

## HANDBRIDGE FINANCING PLC

(Incorporated in England and Wales with limited liability, registered number 6766862)

Sub class of Notes	Principal Amount	Issue Price	Interest rate	Ratings S&P/Moody's	Final Maturity Date
Class A Notes	£1,510,000,000	100%	0.10% margin above Three-month Sterling LIBOR	AAA/Aaa	July 2028
Class B Notes	£1,100,000,000	100%	0.25% margin above Three-month Sterling LIBOR	Unrated	July 2028

On or about 26 March 2009 (the "**Closing Date**"), the Issuer will issue its asset backed floating rate notes (the "**Notes**") in the classes set out above.

The principal asset from which the Issuer will make payments on the Notes is a pool of unsecured consumer loans ("**Consumer Loans**") originated by Bank of Scotland plc ("**Bank of Scotland**") under the Halifax, Bank of Scotland and Capital Bank brands.

Interest will be payable quarterly in arrear on the 20<sup>th</sup> day of January, April, July and October in each year for all classes of Notes. See further the definition of Interest Payment Date.

Subject to the detailed description and limitations set out in "**Credit Structure**", the Notes will have the benefit of credit enhancement or support comprising a cash reserve fund and (in the case of the Class A Notes only) subordination of the Class B Notes. The Notes will also have the benefit of the Interest Rate Swap, which is provided by Bank of Scotland.

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

The Notes will be obligations of the Issuer only. The Notes will not be obligations or responsibilities of, nor will they be guaranteed by, any other party, including Bank of Scotland in any of its capacities or any of its affiliates or advisers, successors or assigns.

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

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

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

Lead Manager  
Bank of Scotland PLC

The date of this Prospectus is 24 March 2009

## IMPORTANT NOTICE

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

The notes of each class will be represented on issue by a global note in registered form for each such class of notes (the "Global Note Certificates").

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

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY THE ISSUER, THE TRANSFEROR, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE LEAD MANAGER THAT THIS PROSPECTUS MAY BE LAWFULLY DISTRIBUTED, OR THAT THE NOTES MAY BE LAWFULLY OFFERED, IN COMPLIANCE WITH ANY APPLICABLE REGISTRATION OR OTHER REQUIREMENTS IN ANY SUCH JURISDICTION, OR PURSUANT TO AN EXEMPTION AVAILABLE THEREUNDER, AND NONE OF THEM ASSUMES ANY RESPONSIBILITY FOR FACILITATING ANY SUCH DISTRIBUTION OR OFFERING. IN PARTICULAR, SAVE FOR OBTAINING THE APPROVAL OF THIS PROSPECTUS AS A PROSPECTUS FOR THE PURPOSES OF THE PROSPECTUS DIRECTIVE BY THE UK LISTING AUTHORITY, NO ACTION HAS BEEN OR WILL BE TAKEN BY THE ISSUER, THE TRANSFEROR, THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE LEAD MANAGER WHICH WOULD PERMIT A PUBLIC OFFERING OF THE NOTES OR DISTRIBUTION OF THIS PROSPECTUS IN ANY JURISDICTION WHERE ACTION FOR THAT PURPOSE IS REQUIRED. ACCORDINGLY, THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, AND NEITHER THIS PROSPECTUS NOR ANY ADVERTISEMENT OR OTHER OFFERING MATERIAL MAY BE DISTRIBUTED OR PUBLISHED, IN ANY JURISDICTION, EXCEPT UNDER CIRCUMSTANCES THAT WILL RESULT IN COMPLIANCE WITH ANY APPLICABLE LAWS AND REGULATIONS AND THE LEAD MANAGER HAS REPRESENTED THAT ALL OFFERS AND SALES BY IT WILL BE MADE ON SUCH TERMS. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER AND THE LEAD MANAGER TO INFORM THEMSELVES ABOUT AND TO OBSERVE ANY SUCH RESTRICTIONS.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")) ("U.S. PERSONS") EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS FOR

A DESCRIPTION OF CERTAIN RESTRICTIONS ON REALES OR TRANSFERS, SEE "*TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS*".

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

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

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

THE INFORMATION RELATING TO BANK OF SCOTLAND HAS BEEN ACCURATELY REPRODUCED FROM INFORMATION PROVIDED BY BANK OF SCOTLAND. SO FAR AS THE ISSUER IS AWARE AND/OR IS ABLE TO ASCERTAIN FROM INFORMATION PROVIDED BY BANK OF SCOTLAND, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION MISLEADING.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY THE ISSUER, THE TRANSFEROR, THE NOTE TRUSTEE OR THE SECURITY TRUSTEE, THE LEAD MANAGER, OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE TRANSFEROR OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE LEAD MANAGER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

NONE OF THE NOTE TRUSTEE, THE SECURITY TRUSTEE OR THE LEAD MANAGER MAKES ANY REPRESENTATION, EXPRESS OR IMPLIED, OR ACCEPTS ANY RESPONSIBILITY, WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF ANY OF THE INFORMATION IN THIS PROSPECTUS. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THIS OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE CONTENTS OF THIS PROSPECTUS SHOULD NOT BE CONSTRUED AS PROVIDING LEGAL, BUSINESS, ACCOUNTING OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN LEGAL, BUSINESS, ACCOUNTING AND TAX ADVISERS PRIOR TO MAKING A DECISION TO INVEST IN THE NOTES.

