding 1</b>	Aire Valley Funding 1 Limited
<b>Funding 1 Account Bank</b>	HSBC Bank plc acting through its offices at 8 Canada Square, London E14 5HQ or such other account bank appointed pursuant to the Funding 1 Bank Account Agreement
<b>Funding 1 Account Bank Ratings</b>	short term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch
<b>Funding 1 Anticipated Cash Accumulation Period</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Funding 1 Available Principal Receipts</b>	has the meaning given under <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts</i>

<b>Funding 1 Available Revenue Receipts</b>	has the meaning given under <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Revenue Receipts</i>
<b>Funding 1 Bank Account Agreement</b>	the agreement to be entered into on the Set-Up Date between the Funding 1 Account Bank, Funding 1 and the Security Trustee (as amended, supplemented and/or novated from time to time)
<b>Funding 1 Cash Accumulation Period</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Funding 1 Deed of Charge</b>	the deed of charge to be entered into on the Set-Up Date between Funding 1, the Security Trustee and the other Funding 1 Secured Creditors as amended and/or restated from time to time and acceded to by other entities
<b>Funding 1 Collateral</b>	the account of Funding 1 maintained with the Funding 1 Account Bank pursuant to the terms of the Funding 1 Bank Account Agreement or such additional or replacement account as may for the time being be in place. Amounts deposited to the credit of the Funding 1 Collateral Account will receive a rate of interest determined in accordance with the Funding 1 Bank Account Agreement
<b>Funding 1 GIC Account</b>	the account of Funding 1 maintained with the Funding 1 Account Bank pursuant to the terms of the Funding 1 Bank Account Agreement or such additional or replacement account as may for the time being be in place. Amounts deposited to the credit of the Funding 1 GIC Account will receive a rate of interest determined in accordance with the Funding 1 Bank Account Agreement
<b>Funding 1 Interest Determination Date</b>	the Funding 1 Payment Date on which the relevant Funding 1 Interest Period commences or, in the case of the first Funding 1 Interest Period, the Closing Date
<b>Funding 1 Interest Period</b>	the period from (and including) the Funding 1 Payment Date (or in respect of the first Funding 1 Interest Period, the Closing Date) to (but excluding) the next following applicable Funding 1 Payment Date
<b>Funding 1 Payment Date</b>	in relation to the Term Advances, means the 20th day of March, June, September and December in each year (or if such day is not a Business Day, the next succeeding Business Day)
<b>Funding 1 Post-Enforcement Priority of Payments</b>	the order in which, following the enforcement of the Funding 1 Security, the Security Trustee will apply the amounts received following enforcement of the Funding 1 Security, as set out in <i>Summary of the Transaction Documents – Funding 1 Deed of Charge and Cashflows of Funding 1 – Distribution of Funding 1 Principal Receipts and Funding 1 Revenue Receipts following the service of an Intercompany Loan Acceleration Notice on Funding 1</i>
<b>Funding 1 Pre-Enforcement Principal Priority of Payments</b>	the order in which, prior to enforcement of the Funding 1 Security, the Cash Manager will apply the Funding 1 Available Principal Receipts on each Funding 1 Payment Date, as set out in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts</i>
<b>Funding 1 Pre-Enforcement Revenue Priority of Payments</b>	the order in which, prior to enforcement of the Funding 1 Security, the Cash Manager will apply the Funding 1 Available Revenue Receipts on each Funding 1 Payment Date, as set out in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Revenue Receipts prior to the service of an Intercompany Loan Acceleration Notice on Funding 1</i>
<b>Funding 1 Principal Funds</b>	has the meaning given in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules – Rule (2)</i>

<b>Funding 1 Principal Ledger</b>	a ledger maintained by the Cash Manager to record the amount of Funding 1 Principal Receipts received by Funding 1 from the Mortgages Trustee on each Distribution Date
<b>Funding 1 Principal Receipts</b>	the Principal Receipts paid by the Mortgages Trustee to Funding 1 on each Distribution Date
<b>Funding 1 Priority of Payments</b>	the Funding 1 Pre-Enforcement Principal Priority of Payments, the Funding 1 Pre-Enforcement Revenue Priority of Payments and/or the Funding 1 Post Enforcement Priority of Payments
<b>Funding 1 Proportion</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Adjustments to Trust Property</i>
<b>Funding 1 Revenue Deficit Amount</b>	has the meaning given in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Revenue Receipts</i>
<b>Funding 1 Revenue Ledger</b>	a ledger maintained by the Cash Manager to record all amounts received by Funding 1 from the Mortgages Trustee on each Distribution Date other than Funding 1 Principal Receipts, together with interest received on its Authorised Investments or pursuant to the Funding 1 Bank Account Agreement
<b>Funding 1 Secured Creditors</b>	the Security Trustee, the Funding 1 Swap Provider, the Liquidity Facility Provider, the Cash Manager, the Funding 1 Account Bank, the Seller, the Corporate Services Provider, the Start-Up Loan Provider, the Issuer and any other entity that accedes to the terms of the Funding 1 Deed of Charge from time to time
<b>Funding 1 Security</b>	the security created by Funding 1 in favour of the Security Trustee pursuant to the Funding 1 Deed of Charge
<b>Funding 1 Share</b>	the Funding 1 share of the Trust Property from time to time as calculated in accordance with the Mortgages Trust Deed. The Funding 1 Share as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Funding 1 Share Ledger</b>	the ledger of such name maintained by the Cash Manager pursuant to the Cash Management Agreement to record the Funding 1 Share and the Funding 1 Share Percentage of the Trust Property
<b>Funding 1 Share Percentage</b>	the Funding 1 Share Percentage of the Trust Property from time to time as calculated in accordance with the Mortgages Trust Deed. The Funding 1 Share Percentage as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Funding 1 Swap</b>	the swap documented under the Funding 1 Swap Agreement which enables Funding 1 to hedge against the possible variance between the Variable Rate payable on the Variable Rate Loans and the fixed rates of interest payable on the Fixed Rate Loans and a LIBOR based rate for three-month sterling deposits, as described further in <i>Summary of the Transaction Documents – Funding 1 Swap Agreement</i>
<b>Funding 1 Swap Agreement</b>	the ISDA master agreement and schedule thereto to be entered into on the Set-Up Date between Funding 1, the Funding 1 Swap Provider and the Security Trustee and any confirmation documented thereunder from time to time between Funding 1, the Funding 1 Swap Provider and the Security Trustee (as each of the same may be amended, restated, novated or supplemented from time to time)
<b>Funding 1 Swap Collateral Excluded Amounts</b>	at any time, the amount of swap collateral which may be applied at that time in satisfaction of the Funding 1 Swap Provider's obligation to Funding 1 under the terms of the Funding 1 Swap Agreement
<b>Funding 1 Swap Excluded Termination Amount</b>	in relation to the Funding 1 Swap Agreement an amount equal to:

- (a) the amount of any termination payment due and payable to the Funding 1 Swap Provider as a result of a Funding 1 Swap Provider Default or following a Funding 1 Swap Provider Downgrade Termination Event;

less

- (b) the amount, if any, received by Funding 1 from a replacement swap provider upon entry by Funding 1 into an agreement with such replacement swap provider to replace the Funding 1 Swap Agreement which has terminated as a result of such Funding 1 Swap Provider Default or following the occurrence of such Funding 1 Swap Provider Downgrade Termination Event