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

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

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

#### **Forward-looking statements**

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

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## PARTIES AND PRINCIPAL FEATURES OF THE TRANSACTION

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

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

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

### **The Parties**

Issuer:	Handbridge Financing plc is a public limited company incorporated under the laws of England and Wales with registered number 6766862 (the " <b>Issuer</b> "). The Issuer is wholly beneficially owned by Holdings. The Issuer was established as a special purpose entity for the purpose of, <i>inter alia</i> , issuing the Notes and using the gross proceeds of the Notes to acquire the Receivables from the Transferor.
Holdings:	Handbridge Holdings Limited is a private limited company incorporated under the laws of England and Wales with registered number 6751286 (" <b>Holdings</b> "). The entire issued share capital of Holdings is held by SFM Corporate Services Limited as trustee (the " <b>Share Trustee</b> ") under the terms of a discretionary trust for charitable purposes.
Transferor:	Bank of Scotland (in such capacity, the " <b>Transferor</b> ") will enter into a receivables securitisation deed with the Issuer on or about the Closing Date (the " <b>RSD</b> "). On the Closing Date, the Transferor will sell to the Issuer all of the existing and future Principal Receivables and existing and future Finance Charge Receivables (" <b>Receivables</b> ") that arise in respect of all consumer loan agreements (" <b>Consumer Loan Agreements</b> ") originated or purchased by the Transferor designated with specific product brands (the " <b>Securitized Portfolio</b> ").
Servicer and Cash Manager:	Bank of Scotland (in such capacities, the " <b>Servicer</b> " and the " <b>Cash Manager</b> ") will enter into a servicing and cash management agreement with, <i>inter alios</i> , the Issuer, the Transferor and the Security Trustee on or about the Closing Date (the " <b>Servicing and Cash Management Agreement</b> "). Pursuant to the terms of the Servicing and Cash Management Agreement, the Servicer will administer the Receivables sold by the Transferor to the Issuer that comprise the Securitized Portfolio on behalf of the Issuer and the Cash Manager will act as agent for the Issuer to manage all cash transactions and maintain certain ledgers on behalf of the Issuer.
Note Trustee:	Deutsche Trustee Company Limited (in such capacity, the " <b>Note Trustee</b> ") will be appointed pursuant to a trust deed (the " <b>Trust Deed</b> ") to be entered into on or about the Closing Date between the Issuer and the Note Trustee to represent the interests of the registered holders of the Notes (the " <b>Noteholders</b> ").
Security Trustee:	Deutsche Trustee Company Limited (in such capacity, the " <b>Security Trustee</b> ") will be appointed pursuant to and will hold the security to be granted by the Issuer under a deed of charge dated on or about the Closing Date between, <i>inter alios</i> , the Issuer and the Security Trustee (the " <b>Deed of Charge</b> ") for the benefit of, <i>inter alios</i> , the Noteholders and will be entitled to enforce the security granted in its

favour under the Deed of Charge.

- Swap Counterparty:** On or about the Closing Date, Bank of Scotland (in such capacity, the "**Swap Counterparty**") will enter into an ISDA Master Agreement (including a schedule, a credit support annex and one or more confirmations) with the Issuer to swap and hedge the fixed interest rates payable under the Consumer Loan Agreements in the Securitised Portfolio into rates calculated by reference to Three-Month Sterling LIBOR (the "**Interest Rate Swap Agreement**").
- Account Bank:** Bank of Scotland PLC, Leeds branch will be appointed as account bank to the Issuer (in such capacity, the "**Account Bank**") pursuant to the terms of a bank account agreement to be entered into by, *inter alios*, the Account Bank, the Issuer and the Security Trustee on or about the Closing Date (the "**Account Bank Agreement**"). The Issuer will open three accounts (the "**Control Account**", the "**Issuer Collection Account**" and the "**Cash Reserve Account**" and together with any additional accounts to be established pursuant to the Account Bank Agreement, collectively, the "**Bank Accounts**") with the Account Bank on or about the Closing Date.
- The Account Bank is a Qualified Institution as at the date of this Prospectus.
- If at any time the Account Bank ceases to be a Qualified Institution, the Issuer will be required (within 30 days) to arrange for the transfer (at its own cost) of the Bank Accounts to another Qualified Institution on substantially similar terms to those set out in the Account Bank Agreement in order to maintain the ratings of the Rated Notes at their then current ratings.
- "**Qualified Institution**" means an institution which at all times has a short-term unsecured debt rating of at least A-1 by S&P (or, where no short-term unsecured debt rating by S&P is available, at least A+ by S&P) and P-1 by Moody's and a long-term unsecured debt rating of at least A1 by Moody's.
- Subordinated Loan Provider:** Bank of Scotland will act as subordinated loan provider to the Issuer (in such capacity, the "**Subordinated Loan Provider**") pursuant to a subordinated loan agreement to be entered into on or about the Closing Date between, *inter alios*, the Issuer and the Subordinated Loan Provider (the "**Subordinated Loan Facility Agreement**").
- Corporate Services Provider:** Structured Finance Management Limited, having its registered office at 35 Great St. Helen's London EC3A 6AP, a private limited company incorporated in England and Wales with registered number 03853947 (in such capacity, the "**Corporate Services Provider**") will be appointed to provide certain corporate services to the Issuer and Holdings pursuant to a corporate services agreement (the "**Corporate Services Agreement**") to be entered into on or about the Closing Date by, *inter alios*, the Issuer, Holdings and the Corporate Services Provider.
- Principal Paying Agent, Agent Bank and Registrar:** Deutsche Bank AG, London Branch, will be appointed to act as principal paying agent, as registrar and as agent bank (the "**Principal Paying Agent**", the "**Registrar**" and the "**Agent Bank**" respectively) pursuant to an agency agreement to be entered into on or about the Closing Date between, *inter alios*, the Issuer, the Principal Paying Agent, the Registrar and the Agent Bank (the "**Paying Agency Agreement**").

Figure 1 - Ownership Structure

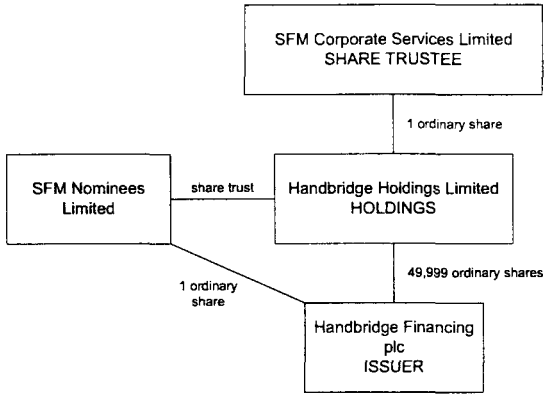


Figure 1 illustrates the ownership structure of the special purpose companies that are parties to the transaction, as follows:

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



Figure 2 - Transaction Structure

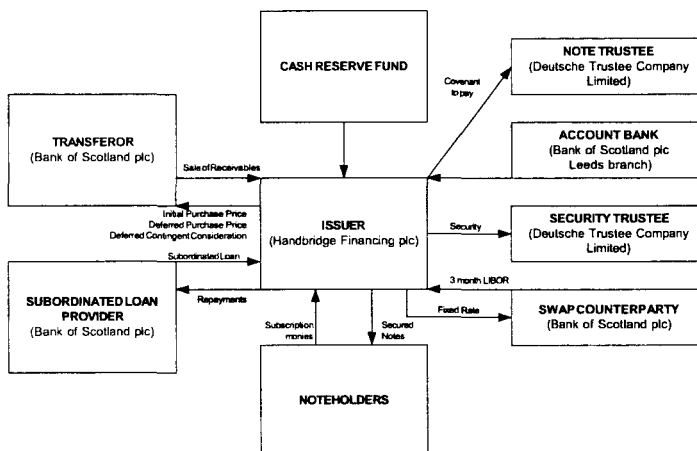


Figure 2 illustrates a brief overview of the transaction, as follows:

The Transferor will sell and assign all existing and future Receivables arising on Consumer Loan Agreements designated under certain specific product brands ("Designated Agreements") to the Issuer on the Closing Date and on subsequent Sale Dates.

The Issuer will use the proceeds of the issue of the Notes to pay as initial consideration the amount of £2,610,000,000 to the Transferor, representing part of the Initial Purchase Price. At later dates, the Issuer will pay to the Transferor further cash payments of Initial Purchase Price and will make Transferor Deferred Purchase Price Payments. In addition, the Issuer will pay to the Transferor Deferred Contingent Consideration (see further "Summary of the Key Transaction Documents— Receivables Securitisation Deed" below).

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

The Issuer will utilise Finance Charge Collections and Principal Collections received in respect of the Issuer's share of Receivables calculated in accordance with the relevant investor percentage generated on Designated Agreements to meet its obligations to pay, among other items, interest amounts and principal amounts, respectively, to the Noteholders.

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

The terms of the Notes will be governed by the Trust Deed.

The Issuer will open the Control Account, the Issuer Collection Account and the Cash Reserve Account with the Account Bank.

The Issuer will enter into the Interest Rate Swap Agreement with the Swap Counterparty to swap and hedge the fixed interest rates payable pursuant to the Designated Agreements into a rate calculated by reference to Three-Month Sterling LIBOR.