<b>Funding 1 Swap Provider</b>	Bradford & Bingley
<b>Funding 1 Swap Provider Default</b>	the occurrence of an event of default (as defined in the Funding 1 Swap Agreement) where the Funding 1 Swap Provider is the defaulting party (as defined in the Funding 1 Swap Agreement)
<b>Funding 1 Swap Provider Downgrade Termination Event</b>	the occurrence of an additional termination event following the failure by the Funding 1 Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the Funding 1 Swap Agreement
<b>Funding 1 Transaction Account</b>	the account in the name of Funding 1 maintained with the Funding 1 Account Bank pursuant to the Funding 1 Bank Account Agreement or such additional or replacement account as may for the time being be in place
<b>Funding 2</b>	Aire Valley Funding 2 Limited
<b>Funding 2 Cash Accumulation Period</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Funding 2 Proportion</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Adjustments to Trust Property</i>
<b>Funding 2 Share</b>	the Funding 2 share of the Trust Property from time to time as calculated in accordance with the Mortgages Trust Deed. The Funding 2 Share as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Funding 2 Share Ledger</b>	a ledger maintained by the Cash Manager pursuant to the Cash Management Agreement which records the Funding 2 Share and the Funding 2 Share Percentage of the Trust Property
<b>Funding 2 Share Percentage</b>	the Funding 2 Share Percentage of the Trust Property from time to time as calculated in accordance with the Mortgages Trust Deed. The Funding 2 Share Percentage as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Funding 3</b>	Aire Valley Funding 3 plc
<b>Funding 3 Cash Accumulation Period</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Funding 3 Proportion</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Adjustments to Trust Property</i>
<b>Funding 3 Share</b>	the Funding 3 Share of the Trust Property from time to time, as calculated in accordance with the Mortgages Trust Deed. The Funding 3 Share as at the Closing Date is as set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Funding 3 Share Ledger</b>	a ledger maintained by the Cash Manager pursuant to the Cash Management Agreement which records the Funding 3 Share and the Funding 3 Share Percentage of the Trust Property

<b>Funding 3 Share Percentage</b>	the Funding 3 Share Percentage of the Trust Property from time to time as calculated in accordance with the Mortgages Trust Deed. The Funding 3 Share Percentage as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Funding Companies</b>	Funding 1, Funding 2 and Funding 3 and <b>Funding Company</b> means any of them
<b>Funding Company Interest Periods</b>	the Funding 1 Interest Period and the interest period of each of Funding 2 and Funding 3
<b>Funding Company Payment Dates</b>	the Funding 1 Payment Date and the payment date of each of Funding 2 and Funding 3
<b>Funding Proportion</b>	the Funding 1 Proportion, the Funding 2 Proportion and the Funding 3 Proportion
<b>Further Contribution</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trust</i>
<b>Further Contribution Date</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Dates for recalculation of the share of each Beneficiary</i>
<b>General Reserve Fund</b>	at any time the amount standing to the credit of the General Reserve Ledger at that time, which may be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal, as described further in <i>Credit Structure – General Reserve Fund</i>
<b>General Reserve Fund Required Amount</b>	the amount specified as such in <i>The Supplement – Transaction Features – Credit Structure</i>
<b>General Reserve Fund Threshold</b>	the lesser of: <ul style="list-style-type: none"> <li>(a) the General Reserve Fund Required Amount; and</li> <li>(b) the highest amount which the Adjusted General Reserve Fund Level has been since the first Funding 1 Payment Date on which interest is due and payable in respect of Term Advances made relating to the then most recent issue of Notes by the Issuer,</li> </ul> less £3,000,000
<b>General Reserve Ledger</b>	a ledger maintained by the Cash Manager to record the amount credited to the General Reserve Fund from the proceeds of a portion of a Start-Up Loan and/or the proceeds of the Intercompany Loan, and subsequent withdrawals and deposits in respect of the General Reserve Fund
<b>Global Certificates</b>	the Notes of the Issuer in global certificate form
<b>High Loan-to-Value Fee</b>	a fee incurred by a Borrower as a result of taking out a Loan with an LTV Ratio in excess of a certain percentage specified in the offer
<b>Holdings</b>	Aire Valley Holdings Limited
<b>ICTA</b>	the UK Income and Corporation Taxes Act 1988
<b>In Arrears</b>	in respect of a Mortgage Account, occurs when one or more Monthly Payments in respect of a Mortgage Account have become due and payable but are unpaid by a Borrower
<b>Industry CPR</b>	a constant prepayment rate which is calculated by dividing the amount of Mortgages repaid in a quarter by the quarterly balance of Mortgages outstanding for building societies in the UK
<b>Initial Contribution</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trust</i>
<b>Initial Loans</b>	the Loans sold by the Seller to the Mortgages Trustee on the Closing Date pursuant to the terms of the Mortgage Sale Agreement

### **Initial Purchase Price**

the cash payment payable by the Mortgages Trustee to the Seller for the sale to the Mortgages Trustee of the Initial Portfolio or the sum agreed to from time to time between the Mortgages Trustee and the Seller for the sale to the Mortgages Trustee of New Portfolios in accordance with the Mortgage Sale Agreement. The amount of the Initial Purchase Price for the sale of the Initial Portfolio is set out in *The Supplement – Transaction Features – The Mortgages Trust*

### **Insolvency Event**

in respect of the Seller, the Servicer, the Cash Manager or the Issuer Cash Manager (each, for the purposes of this definition, a **relevant entity**) means:

- (a) an order is made or an effective resolution passed for the winding up of the relevant entity;
- (b) the relevant entity ceases or threatens to cease to carry on its business or is unable to pay its debts as they fall due (within the meaning of Section 123(1)(b) to (e) (inclusive) and/or Section 123(2) of the Insolvency Act 1986 (as amended) or shall admit inability to pay its debts as they fall due or shall be adjudged or found bankrupt or insolvent; or
- (c) proceedings shall be initiated against the relevant entity under any applicable liquidation, winding up, insolvency, bankruptcy, composition, reorganisation or other similar laws; or a receiver, administrator, trustee or other similar official shall be appointed in relation to the relevant entity or in relation to the whole or a substantial part (having an aggregate book value in excess of £50,000,000) of its assets or a distress, diligence or execution or other process shall be levied or enforced upon or sued out against the whole or a substantial part (having an aggregate value in excess of £50,000,000) of its assets and, in any of the foregoing cases, it shall not be discharged within thirty days; or if the relevant entity shall initiate or consent to judicial proceedings relating to itself under any applicable liquidation, winding-up, insolvency, bankruptcy, composition, reorganisation or other similar laws or shall make a conveyance or assignment for the benefit of, or shall enter into any composition with, its creditors generally;

and

in respect of Funding 1 means:

- (a) an order is made or an effective resolution passed for the winding up of Funding 1;
- (b) Funding 1 ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986 (as amended) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; or
- (c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against Funding 1 under any applicable liquidation, administration, reorganisation (other than a reorganisation where Funding 1 is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other Receiver, administrator or other similar

official is appointed in relation to the whole or any substantial part of the undertaking or assets of Funding 1 or the appointment of an administrator takes effect; or a distress, execution or Diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of Funding 1 and in any of the foregoing cases it is not discharged within 15 London Business Days; or if Funding 1 initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness

<b>Intercompany Loan</b>	the intercompany loan made by the Issuer to Funding 1 pursuant to the terms of the Intercompany Loan Agreement
<b>Intercompany Loan Acceleration Notice</b>	an acceleration notice served by the Security Trustee on Funding 1 following an event of default under the Intercompany Loan Agreement
<b>Intercompany Loan Agreement</b>	the agreement to be entered into on the Closing Date between the Issuer, Funding 1, the Issuer Security Trustee, the Security Trustee and the Agent Bank, where the Issuer will agree to make available to Funding 1 on the Closing Date the relevant facilities described in <i>The Supplement – Transaction Features – The Term Advances</i>
<b>Intercompany Loan Event of Default</b>	has the meaning given in <i>Summary of the Transaction Documents – Intercompany Loan Agreement</i>
<b>Intercompany Loan Ledger</b>	a ledger maintained by the Cash Manager to record payments of interest and repayments of principal made on the Term Advances under the Intercompany Loan
<b>Intercompany Loan Terms and Conditions</b>	the standard terms and conditions incorporated into the Intercompany Loan Agreement, signed for the purposes of identification on the Set-Up Date by Funding 1, the Security Trustee and the Agent Bank
<b>Intercompany Mortgage Sale Agreement</b>	the agreement to be entered into on the Set-Up Date between the Seller, Mortgage Express (in its capacity as an Originator), the Mortgages Trustee, Funding 1 and the Security Trustee (as amended and/or restated from time to time), pursuant to which Loans originated or acquired by Mortgage Express will be sold from time to time to the Seller
<b>Interest Determination Date</b>	the Interest Determination Date(s) in respect of the Notes of the Issuer specified in the Conditions of the Notes
<b>Interest Period</b>	the Interest Period(s) in respect of the Notes of the Issuer specified in the Conditions of the Notes
<b>Investment Plan</b>	in respect of an interest-only Loan, a repayment mechanism selected by the Borrower to help enable the Borrower to redeem the full principal of a Mortgage Loan at maturity
<b>Investor Report</b>	the quarterly report prepared by the Issuer Cash Manager pursuant to the Issuer Cash Management Agreement and/or the quarterly report prepared by the Cash Manager pursuant to the Cash Management Agreement
<b>ISA</b>	an individual savings account within the Individual Savings Account Regulations 1998 (as amended) and which shelters investments in the account from income tax and capital gains tax
<b>Issuer</b>	Aire Valley Mortgages 2004-1 plc
<b>Issuer Account Bank</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i> acting pursuant to the Issuer Bank Account Agreement

<b>Issuer Bank Account Agreement</b>	the agreement to be entered into on the Closing Date between the Issuer Account Bank, the Issuer, the Issuer Cash Manager and the Issuer Security Trustee (as the same may be amended, restated, varied or supplemented from time to time) which governs the operation of the Issuer Transaction Account
<b>Issuer Cash Management Agreement</b>	the agreement to be entered into on the Closing Date between the Issuer Cash Manager, the Issuer and the Issuer Security Trustee (as the same may be amended, restated, varied or supplemented from time to time)
<b>Issuer Cash Manager</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i> acting, pursuant to the Issuer Cash Management Agreement, as agent for the Issuer and the Issuer Security Trustee to manage all cash transactions and maintain certain ledgers on behalf of the Issuer
<b>Issuer Corporate Services Agreement</b>	an agreement to be entered into on the Closing Date between the Issuer, the Issuer Corporate Services Provider and the Issuer Security Trustee, which governs the provision of corporate services by the Issuer Corporate Services Provider to the Issuer (as amended, restated, supplemented and/or novated from time to time)
<b>Issuer Corporate Services Provider</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i>
<b>Issuer Currency Swap Agreements</b>	the Issuer Euro Currency Swap Agreements and the Issuer Dollar Currency Swap Agreements
<b>Issuer Currency Swap Providers</b>	the Issuer Euro Currency Swap Providers and the Issuer Dollar Currency Swap Provider
<b>Issuer Currency Swaps</b>	means the Issuer Euro Currency Swaps and the Issuer Dollar Currency Swaps
<b>Issuer Deed of Charge</b>	the deed of charge to be entered into on the Closing Date between, among others, the Issuer and the Issuer Security Trustee and the other Issuer Secured Creditors (as amended and/or restated from time to time)
<b>Issuer Dollar Currency Exchange Rate</b>	the rate at which US dollars are converted to Sterling or, as the case may be, Sterling is converted to US dollars under the Issuer Dollar Currency Swaps or, if there is no relevant Issuer Dollar Currency Swap Agreement in effect at such time, the spot rate at which US dollars are converted into Sterling or, as the case may be, Sterling is converted into US dollars on the foreign exchange markets
<b>Issuer Dollar Currency Swap Agreements</b>	collectively, the ISDA master agreements, schedules and confirmations relating to the Issuer Dollar Currency Swaps to be entered into on or before the Closing Date between the Issuer, the Issuer Dollar Currency Swap Provider and the Issuer Security Trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Issuer Dollar Currency Swap Provider</b>	the entity or entities specified in <i>The Supplement – The Parties to the Transaction</i> and – <i>The Issuer Swap Providers</i> or such other swap provider appointed pursuant to the Issuer Dollar Currency Swap Agreements
<b>Issuer Dollar Currency Swaps</b>	the Sterling-US dollar currency swaps which enable the Issuer to receive and pay amounts under the relevant Intercompany Loan in Sterling and to receive and pay amounts under the Notes denominated in US dollars, as described further in <i>The Supplement – The Issuer Swap Agreements</i>
<b>Issuer Euro Currency Exchange Rate</b>	the rate at which Euro is converted to Sterling or, as the case may be, Sterling is converted to Euro under the Issuer Euro Currency Swaps or, if there is no Issuer Euro Currency Swap Agreement in effect at

	such time, the spot rate at which Euro are converted into Sterling or, as the case may be, Sterling is converted into Euro on the foreign exchange markets
<b>Issuer Euro Currency Swap Agreements</b>	collectively, the ISDA master agreements, schedules and confirmations relating to the Issuer Euro Currency Swaps to be entered into on or before the Closing Date between the Issuer, the Issuer Euro Currency Swap Providers and the Issuer Security Trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Issuer Euro Currency Swap Providers</b>	the entity or entities specified in <i>The Supplement – The Parties to the Transaction</i> and – <i>The Issuer Swap Providers</i> or such other swap providers appointed pursuant to the Issuer Euro Currency Swap Agreements
<b>Issuer Euro Currency Swaps</b>	the sterling-euro currency swaps which enable the Issuer to receive and pay amounts under the Intercompany Loan in Sterling and to receive and pay amounts under the Notes denominated in Euro, as described further in <i>The Supplement – The Issuer Swap Agreements</i>
<b>Issuer Event of Default</b>	an event of default by the Issuer under Condition 10 of the Notes
<b>Issuer Interest Rate Swap</b>	the fixed-floating interest rate swap which enables the Issuer to receive amounts calculated by reference to a rate based on EURIBOR, LIBOR or US Dollar-LIBOR, as applicable for three-month deposits and pay a fixed amount of interest on the applicable Class of Notes, as described (if applicable) further in <i>The Supplement – The Issuer Swap Agreements</i>
<b>Issuer Interest Rate Swap Agreement</b>	collectively, the ISDA master agreement, schedule and confirmation relating to the Issuer Interest Rate Swap to be entered into (if applicable) on or before the Closing Date between the Issuer, the Issuer Interest Rate Swap Provider and the Issuer Security Trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>Issuer Interest Rate Swap Provider</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i> and – <i>The Issuer Swap Providers</i> , if any
<b>Issuer Post-Enforcement Call Option Agreement</b>	the agreement to be entered into on the Closing Date under which the Note Trustee agrees on behalf of the holders of the Notes which are subordinated to the Class A Notes, that following enforcement of the Issuer Security, the Post-Enforcement Call Option Holder may call for the subordinated Notes (as amended, restated, supplemented and/or novated from time to time)
<b>Issuer Post-Enforcement Priority of Payments</b>	the order in which, following enforcement of the Issuer Security, the Issuer Security Trustee will apply the amounts received following enforcement of the Issuer Security, as set out in <i>Summary of the Transaction Documents – Issuer Deed of Charge</i> and <i>The Supplement – Cashflows of the Issuer – Distribution of Issuer Principal Receipts and Issuer Revenue Receipts following the service of a Note Acceleration Notice on the Issuer and the service of an Intercompany Loan Acceleration Notice on Funding 1</i>
<b>Issuer Pre-Enforcement Principal Priority of Payments</b>	the order in which, prior to enforcement of the Issuer Security, the Issuer Cash Manager will apply the Issuer Principal Receipts on each Note Payment Date, as set out in <i>The Supplement – Cashflows of the Issuer – Distribution of Issuer Principal Receipts prior to the service of a Note Acceleration Notice on the Issuer</i>
<b>Issuer Pre-Enforcement Revenue Priority of Payments</b>	the order in which, prior to enforcement of the Issuer Security, the Issuer Cash Manager will apply the Issuer Revenue Receipts on each Note Payment Date, as set out in <i>The Supplement – Cashflows of the Issuer – Distribution of Issuer Revenue Receipts prior to the service of a Note Acceleration Notice on the Issuer</i>