### KEY CHARACTERISTICS OF THE NOTES

	<u>Principal Amount</u>	<u>Credit Enhancement</u>	<u>Issue Price</u>	<u>Interest Rate</u>	<u>Margin</u>	<u>Interest Accrual Method</u>	<u>Interest Payment Dates</u>	<u>First Interest Payment Date</u>	<u>Final Maturity Date</u>	<u>Application for Exchange Listing</u>	<u>ISIN</u>	<u>Common Code</u>	<u>Ratings (S&amp;P/Moody's)</u>
<b>Class A</b>	£1,510,000,000	Subordination of the Class B Notes and the Cash Reserve Fund.	100%	Three-month Sterling LIBOR + Margin	0.10% p.a.	Actual/365 Fixed	Quarterly, in arrear on each Interest Payment Date	July 2009	July 2028	London	XS0417181962	04171896	AAA/Aaa
<b>Class B</b>	£1,100,000,000	Cash Reserve Fund.	100%	Three-month Sterling LIBOR + Margin	0.25% p.a.	Actual/365 Fixed	Quarterly, in arrear on each Interest Payment Date	July 2009	July 2028	London	XS0417182853	041718285	Unrated

## TRANSACTION OVERVIEW

### *Description of the Notes, the Receivables and the Transaction Documents*

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

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

- Class A asset backed floating rate Notes due 2028 (the "Class A Notes");
- Class B asset backed floating rate Notes due 2028 (the "Class B Notes" and, together with the Class A Notes, the "Notes").

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

#### **Interest on the Notes:**

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

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

Interest payments on the Class B Notes will be subordinated to interest payments on the Class A Notes (see "Calculations and Allocations — Pre-Enforcement Finance Charge Priority of Payments" below). This means that holders of the Class B Notes (the "Class B Notcholders") will not receive any payment of interest unless and until all amounts of interest then due to holders of the Class A Notes (the "Class A Notcholders") have been paid in full.

If on any Interest Payment Date prior to service of a Note Enforcement Notice on the Issuer, after having paid or provided for items of higher priority in the Pre-Enforcement Finance Charge Priority of Payments, the Issuer has insufficient funds to make payment in full of all amounts of interest (including Additional Interest and Deferred Interest thereon) payable in respect of the Notes, any shortfall in the amount of interest due ("Deferred Interest") will not then be paid on such Interest Payment Date but will be deferred and will only be paid, in accordance with the Pre-Enforcement Finance Charge Priority of Payments (as described in "Calculations and Allocations — Pre-Enforcement Finance Charge Priority of Payments" below), on subsequent Interest Payment Dates if and when permitted by any subsequent

cashflow which is available after the Issuer's higher ranking liabilities have been discharged in full. Any Deferred Interest will accrue interest ("**Additional Interest**") and will be paid only to the extent there are funds available on a subsequent Interest Payment Date in accordance with the relevant Priority of Payments (as described in "*Calculations and Allocations*" below). All deferred amounts (including Additional Interest and Deferred Interest thereon) will become immediately due and payable on the Final Maturity Date of the Notes or on any earlier date that the Notes are redeemed in full.

Interest is payable in respect of the Notes in Sterling. In respect of each class of Notes, interest is payable quarterly in arrear on the 20<sup>th</sup> day of January, April, July and October in each year, commencing on 20 July 2009, or, if such day is not a Business Day, on the immediately succeeding Business Day (each such date being an "**Interest Payment Date**").

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

***Credit Enhancement:***

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

- availability of excess portions of Finance Charge Collections (see "*Credit Structure - Credit Support for the Notes provided by Available Finance Charge Collections*");
- the Cash Reserve Fund (see "*Credit Structure - Cash Reserve Fund*"); and
- subordination of the Class B Notes.

***Withholding Tax:***

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

***Ratings:***

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

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

The Class B Notes will not be rated.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgement, circumstances (including without limitation, a reduction in the credit rating of the Account Bank and/or the Swap Counterparty) in the future so warrant.

**Listing:**

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

**Revolving Period:**

The "Revolving Period" for the Notes is the period from (and including) the Closing Date to (but excluding) the Amortisation Commencement Date (as referred to below).

During the Revolving Period, Collections will be allocated to the Issuer and will be allocated to the Transferor as described in "Calculations and Allocations" below.

**Amortisation Period:**

The "Amortisation Period" for the Notes will commence on the date (the "Amortisation Commencement Date") being the earlier of (a) the Interest Payment Date falling in July 2012 (the "Scheduled Amortisation Commencement Date"), (b) the day, if any, on which a Pay Out Event is deemed to occur (the "Early Amortisation Commencement Date") and will end on the Final Maturity Date. During the Amortisation Period, Collections referable to the Notes will be allocated in the manner described in "Calculations and Allocations" below.

**Partial Redemption:**

A "Partial Amortisation Period" will commence, if at any time during the Revolving Period, a Partial Amortisation Trigger Event occurs and will terminate on the earlier to occur of (a) the Amortisation Commencement Date or (b) the relevant Partial Amortisation Settlement Date on which the Partial Amortisation Trigger Event is no longer continuing.

"Partial Amortisation Trigger Event" means:

- (a) over any period of thirty consecutive days, the Transferor Deferred Purchase Price averaged over that period is less than the Minimum Transferor Deferred Purchase Price (as defined below) for that period, and the Transferor Deferred Purchase Price does not increase by the tenth Business Day following such period to a level such that the average Transferor Deferred Purchase Price is at least equal to the Minimum Transferor Deferred Purchase Price for that period; or
- (b) over any period of 90 consecutive days, the amount standing to the credit of the Cash Reserve Account is less than the Cash Reserve Required Amount.

During a Partial Amortisation Period, Scheduled Principal Collections credited to the Control Account on any Business Day will be accumulated by the Issuer during each Monthly Period in the Scheduled Principal Collections Ledger and on each Transfer Date all such Principal Collections shall be

credited to the Principal Collections Ledger in the Issuer Collection Account. Once so credited, Available Investor Principal Amounts shall be utilised to meet principal payments in accordance with the Pre-Enforcement Principal Priority of Payments.

A Partial Amortisation Period will end on the Partial Amortisation Settlement Date on which sufficient principal has been repaid to Noteholders such that the Partial Amortisation Trigger Event is no longer continuing on that Partial Amortisation Settlement Date.

***Note Redemption:***

On each Interest Payment Date from and including the Interest Payment Date falling in July 2012 (the "**Scheduled Amortisation Commencement Date**"), Scheduled Principal Collections credited to the Control Account on any Business Day will be accumulated by the Issuer during each Monthly Period in the Scheduled Principal Collections Ledger and on each Transfer Date all such Principal Collections shall be credited to the Principal Collections Ledger in the Issuer Collection Account. Once so credited, Available Investor Principal Amounts shall be utilised to pay to the Principal Distribution Retention Ledger to the extent available for such purpose in accordance with the Pre-Enforcement Principal Priority of Payments.

***Optional Redemption in Full:***

The Transferor may request on the first Interest Payment Date or on any Interest Payment Date thereafter, in order for the Issuer to obtain the funds necessary to redeem the Notes in full in accordance with Condition 7.2 of the terms and conditions of the Notes (the "**Conditions**"), the Issuer sell to the Transferor the Issuer's interest in the Securitised Portfolio. The price for such sale shall be not less than the amount required to redeem the Notes in full. The proceeds received from such sale shall be used by the Issuer in payments to Noteholders to redeem in full the Notes.

Any Note redeemed pursuant to Condition 7.2 (*Optional Redemption in Full*) will be redeemed at an amount equal to the Principal Amount Outstanding of the relevant Note to be redeemed together with accrued (and unpaid) interest (including Deferred Interest and Additional Interest, if any) on the Principal Amount Outstanding of the relevant Note up to (but excluding) the date of redemption (see Condition 7.2 (*Optional Redemption in Full*)).

***Final Redemption:***

If the Notes have not previously been redeemed in full as described above, the Notes will be redeemed at their then respective Principal Amount Outstanding on the Interest Payment Date falling in July 2028 (the "**Final Maturity Date**").

***Sale of Receivables:***

Existing and future Principal Receivables and Finance Charge Receivables (the "**Receivables**") arising under all Consumer Loan Agreements designated under certain specific product brands ("**Designated Agreements**") from the total portfolio of consumer loan agreements ("**Consumer Loan Agreements**") originated or purchased by Bank of Scotland, together with certain related rights and cashflows, will be assigned (or, where a Designated Agreement is governed by Scots Law, a Scottish declaration of trust will be declared over such Receivables

("Scottish Receivables") to the Issuer by Bank of Scotland (in such capacity the "Transferor") on the terms and subject to the conditions of a receivables securitisation deed dated the Closing Date between the Issuer and the Transferor (the "RSD"). The Designated Agreements (pursuant to which the assigned Receivables arise) are defined collectively as the "Securitised Portfolio" (see "Summary of Key Transaction Documents - Receivables Securitisation Deed" below).

Prior to the occurrence of a Notification Event (as defined below), Notice of the Assignment of the Receivables (or, in the case of Scottish Receivables, title of the Issuer to the Scottish Receivables is otherwise perfected in accordance with Scots law) will not be given to the relevant borrowers (the "Borrowers") under the Designated Agreements.

**Principal Deficiency Ledger:**

A principal deficiency ledger will be established to record any Investor Default Amounts.

The Principal Deficiency Ledger will comprise two sub-ledgers: the "Class A Principal Deficiency Ledger" (relating to the Class A Notes) and the "Class B Principal Deficiency Ledger" (relating to the Class B Notes).

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

**Servicing and Cash Management Agreement:**

Pursuant to the Servicing and Cash Management Agreement, the Servicer will agree to service the Receivables sold to the Issuer on behalf of the Issuer (such services, the "Services") and the Cash Manager will agree to perform certain cash management functions and the maintenance of ledgers on behalf of the Issuer.

See "Summary of the Key Transaction Documents — Servicing and Cash Management Agreement", below.

On each Transfer Date the Servicer shall receive a servicing fee (inclusive of VAT, if any) (the "Servicing Fee") totalling 1% per annum on the Outstanding Face Amount of the Eligible Principal Receivables as at the opening of business on the first day of the immediately preceding Monthly Period and the Cash Manager shall receive a fee of £250,000 per annum (inclusive of VAT, if any) (the "Cash Management Fee"). The Investor Servicing Fee Amount and Investor Cash Management Fee Amount will rank below payments on the Class A Notes and above payments on the Class B Notes in the Pre-Enforcement Finance Charge Priority of Payments.

**Interest Rate Swap Agreement:**

Payments received by the Issuer in respect of the Receivables referable to the Notes will be subject to fixed rates of interest. To hedge the potential variance between these fixed rates and Three-Month Sterling LIBOR, the Issuer will enter into the Interest Rate Swap with the Swap Counterparty under the Interest Rate Swap Agreement.