<b>Issuer Principal Receipts</b>	has the meaning given in <i>The Supplement – Cashflows of the Issuer</i>
<b>Issuer Revenue Receipts</b>	has the meaning given in <i>The Supplement – Cashflows of the Issuer</i>
<b>Issuer Secured Creditors</b>	the Issuer Security Trustee, the Noteholders, the Issuer Swap Providers, the Note Trustee, the Issuer Account Bank, the Paying Agents, the Registrar, the Transfer Agent, the Agent Bank, the Issuer Corporate Services Provider and the Issuer Cash Manager
<b>Issuer Security</b>	security created by the Issuer pursuant to the Issuer Deed of Charge in favour of the Issuer Secured Creditors
<b>Issuer Security Trustee</b>	the entity specified as such in <i>Summary of Programme – The Parties</i>
<b>Issuer Swap Agreements</b>	the Issuer Dollar Currency Swap Agreements, the Issuer Euro Currency Swap Agreements, if applicable, the Issuer Interest Rate Swap Agreement
<b>Issuer Swap Excluded Termination Amount</b>	in relation to an Issuer Swap Agreement an amount equal to: <ul style="list-style-type: none"> <li>(a) the amount of any termination payment due and payable to the relevant Issuer Swap Provider as a result of an Issuer Swap Provider Default or following an Issuer Swap Provider Downgrade Termination Event;</li> </ul> <p style="margin-left: 40px;">less</p> <ul style="list-style-type: none"> <li>(b) the amount, if any, received by the Issuer from a replacement swap provider upon entry by the Issuer into an agreement with such replacement swap provider to replace such Issuer Swap Agreement which has been terminated as a result of such Issuer Swap Provider Default or following the occurrence of such Issuer Swap Provider Downgrade Termination Event</li> </ul>
<b>Issuer Swap Guarantee</b>	if applicable, the guarantee of the obligations of an Issuer Swap Provider under an Issuer Swap Agreement as specified in <i>The Supplement – The Parties to the Transaction</i> and – <i>The Issuer Swap Providers</i>
<b>Issuer Swap Guarantor</b>	if applicable, the guarantor of the obligations of an Issuer Swap Provider under an Issuer Swap Agreement as specified in <i>The Supplement – The Parties to the Transaction</i> and <i>The Issuer Swap Providers</i>
<b>Issuer Swap Provider Default</b>	as the context may require, the occurrence of an event of default (as defined in the relevant Issuer Swap Agreement) where the relevant Issuer Swap Provider is the defaulting party (as defined in the relevant Issuer Swap Agreement)
<b>Issuer Swap Provider Downgrade Termination Event</b>	means the occurrence of an additional termination event following the failure by an Issuer Swap Provider to comply with the requirements of the Ratings downgrade provisions set out in the relevant Issuer Swap Agreement
<b>Issuer Swap Providers</b>	the Issuer Dollar Currency Swap Provider, the Issuer Euro Currency Swap Providers and, if applicable, the Issuer Interest Rate Swap Provider or any of them as the context requires
<b>Issuer Swaps</b>	the Issuer Dollar Currency Swaps, the Issuer Euro Currency Swaps and, if applicable, the Issuer Interest Rate Swap, as specified in <i>The Supplement – The Issuer Swap Agreements</i>
<b>Issuer Transaction Account</b>	the account in the name of the Issuer maintained with the Issuer Account Bank pursuant to the Issuer Bank Account Agreement or such additional or replacement account as may for the time being be in place
<b>Issuer Transaction Documents</b>	the documents listed in the last paragraph under <i>The Supplement – General Information</i>

<b>Jersey Share Trustee</b>	Structured Finance Management Offshore Limited of 47 Esplanade, St. Helier, Jersey JE1 0BD
<b>Lending Criteria</b>	the criteria applicable to the granting of an offer of a Mortgage to a Borrower, as may be amended from time to time and as further described in <i>The Loans – Characteristics of the Loans – Lending Criteria</i>
<b>Let &amp; Buy Mortgage</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Products</i>
<b>LIBOR or Sterling LIBOR</b>	has the meaning given in the Conditions of the Notes
<b>Liquidity Facility</b>	the liquidity facility provided for Funding 1 pursuant to the Liquidity Facility Agreement
<b>Liquidity Facility Agreement</b>	the liquidity facility agreement to be entered into on the Set-Up Date between Funding 1, the Liquidity Facility Provider and the Security Trustee in relation to the provision of a liquidity facility to Funding 1 (as the same may be amended, restated, varied or supplemented from time to time), as described further in <i>Credit Structure – Liquidity Facility</i>
<b>Liquidity Facility Drawing</b>	a drawing (other than a Stand-by Drawing) under the Liquidity Facility
<b>Liquidity Facility Ledger</b>	a ledger maintained by the Cash Manager to record drawings made under the Liquidity Facility and repayments of those drawings
<b>Liquidity Facility Provider</b>	Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank International), London Branch or such other Funding 1 Liquidity Facility Provider appointed pursuant to the Funding 1 Liquidity Facility Agreement
<b>Liquidity Shortfall</b>	where there are insufficient amounts to make the payments specified in <i>Credit Structure – Liquidity Facility – General description</i> , after taking into account the amount available for drawing from the General Reserve Fund
<b>Liquidity Subordinated Amounts</b>	has the meaning given in item (b) of the Funding 1 Pre-Enforcement Revenue Priority of Payments
<b>Loan</b>	each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all Extension Advances) due or owing with respect to that Loan under the relevant Mortgage Terms by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same
<b>London Business Day</b>	a day (other than a Saturday or Sunday) on which banks are generally open for business in London
<b>Losses</b>	the realised losses experienced on the Loans in the Portfolio
<b>Losses Ledger</b>	the ledger of such name created and maintained by the Cash Manager pursuant to the Cash Management Agreement to record the Losses on the Loans in the Portfolio
<b>LTV or LTV Ratio or Loan-to-Value Ratio</b>	the ratio of the outstanding balance of a Loan to the value of the Mortgaged Property securing that Loan
<b>LTV Test</b>	a test which assigns a credit enhancement value to each Loan in the Portfolio based on its current Loan-to-Value Ratio and the amount of mortgage indemnity cover on that Loan. The weighted average credit enhancement value for the Portfolio is then determined
<b>Managers</b>	the entities specified in <i>The Supplement – The Parties to the Transaction</i>