**Subordinated Loan Facility Agreement:**

The Issuer will enter into the Subordinated Loan Facility Agreement on or about the Closing Date with the Subordinated Loan Provider, pursuant to which the Subordinated Loan Provider will advance a loan (the "Subordinated Loan") to the Issuer on the Closing Date in the amount of approximately £523,500,000 which will be used (a) to meet certain of the Issuer's initial fees and expenses incurred in connection with



the issue of the Notes and (b) to initially fund the Cash Reserve Fund up to the Cash Reserve Required Amount.

*Account Bank Agreement:*

The Issuer will enter into the Account Bank Agreement with the Account Bank on or about the Closing Date in respect of the Bank Accounts. On each Transfer Date, the Cash Manager will transfer moneys from the Issuer Collection Account to be applied in accordance with the relevant Priority of Payments.

*Call Option Agreement*

The Issuer will enter into the Call Option Agreement with the Transferor on or about the Closing Date, pursuant to which the Transferor will be granted an option to repurchase some or all Receivables in the Securitised Portfolio on any Call Date.

## **RISK FACTORS**

*Words and expressions defined in "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this section.*

*Investing in the Notes involves certain risks. Prospective investors should carefully consider the following principal risk factors before deciding to invest in the Notes offered by this Prospectus and prospective investors should also read the detailed information set out elsewhere in this Prospectus and form their own views prior to making any investment decision. Prospective investors should consider, among other things, the following:*

### **Noteholders May Not Be Able to Sell Their Notes**

There currently is no secondary market for the Notes. The Lead Manager expects, but is not obligated, to make a market in the Notes. If no secondary market develops, Noteholders may not be able to sell their Notes prior to maturity. The Issuer cannot offer any assurance that one will develop or, if one does develop, that it will continue.

In addition, Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date of this Prospectus), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes. Such lack of liquidity may result in Noteholders suffering losses on the Notes in secondary resales even if there is no decline in the performance of the Securitised Portfolio. The Issuer cannot predict how and when these circumstances will change and whether, if and when they do change, there will be a more liquid market for the Notes and instruments similar to the Notes at that time.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including instruments similar to the Notes. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the Notes will recover at the same time or to the same degree as such other recovering global credit market sectors.

### **Liabilities Under the Notes**

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

### **Limited Source of Funds**

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent primarily on receipts from the Receivables (including, interest earned on the Bank Accounts and the receipts under the Interest Rate Swap).

### **Obligations of the Borrowers**

With respect to the Receivables, the Issuer has only acquired the benefit of the Receivables. This consists of unsecured monetary obligations of the Borrowers under the relevant Consumer Loan Agreements. No security has been given by any Borrower for any such monetary obligation and the Transferor does not have any interest (and is therefore unable to transfer the benefit of any interest) in any property acquired by a Borrower with the proceeds of any Loan. General economic conditions and other factors may have an impact on the ability of Borrowers to meet their repayment obligations under the Consumer Loan Agreements. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by the Borrowers.

### **The Issuer Has Limited Operating History**

The Issuer has limited operating history and, as at the date of this Prospectus, no experience with the issuance of Notes representing asset-backed debt obligations. As a recently incorporated special-purpose

vehicle, the Issuer will be subject to all of the business risks and uncertainties associated with any new business, including the risk that it will not achieve its investment objective and that the value of a Noteholder's investment could decline substantially. The Issuer will not engage in any activities which are not related to the issue of the Notes.

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

The yield to maturity of the Notes of each class will depend on, *inter alia*, the amount and timing of payment of principal and interest on the Loans and the price paid by the holders of the Notes of each class. Prepayments on the Consumer Loans may result from early repayments, refinancings, as well as the receipt of proceeds under the PPI Policies. In addition, payments made by the Transferor for, amongst other things, breach of warranty under the RSD and the repurchase of Consumer Loans in the limited circumstances set out in the Call Option Agreement will have the same effect as a prepayment of such Consumer Loans. The yield to maturity of the Notes of any class may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Consumer Loans.

The rate of prepayment of the Consumer Loans is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates for personal loans, the availability of alternative financing programmes and local and regional economic conditions. In addition, if the Transferor is required to make a payment to the Issuer in respect of a Consumer Loan because, for example, one of the Consumer Loans does not comply with the warranties given by the Transferor in respect of the Consumer Loans, then the value received by the Issuer will have the same effect as a prepayment of that particular Consumer Loan. Because these and other relevant factors are not within the control of the Issuer, no assurance can be given as to the level of prepayments that the Securitised Portfolio will experience.

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

#### **Permitted Investments**

Recent volatility in financial markets may adversely affect the credit ratings of Permitted Investments (as defined herein). Although Permitted Investments are required to have specified credit ratings by the Rating Agencies at the time of purchase or to otherwise meet rating agency standards intended to minimise risk of loss on such investments, risk of loss cannot be entirely eliminated. Numerous fixed income securities, especially structured finance or asset-backed securities, have been recently downgraded.

#### **Geographic Concentration Risks**

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

#### **Subordination of Class B Notes**

The Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes, as set out in "*Calculations and Allocations — Pre-Enforcement Finance Charge Priority of Payments*", "*Calculations and Allocations — Pre-Enforcement Principal Priority of Payments*" and "*Calculations and Allocations — Post Enforcement Priority of Payments*". There is no assurance that these subordination rules will protect the holders of Class A Notes from all risk of loss.

### **Deferral of Interest Payments**

If, on any Interest Payment Date whilst the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of the Notes after having paid or provided for items of higher priority in the Pre-Enforcement Finance Charge Priority of Payments, then the Issuer will be entitled under Condition 6 (*Payments*) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of the Notes becomes immediately due and repayable in accordance with the Conditions. This will not constitute an Event of Default.

### **The Credit Ratings Assigned to the Notes are not Guarantees that Noteholders will Receive all Payments Owed to them Under the Notes**

Each credit rating assigned to the Notes reflects that Rating Agency's assessment only of the likelihood of the timely payment of interest and the ultimate payment of principal in full on the Notes on a date that is not later than the Final Maturity Date, not that it will be paid when expected or scheduled, and may not reflect the potential impact of all risks related to the transaction structure, the other risk factors discussed in this Prospectus, or any other factors that may affect the value of the Notes. These ratings are based on the Rating Agencies' determination of, *inter alia*, the reliability of the payments on the Receivables, the creditworthiness of the Swap Counterparty and the availability of credit enhancement. A rating does not impose or extend any actual or contingent liability for the Rating Agencies to the Noteholders or any other party or create any legal relations between the Rating Agencies and the Noteholders or any other party.

The ratings do not address the following:

- (i) the possibility of the imposition of United Kingdom or any other withholding tax;
- (ii) the marketability of the Notes, or any market price for the Notes; or
- (iii) whether an investment in the Notes is a suitable investment for Noteholders.

A rating is not a recommendation to purchase, hold or sell Notes.

### **Ratings Can Be Lowered or Withdrawn After Noteholders Purchase their Notes**

Any Rating Agency may lower its rating or withdraw its rating if, in the sole judgement of the Rating Agency, the credit quality of the Notes has declined or is in question or for other tangible and intangible reasons. If any rating assigned to the Notes is lowered or withdrawn, the market value of the Notes may be reduced.

Any Rating Agency may also lower or withdraw its rating with respect to the Swap Counterparty. Under the terms of the Interest Rate Swap Agreement, the Swap Counterparty shall be required to transfer or novate the Interest Rate Swap Agreement to a replacement Swap Counterparty or enter into other suitable arrangements (including posting collateral) if the short-term credit rating of the Swap Counterparty is withdrawn or reduced below certain thresholds. It cannot be assured, however, that the Issuer would be able to find a replacement Swap Counterparty, transfer or novate the Interest Rate Swap Agreement and/or enter into other suitable arrangements (including posting collateral) in this event or that the ratings of the Notes will not be lowered or withdrawn in this event.

### **Conflict Between Class A and Class B Noteholders and other Secured Creditors**

The Trust Deed contains provisions requiring the Note Trustee as regards all the powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise) to have regard only to the interests of the Noteholders. Where, in the opinion of the Note Trustee there is a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders, the Note Trustee shall give priority to the interests of the Class A Noteholders, whose interests shall prevail.

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

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including

Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. The Conditions also provide that the Note Trustee may agree, without the consent of the Noteholders or the other Secured Creditors, to (i) any modification of, or the waiver or authorisation of any breach or proposed breach of, the Conditions or any of the Transaction Documents which is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes or (ii) any modification which, in the Note Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven.

#### **Further Notes, New Notes and Replacement Notes**

The Issuer may, without the consent of the Noteholders, issue Further Notes, New Notes or Replacement Notes, as applicable, in accordance with the Conditions, provided that certain conditions are met (including confirmation from the Rating Agencies that the then current rating of the Rated Notes will not be downgraded, withdrawn or qualified as a result of the issuance of such Further Notes, New Notes or Replacement Notes). The total value of the Further Notes, together with any New Notes or Replacement Notes to be issued on the same date must be at least £10 million. Any such New Notes or Replacement Notes may rank *pari passu* with or in priority or subordinate to any existing Notes then outstanding. In addition, upon issuance of such Further Notes, New Notes or Replacement Notes, the Transaction Documents may be amended and further Transaction Documents may be entered into, in connection with the issue of such Further Notes, Replacement Notes or New Notes and the claims of any of the parties to any amended Transaction Documents or any further Transaction Documents may rank ahead of, *pari passu* with, or behind, any class or classes of the Notes, provided, in each case, that the conditions set out in Condition 16 are satisfied.

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

Unless and until Individual Note Certificates are issued in exchange for the Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be the legal owners or holders of Notes under the Trust Deed but will have rights in their capacity as participants in accordance with the rules and procedures of the relevant Clearing System and in the case of indirect participants, their agreements with direct participants. After payment to the Clearing Systems, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts to holders or beneficial owners of Book-Entry Interests.