<b>Master Definitions and Construction Schedule</b>	together, the schedules of Funding 1 and the Issuer, which are schedules of definitions used in the Issuer Transaction Documents
<b>MCOB</b>	the Mortgages: Conduct of Business Sourcebook issued by the FSA
<b>Minimum Seller Share</b>	an amount included in the current Seller Share which is calculated in accordance with the Mortgages Trust Deed, the approximate amount of which is specified in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Minimum Trust Size</b>	has the meaning given in <i>The Supplement – Transaction Features</i>
<b>Monthly CPR</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Monthly Payments</b>	the amount (including interest and principal) which the relevant Mortgage Terms require a Borrower to pay on each monthly payment date in respect of that Borrower's Loan
<b>Moody's</b>	Moody's Investors Service Limited and any successor to its ratings business
<b>Mortgage</b>	the legal charge or standard security securing a Loan
<b>Mortgage Account</b>	all Loans secured on the same Mortgaged Property will be incorporated in the same Mortgage Account
<b>Mortgage Book</b>	has the meaning given in <i>The Supplement – Characteristics of the Mortgage Express Mortgage Book</i>
<b>Mortgage Conditions</b>	the terms and conditions applicable to the Loans as contained in the Originator's standard documentation provided to Borrowers from time to time
<b>mortgage related securities</b>	as defined in the US Secondary Mortgage Markets Enhancement Act 1984, as amended
<b>Mortgage Sale Agreement</b>	the agreement to be entered into on the Set-Up Date and made between the Seller, the Mortgages Trustee, Funding 1, Funding 2 and Funding 3 and the Security Trustee in relation to, <i>inter alia</i> , the sale of the Initial Loans and New Loans to the Mortgages Trustee from time to time, as amended and/or restated from time to time and as further described in <i>Summary of the Transaction Documents – Mortgage Sale Agreement</i>
<b>Mortgage Terms</b>	all the terms and conditions applicable to a Loan, including, without limitation, the applicable Mortgage Conditions and Offer Conditions
<b>Mortgaged Property</b>	a property subject to a Mortgage
<b>Mortgages Trust</b>	the bare trust of the Trust Property held by the Mortgages Trustee as to both capital and income on trust absolutely for Funding 1 (as to the Funding 1 Share), Funding 2 (as to the Funding 2 Share) and Funding 3 (as to the Funding 3 Share) and the Seller (as to the Seller Share), so that each has an undivided beneficial interest in the Trust Property in accordance with the terms of the Mortgages Trust Deed
<b>Mortgages Trust Available Principal Receipts</b>	the amount standing to the credit of the Principal Ledger on the relevant Trust Calculation Date which is available for distribution in accordance with the Mortgages Trust Deed (see <i>Summary of the Transaction Documents – Mortgages Trust Deed – Mortgages Trust Available Calculation of Principal Receipts</i> )
<b>Mortgages Trust Available Revenue Receipts</b>	an amount calculated by the Cash Manager on each Trust Calculation Date which is available for distribution in accordance with the Mortgages Trust Deed (see <i>Summary of the Transaction Documents – Mortgages Trust Deed – Mortgages Trust Calculation of Revenue Receipts</i> )

<b>Mortgages Trust Deed</b>	the deed to be entered into between the Mortgages Trustee, the Funding Companies, the Seller and the Jersey Share Trustee prior to the Set-Up Date, as amended and/or restated from time to time, and as further described in <i>Summary of the Transaction Documents – Mortgages Trust Deed</i>
<b>Mortgages Trust Principal Priority of Payments</b>	the order in which the Cash Manager applies Principal Receipts on the Loans on each Distribution Date as described in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Mortgages Trust Calculation of Principal Receipts</i>
<b>Mortgages Trust Revenue Priority of Payments</b>	the order in which the Cash Manager applies Mortgages Trust Available Revenue Receipts on each Distribution Date as described in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Mortgages Trust Calculation of Revenue Receipts</i>
<b>Mortgages Trustee</b>	Aire Valley Trustee Limited
<b>Mortgages Trustee Account Bank</b>	HSBC Bank plc acting through its offices at 8 Canada Square, London E14 5HQ or such other account bank appointed pursuant to the Mortgages Trustee Bank Account Agreement
<b>Mortgages Trustee Account Bank Ratings</b>	short term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1+ by S&P, P-1 by Moody's and F1 by Fitch
<b>Mortgages Trustee Bank Account Agreement</b>	the agreement to be entered into on the Set-Up Date between the Mortgages Trustee Account Bank, the Mortgages Trustee, the Cash Manager and the Security Trustee (as amended, supplemented and/or novated from time to time)
<b>Mortgages Trustee Corporate Services Provider</b>	Structured Finance Management Offshore Limited at 47 Esplanade, St. Helier, Jersey JE1 0BD
<b>Mortgages Trustee GIC Account</b>	the account in the name of the Mortgages Trustee maintained with the Mortgages Trustee Account Bank pursuant to the terms of the Mortgages Trustee Bank Account Agreement or such additional or replacement account as may for the time being be in place. Amounts deposited to the credit of the Mortgages Trustee GIC Account will receive a rate of interest determined in accordance with the Bank Account Agreement
<b>New</b>	the terms <b>New Issuers, New Notes, New Term Advances, New Intercompany Loans</b> and other analogous terms have the meanings given in <i>Defined Terms</i>
<b>New Loan Types</b>	on any date, a type of Loan which is of a type that has not previously been comprised in the Portfolio
<b>New Loans</b>	any Loans sold to the Mortgages Trust after the Closing Date
<b>New Trust Property</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Funding 1 Share of Trust Property – Trust Calculation Date recalculation</i>
<b>New York Business Day</b>	a day (other than a Saturday or a Sunday) on which banks are open in the city of New York for general business
<b>Non-Asset Trigger Event</b>	this will occur on a Trust Calculation Date if: <ul style="list-style-type: none"> <li>(a) an Insolvency Event occurs in relation to the Seller on or before that Trust Calculation Date;</li> <li>(b) the Seller's role as Servicer is terminated and a new servicer is not appointed within 60 days;</li> <li>(c) the Seller Share is equal to or less than the Minimum Seller Share on two consecutive Trust Calculation Dates (in each case by reference to the most recent Trust Calculation Date); or</li> </ul>

- (d) on any Trust Calculation Date, the aggregate Current Balance of Loans comprising the Trust Property at that date is less than the Minimum Trust Size applicable at that date

The definition of Non-Asset Trigger Event may change as New Loan Types are sold to the Mortgages Trustee or when Funding 2 or Funding 3 acquires more than a nominal interest in the Trust Property

<b>Non-Status Mortgage</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Products</i>
<b>Northern Irish Loan</b>	a Loan secured by a Northern Irish Mortgage
<b>Northern Irish Mortgage</b>	a Mortgage secured over a property in Northern Ireland
<b>Northern Irish Mortgage Conditions</b>	the Mortgage Conditions applicable to Northern Irish Loans
<b>Note Acceleration Notice</b>	an acceleration notice served on any Programme Issuer following an event of default by that Programme Issuer under the Programme Notes
<b>Note Payment Date</b>	the Note Payment Dates in respect of the Notes of the Issuer specified in <i>The Supplement – Transaction Features – The Notes</i>
<b>Note Trust Deed</b>	has the meaning given in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Note Trustee</b>	has the meaning given in <i>The Supplement – The Parties to the Transaction</i>
<b>Noteholders</b>	has the meaning given in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Notes</b>	has the meaning given in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Offer Conditions</b>	the terms and conditions applicable to a specific Loan as set out in the relevant offer letter to the Borrower
<b>OFT</b>	the Office of Fair Trading
<b>Optional Redemption Notice</b>	the notice to Noteholders in the circumstances set out in (and in accordance with) Condition 7.3(a) (Optional Redemption) of the Notes
<b>Original Bullet Term Advance</b>	any Funding Company Term Advance which at any time has been a Bullet Term Advance (even if such Funding Company Term Advance has subsequently become a Pass-Through Advance)
<b>Original Controlled Amortisation Instalment</b>	that part of a Funding Company Term Advance which at any time has been a Controlled Amortisation Instalment (even if that part of that Funding Company Term Advance has subsequently become a Pass-Through Term Advance)
<b>Original Controlled Amortisation Term Advance</b>	a Term Advance which at any time has been a Controlled Amortisation Term Advance (even if such Term Advance has subsequently become a Pass-Through Term Advance)
<b>Original Pass-Through Term Advance</b>	a Term Advance which at the time it was advanced was a Pass-Through Term Advance
<b>Originator</b>	(i) Mortgage Express or any other subsidiary of the Seller or (ii) any other person that sells loans and their related security to the Seller, or any other subsidiary of the Seller, provided that the Rating Agencies have confirmed in writing that the inclusion in the Portfolio of such loans originated by such person would not result in the then current ratings of the Programme Notes or the debt instruments of Funding 2 or Funding 3 being withdrawn, qualified or downgraded;

<b>Other</b>	the terms <b>Other Issuers, Other Notes, Other Term Advances, Other Intercompany Loans</b> and other analogous terms have the meanings given in <i>Defined Terms</i>
<b>Outstanding Principal Amount</b>	means in relation to any Programme Intercompany Loan, Programme Term Advance or Funding Company Term Advance, the original principal amount thereof on the date that it is made to the relevant Funding Company less any payments of principal in respect thereof, except if and to the extent that any such payment has been improperly withheld or refused
<b>Outstanding Principal Balance</b>	<p>in relation to a Loan at any date (the <b>determination date</b>), means the aggregate principal balance of the Loan at such date, including (but avoiding double counting):</p> <p>(a) the original principal amount advanced by the Seller or relevant Originator to the relevant Borrower;</p> <p>(b) any increase in the principal amount due under that Loan due to the Borrower making Cash Withdrawals and/or making further drawings under Buy-to-Let Loans or a Borrower taking Payment Holidays or making Underpayments or an Extension Advance being made available to a Borrower; and</p> <p>in each case relating to such Loan less any prepayment (including any decrease in the principal amount due under that Loan due to the Borrower making Overpayments), repayment or payment of the foregoing made on or prior to the determination date</p>
<b>Overpayments</b>	has the meaning described in <i>The Loans – Payment Holidays</i>
<b>Pass-Through Term Advance</b>	a Term Advance which has no Scheduled Repayment Date other than the Final Repayment Date. The Programme Pass-Through Term Advances will be all the Term Advances other than the Cash Accumulation Advances. If a Trigger Event occurs or the Funding 1 Security or the Issuer Security is enforced, then the Programme Bullet Term Advances (other than the Series 1 Class A Notes of any Programme Issuer) and the Programme Controlled Amortisation Term Advances will be deemed to be Programme Pass-Through Term Advances
<b>Paying Agent and Agent Bank Agreement</b>	the agreement to be entered into on the Closing Date which sets out the appointment of the Paying Agents, the Registrar, the Transfer Agent and the Agent Bank for the Notes (as amended, restated, supplemented and/or novated from time to time)
<b>Paying Agents</b>	the Principal Paying Agent and the US Paying Agent
<b>Payment Holiday</b>	has the meaning described in <i>The Loans – Flexible payments</i>
<b>Permitted Redemption Dates</b>	in respect of any Class of Notes, the Note Payment Date on which those Notes may be redeemed by the Issuer pursuant to the Conditions of the Notes (as further described in <i>The Supplement – Terms and Conditions of the Notes</i> )
<b>Portfolio</b>	at any time the Initial Loans, New Loans and their Related Security sold by the Seller to the Mortgages Trustee pursuant to the Mortgage Sale Agreement
<b>Post-Enforcement Call Option</b>	the call option granted to Aire Valley PECO Limited in respect of the Notes which are subordinated to the Class A Notes under the Post-Enforcement Call Option Agreement
<b>Post-Enforcement Call Option Agreement</b>	the agreement entered into on the Closing Date between the Post-Enforcement Call Option Holder, the Note Trustee, the Issuer Security Trustee and the Issuer

<b>Post-Enforcement Call Option Holder or PECO</b>	Aire Valley PECO Limited
<b>Previous</b>	the terms <b>Previous Issuers, Previous Notes, Previous Term Advances, Previous Intercompany Loans</b> and other analogous terms have the meanings given in <i>Defined Terms</i>
<b>Principal Amount Outstanding</b>	has the meaning given in Condition 7.5 of the Notes
<b>Principal Deficiency Ledger</b>	the ledger of such name maintained by the Cash Manager on behalf of Funding 1, comprising on the Set-Up Date the following sub-ledgers: the Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger, the Class C Principal Deficiency Sub-Ledger and the Class D Principal Deficiency Sub-Ledger; and which records any deficiency of principal (following a loss on a Loan or the application of Funding 1 Principal Receipts to meet any deficiency in Funding 1 Available Revenue Receipts) in respect of payments due under any Programme Intercompany Loan. If New Issuers issue different classes of Notes, additional sub-ledgers will be established (e.g. a Class M Principal Deficiency Sub-Ledger)
<b>Principal Exchange Amount</b>	the amount payable in respect of principal by an Issuer Swap Provider under the relevant Issuer Swap Agreement
<b>Principal Ledger</b>	the ledger of such name maintained by the Cash Manager on behalf of the Mortgages Trustee pursuant to the Cash Management Agreement to record Principal Receipts on the Loans and payments of principal from the Mortgages Trustee GIC Account to Funding 1 and the Seller on each Distribution Date, together the Principal Ledger and the Revenue Ledger reflect the aggregate of all amounts of cash standing to the credit of the Mortgages Trustee GIC Account
<b>Principal Paying Agent</b>	the entity identified in <i>The Supplement – The Parties to the Transaction</i>
<b>Principal Receipts</b>	all principal amounts received from Borrowers in respect of the Loans or otherwise paid or recovered in respect of the Loans and their Related Security representing monthly repayments of principal, prepayments of principal, redemption proceeds and amounts recovered on enforcement representing principal and prepayments on the Loans made by Borrowers (but excluding principal received or treated as received in respect of a Loan subsequent to the completion of enforcement procedures and certain Early Repayment Charges)
<b>Product Switch</b>	a variation in the financial terms and conditions applicable to the relevant Loan other than the variations specified in <i>Summary of the Transaction Documents – Mortgage Sale Agreement – Product Switches and Extension Advances</i>
<b>Programme</b>	has the meaning given in <i>Defined Terms</i> , in addition, the terms <b>Programme Issuers, Programme Notes, Programme Term Advances, Programme Intercompany Loans</b> and other analogous terms have the meanings given in <i>Defined Terms</i>
<b>Provisional Portfolio</b>	details of which are set out in <i>The Supplement – Characteristics of the Provisional Portfolio</i>
<b>QIBs</b>	qualified institutional buyers, as defined in Rule 144A under the Securities Act
<b>Quarterly CPR</b>	on any date means the average of the three most recent CPRs
<b>Rating Agencies</b>	each of Moody's, S&P and Fitch
<b>Reasonable, Prudent Mortgage Lender</b>	a reasonably prudent prime residential Mortgage lender lending to Borrowers in England, Wales, Scotland and Northern Ireland who generally satisfy the lending criteria of traditional sources of residential mortgage capital

<b>Receiver</b>	a Receiver appointed by the relevant Issuer Security Trustee pursuant to the Issuer Deed of Charge and/or by the Security Trustee pursuant to the Funding 1 Deed of Charge
<b>Reference Banks</b>	the Reference Banks referred to in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Refinancing Contribution</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trust</i>
<b>Refinancing Distribution</b>	amounts held by the Mortgages Trustee on any date in respect of any Refinancing Contribution paid by a Beneficiary to the Mortgages Trustee which will be allocated and paid by the Mortgages Trustee to the relevant Funding Company as a contribution distribution, pursuant to the terms of the Mortgages Trust Deed
<b>Registers of Northern Ireland</b>	the Land Registry of Northern Ireland and/or the Registry of Deeds, Belfast
<b>Registers of Scotland</b>	the Land Register of Scotland and/or the Sasine Register
<b>Registrar</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i>
<b>Regulation S</b>	has the meaning given in <i>Form of the Notes</i>
<b>Regulation S Global Certificate</b>	has the meaning given in <i>Form of the Notes</i>
<b>Regulation S Notes</b>	has the meaning given in <i>Form of the Notes</i>
<b>Reinstatement</b>	in relation to a Mortgaged Property that has been damaged, repairing or rebuilding that Mortgaged Property to the condition that it was in prior to the occurrence of the damage
<b>Related Security</b>	in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the Mortgages Trustee
<b>Relevant Accumulation Amount</b>	the amount of funds to be accumulated over a Cash Accumulation Period in order to repay a Bullet Term Advance or a Controlled Amortisation Instalment on its Scheduled Repayment Date (as further described in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Cash Management of Trust Property – Principal Receipts</i> ) whether or not actually repaid on that Scheduled Repayment Date
<b>Relevant Distribution Date</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Mortgages Trust Allocation and Distribution of Principal Receipts Prior to the occurrence of a Trigger Event</i>
<b>Relevant Trust Calculation Date</b>	the Trust Calculation Date at the start of the most recent completed Trust Calculation Period
<b>Relevant Trust Calculation Date</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Funding 1 Share of Trust Property – Trust Calculation Date recalculation</i>
<b>Repayment Requirement</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Definitions</i>
<b>Revenue Ledger</b>	the ledger(s) of such name created and maintained by the Cash Manager on behalf of the Mortgages Trustee pursuant to the Cash Management Agreement to record Revenue Receipts on the Loans and interest from the Mortgages Trustee GIC Account and payments of Revenue Receipts from the Mortgages Trustee GIC Account to the Funding Companies and the Seller on each Distribution Date. The Revenue Ledger and the Principal Ledger together reflect the aggregate of all amounts of cash standing to the credit of the Mortgages Trustee GIC Account

<b>Revenue Receipts</b>	amounts received by the Mortgages Trustee in the Mortgages Trustee GIC Account in respect of the Loans other than Principal Receipts and Third Party Amounts
<b>Rule 144A</b>	has the meaning given in <i>Form of the Notes</i>
<b>Rule 144A Global Certificate</b>	has the meaning given in <i>Form of the Notes</i>
<b>Rule 144A Notes</b>	has the meaning given in <i>Form of the Notes</i>
<b>Rules</b>	the deferral rules, details of which are set out in <i>Cashflows of Funding 1 – Distribution of Funding 1 Available Principal Receipts – The Rules</i>
<b>Sale Date</b>	means the date on which any Loans are sold to the Mortgages Trustee in accordance with the Mortgage Sale Agreement
<b>S&amp;P</b>	Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc., and any successor to its ratings business
<b>Scheduled Redemption Dates</b>	in respect of the relevant Class A Notes, the Note Payment Date(s) falling in the month(s) specified in <i>The Supplement – Transaction Features – Scheduled Redemption of the Class A Notes</i>
<b>Scheduled Repayment Date(s)</b>	the Funding 1 Payment Date when a Funding Company is required to repay a Bullet Term Advance or make a Controlled Amortisation Instalment in respect of a Controlled Amortisation Term Advance. As at the Closing Date, the Scheduled Repayment Dates for Funding 1 are set out in <i>The Supplement – Transaction Features – Scheduled Repayment of the Class A Term Advances</i>
<b>Scottish Declarations of Trust</b>	the declarations of trust to be granted by the Seller or by the relevant Originator with the consent of the Seller in favour of the Mortgages Trustee pursuant to the Mortgage Sale Agreement transferring the beneficial interest in Scottish Loans to the Mortgages Trustee
<b>Scottish Loan</b>	a Loan secured by a Scottish Mortgage
<b>Scottish Mortgage</b>	a Mortgage secured over a property in Scotland
<b>Scottish Mortgage Conditions</b>	the Mortgage Conditions applicable to Scottish Loans
<b>Securities Act</b>	the United States Securities Act of 1933, as amended
<b>Security Trustee</b>	the entity specified in <i>Summary of Programme – The Parties</i>
<b>Self-Certification</b>	a Mortgage that requires no proof of income and relies on the Borrower’s self-certification as to income
<b>Self-Certification Mortgage</b>	has the meaning given in <i>The Loans – Characteristics of the Loans – Products</i>
<b>Seller</b>	Bradford & Bingley
<b>Seller Accrued Interest Amounts</b>	amounts of accrued interest on the Loans up to and excluding their sale into the Mortgages Trust
<b>Seller Contribution</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Contributions to the Mortgages Trust</i>
<b>Seller Share</b>	the Seller Share of the Trust Property from time to time as calculated on each Trust Calculation Date. The Seller Share as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Seller Share Ledger</b>	a ledger maintained by the Cash Manager for the Mortgages Trustee, which records the Seller Share and the Seller Share Percentage of the Trust Property
<b>Seller Share Percentage</b>	the Seller Share Percentage of the Trust Property from time to time as calculated on each Trust Calculation Date. The Seller Share Percentage as at the Closing Date is set out in <i>The Supplement – Transaction Features – The Mortgages Trust</i>
<b>Seller Variable Rate</b>	the variable rates that apply to variable rate loans beneficially owned by the Seller or Originator, as the case may be, outside the Portfolio

<b>Seller's Policy</b>	the originating, underwriting, administration, arrears and enforcement policy applied by the Seller from time to time to Loans and their Related Security owned solely by the Seller
<b>Senior Expenses</b>	amounts ranking in priority to interest due on the Term Advances
<b>Series or series</b>	any reference to a <b>Series</b> or <b>series</b> of Notes are references to any series of Notes issued by the Issuer
<b>Series 1 Class A Notes</b>	has the meaning given in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Series 2 Notes</b>	has the meaning given in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Series 3 Notes</b>	has the meaning given in <i>The Supplement – Terms and Conditions of the Notes</i>
<b>Servicer</b>	Bradford & Bingley or such other person as may from time to time be appointed as Servicer of the Portfolio pursuant to the Servicing Agreement
<b>Servicer Termination Event</b>	has the meaning given in <i>Summary of the Transaction Documents – Servicing Agreement</i>
<b>Servicing Agreement</b>	the agreement to be entered into on the Set-Up Date (as amended, restated, varied and supplemented from time to time) between the Servicer, the Mortgages Trustee, the Security Trustee and Funding 1 under which the Servicer agrees to administer the Loans and their Related Security comprised in the Portfolio, as described further in <i>Summary of the Transaction Documents – Servicing Agreement</i>
<b>Set-Up Date</b>	on or about 5th October, 2004
<b>Shortfall</b>	the deficiency of Funding 1 Available Revenue Receipts on a Funding 1 Payment Date over the amounts due by Funding 1 under the Funding 1 Pre-Enforcement Revenue Priority of Payments
<b>Special Distribution</b>	amounts held by the Mortgages Trustee on any date in respect of any Further Contribution (other than a Refinancing Contribution) paid by any Funding Company to the Mortgages Trustee on that date which will be allocated and paid by the Mortgages Trustee to the Seller as a distribution, pursuant to the terms of the Mortgages Trust Deed
<b>Standard Mortgage</b>	has the meaning described in <i>The Loans – Characteristics of the Loans – Products</i>
<b>Standard Security or standard security</b>	a standard security in terms of the Conveyancing and Feudal Reform (Scotland) Act 1970, as amended
<b>Stand-By Account</b>	the designated bank account of Funding 1 into which the previously undrawn amounts of the Liquidity Facility will be deposited if the Liquidity Facility Provider does not extend the liquidity facility commitment period or if the short-term, unsecured, unsubordinated and unguaranteed credit rating of the Liquidity Facility Provider falls below the requisite ratings as described in <i>Credit Structure – Liquidity Facility</i>
<b>Stand-By Drawing</b>	the amount which is equal to the previously undrawn commitment under the Liquidity Facility Agreement
<b>Start-Up Loan</b>	the loan provided by the Start-Up Loan Provider pursuant to the Start-Up Loan Agreement
<b>Start-Up Loan Agreement</b>	an agreement to be entered into on the Set-Up Date between Funding 1 the Start-Up Loan Provider and the Security Trustee (as amended, restated, varied and supplemented from time to time)
<b>Start-Up Loan Provider</b>	Bradford & Bingley

<b>Step-Up Date</b>	means (i) in relation to the Term Advances, the Funding 1 Payment Date on which the interest rates on the Term Advances under the Intercompany Loan increase by a pre-determined amount and (ii) in relation to the Notes, the Note Payment Date on which the interest rates on the Notes increase by a pre-determined amount
<b>Sterling Notes</b>	the Series 2 Class A1 Notes, Series 2 Class B1 Notes, Series 2 Class C1 Notes, Series 3 Class A1 Notes, Series 3 Class B1 Notes, Series 3 Class C1 Notes and Series 3 Class D1 Notes
<b>Sterling, STG, GBP, pounds or £</b>	the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>Subscription Agreement</b>	the agreement to be entered into on or about the date of this document between the Managers and the Issuer relating to the sale of the Notes
<b>Sub-Servicer</b>	Mortgage Express
<b>Sub-Servicing Agreement</b>	the agreement to be entered into on the Set-Up Date (as amended, restated, varied and supplemented from time to time) between the Sub-Servicer, the Mortgages Trustee, the Security Trustee and the Servicer under which the Sub-Servicer agrees to administer the Loans and their Related Security comprised in the Portfolio on behalf of the Servicer, as described further in <i>Summary of the Transaction Documents – Sub-Servicing Agreement</i>
<b>Swap Agreements</b>	the Funding 1 Swap Agreement and the Issuer Swap Agreements and a <b>Swap Agreement</b> means any one of them
<b>Swap Early Termination Event</b>	a circumstance in which a Swap Agreement can be terminated prior to its scheduled termination date
<b>Swap Providers</b>	the Funding 1 Swap Provider, the Issuer Currency Swap Providers and the Issuer Interest Rate Swap Provider and a <b>Swap Provider</b> means any one of them
<b>TARGET Business Day</b>	a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System is open
<b>Term Advance Rating</b>	the designated rating assigned to a Term Advance which corresponds to the rating of the Class of Notes of the Issuer when first issued to provide funds for that Term Advance
<b>Term Advances</b>	the Class A Term Advances, the Class B Term Advances, the Class C Term Advances and the Class D Term Advances of the Issuer outstanding from time to time or, as applicable, the Class A Term Advances, the Class B Term Advances, the Class M Term Advances, the Class C Term Advances, the Class D Term Advances and/or the Class E Term Advance of Other Issuers from time to time
<b>Third Party Amounts</b>	includes: <ul style="list-style-type: none"> <li>(a) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer's account;</li> <li>(b) payments by Borrowers of any fees and other charges which are due to the Seller (including payments of insurance premiums, if any, due to the Seller in respect of any Seller arranged insurance policy to the extent not paid or payable by the Seller (or to the extent such insurance premiums have been paid by the Seller in respect of any Loan, which is not repurchased by the Seller, to reimburse the Seller)); or</li> <li>(c) recoveries in respect of amounts deducted from Loans as described in paragraphs (1) to (4) in <i>Summary of the Transaction Documents – Mortgages Trust Deed – Adjustments to Trust Property</i>, which shall belong to and be paid to the Funding Companies and/or the Seller as described therein</li> </ul>

<b>Transaction Documents</b>	the documents relating to issues of Notes and/or Other Notes by the Issuer and/or Other Issuers as the case may be
<b>Transfer Agent</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i>
<b>Trigger Event</b>	an Asset Trigger Event and/or a Non-Asset Trigger Event
<b>Trust Calculation Date</b>	the tenth day of each calendar month (or, if such day is not a London Business Day, the next succeeding London Business Day) and the day on which the Mortgages Trust is terminated
<b>Trust Calculation Period</b>	the period from (and including) the fourth day of each calendar month to (but excluding) the fourth day of the next calendar month or, as applicable, the date of termination of the Mortgages Trust
<b>Trust Property</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Trust Property</i>
<b>Underpayments</b>	has the meaning described in <i>The Loans – Flexible payments</i>
<b>UK Listing Authority</b>	the Financial Services Authority in its capacity as competent authority under Part VI of the FSMA
<b>UK Share Trustee</b>	SFM Corporate Services Limited at Blackwell House, Guildhall Yard, London EC2V 5AE
<b>United States or US</b>	United States of America
<b>US holder</b>	a beneficial owner of Notes who is for US federal income tax purposes: <ul style="list-style-type: none"> <li>(a) a citizen or resident of the United States;</li> <li>(b) a corporation (or other entity treated as a corporation) or partnership created or organised in or under the laws of the United States or any state thereof (including the District of Columbia);</li> <li>(c) any estate, the income of which is subject to US federal income tax regardless of the source of its income; or</li> <li>(d) any trust if: (i) a court within the United States is able to exercise primary supervision over the administration of the trust; and (ii) one or more U.S. persons have the authority to control all substantial decisions of the trust</li> </ul>
<b>USD-LIBOR</b>	has the meaning given in the Conditions of the Notes
<b>US Paying Agent</b>	the entity specified in <i>The Supplement – The Parties to the Transaction</i>
<b>U.S. Persons</b>	as defined in Regulation S under the Securities Act
<b>UTCCR</b>	the Unfair Terms in Consumer Contracts Regulations 1994 and 1999
<b>Valuation</b>	a methodology for determining the value of a Mortgaged Property which would meet the standards of a Reasonable, Prudent Mortgage Lender
<b>Valuation Fee</b>	a fee incurred by Borrowers as a result of the Seller or Servicer obtaining a Valuation of the Mortgaged Property
<b>Variable Mortgage Rate</b>	the rate of interest which determines the amount of interest payable each month on a Variable Rate Loan
<b>Variable Rate</b>	the rate of interest, that applies to the Variable Rate Loans in the Portfolio as set, other than in limited circumstances, by the Servicer, as described further in <i>Summary of the Transaction Documents – Servicing Agreement and The Loans – Characteristics of the Loans – Repayment Terms</i>
<b>Variable Rate Loan</b>	a Loan where the interest rate payable by the Borrower varies in accordance with a specified Variable Rate
<b>VAT</b>	value added tax
<b>WAFF</b>	weighted average foreclosure frequency
<b>WALS</b>	weighted average loss severity

<b>Weighted Average Funding 1 Share Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 1 Share Percentage</i>
<b>Weighted Average Funding 1 Share (Losses) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 1 Share Percentage</i>
<b>Weighted Average Funding 1 Share (Principal) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 1 Share Percentage</i>
<b>Weighted Average Funding 1 Share (Revenue) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 1 Share Percentage</i>
<b>Weighted Average Funding 2 Share Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 2 Share (Losses) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 2 Share (Principal) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 2 Share (Revenue) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 3 Share Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 3 Share (Losses) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 3 Share (Principal) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Funding 3 Share (Revenue) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Funding 2 Share Percentage and the Weighted Average Funding 3 Share Percentage</i>
<b>Weighted Average Seller Share Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Seller Share Percentage</i>
<b>Weighted Average Seller Share (Losses) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Seller Share Percentage</i>
<b>Weighted Average Seller Share (Principal) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Seller Share Percentage</i>
<b>Weighted Average Seller Share (Revenue) Percentage</b>	has the meaning given in <i>Summary of the Transaction Documents – Mortgages Trust Deed – The Weighted Average Seller Share Percentage</i>

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