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

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

Unlike Noteholders, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by or on behalf of the Issuer for consents or requests by or on behalf of the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to direct the registered holder of the Notes to act in accordance with the usual procedures of Euroclear or Clearstream, Luxembourg (as the case may be) and, if applicable, their participants. There can be no

assurance that such procedures will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear and Clearstream, Luxembourg unless and until Individual Note Certificates are issued in accordance with the relevant provisions described herein under "*Terms and Conditions of the Notes*" below. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

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

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

#### **Interest Rate Risk**

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

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

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

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

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

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

#### **Optional Early Redemption**

If the Transferor exercises its call option to redeem the Notes on any Call Date ("**Optional Early Redemption**"), this may result in an early return of any investment in the Notes. No premium will be paid

in the event of an exercise of the Optional Early Redemption. If Noteholders receive principal on the Notes earlier than expected, they may not be able to reinvest the principal at a similar rate of return.

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

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer pursuant to the Corporate Services Agreement, the Account Bank has agreed to provide the Bank Accounts to the Issuer pursuant to the Account Bank Agreement, the Servicer has agreed to service the Receivables pursuant to the Servicing and Cash Management Agreement, the Cash Manager has agreed to provide certain cash management services pursuant to the Servicing and Cash Management Agreement and the Paying Agents, the Registrar and the Agent Bank have all agreed to provide services with respect to the Notes pursuant to the Paying Agency Agreement. In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, Noteholders may be adversely affected.

#### **The Servicer**

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

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

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

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

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

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

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

The Transferor will give certain warranties to the Issuer regarding the Receivables sold to the Issuer on the Closing Date and will give similar warranties to the Issuer regarding any Receivables arising under Designated Agreements sold to the Issuer on any Addition Date (see "Summary of Key Transaction Documents — Receivables Securitisation Deed" below for a summary of these).

Neither the Security Trustee nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Consumer Loan in the Securitised Portfolio and each relies instead on the warranties given in the RSD by the Transferor. The primary remedy of the Issuer against the Transferor if any of the warranties made by the Transferor is materially breached or proves to be materially untrue as at the Closing Date or the relevant Addition Date (as applicable) shall be to require the Transferor to make a payment to the Issuer of an amount equal to the Outstanding Face Amount of the Receivables then outstanding under the relevant Consumer Loan, which, to the extent such amount is in respect of a Principal Receivable, will be set off against the Transferor Deferred Purchase Price payable by the Issuer to the Transferor. This may affect the quality of the Receivables and accordingly the ability of the Issuer to make payments due on the Notes.

It should also be noted that any warranties made by the Transferor in relation to any Future Receivables may be amended from time to time without the consent of the Noteholders provided that (i) the Transferor certifies in writing that in its opinion, formed on the basis of due consideration, such amendment will not result in the withdrawal, qualification or downgrading by Moody's of the then current ratings of the Rated Notes and (ii) S&P shall have provided confirmation that such amendment will not result in the withdrawal, qualification or downgrading by S&P of the then current ratings of the Rated Notes. Changes to the warranties may affect the quality of the Receivables and accordingly the ability of the Issuer to make payments due on the Notes.

#### **Transferor to Initially Retain Legal Title to the Receivables**

The transfer by the Transferor to the Issuer of the benefit of the Receivables is governed by English law ("**English Receivables**"), by Northern Irish Law ("**Northern Irish Receivables**") and by Scots law ("**Scottish Receivables**"), as applicable, and takes effect in equity only, except in the case of Scottish Receivables, in which case the transfer takes effect under an assignment and trust which is governed by Scots law (a "**Scottish Assignment and Trust**") pursuant to which a beneficial interest in the Scottish Receivables as trust property is vested in the Issuer, until certain trigger events occur in accordance with the terms of the RSD (see "*Summary of the Key Transaction Documents — Receivables Securitisation Deed*", below).

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

Further, prior to the insolvency of the Transferor, unless in relation to English Receivables and Northern Irish Receivables notice of the assignment was given to a Borrower who is a creditor of the Transferor, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Transferor under the relevant Consumer Loan Agreement. The position is substantially similar in relation to Scottish Receivables. These rights may result in the Issuer receiving reduced payments on the Receivables. The transfer of the benefit of any Receivables to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment is given to the Borrower or an assignment is effected and notice thereof is given, some rights of set-off may not arise after the date notice is given.

Until the Issuer has legal title to the Receivables, any legal proceedings in respect of the Receivables will be taken in the name of the Transferor.

#### **Denominations**

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

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



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

#### **Change of Law**

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

#### **Recent and Proposed Legislative Changes Regarding Consumer Credit Agreements and Related Matters may Affect the Yield Obtained by/on the Securitised Portfolio and Cause a Loss on or the Early Redemption of the Notes.**

The regulation of consumer credit agreements and related matters is subject to regular legislative intervention both at a European and UK level. There are several recent and proposed changes in law that may have an impact on the performance of the Securitised Portfolio, including:

(a) *EU directive on unfair business-to-consumer commercial practices*

In May 2005, the European Parliament and the Council adopted a directive on unfair business-to-consumer commercial practices (the "**Unfair Practices Directive**"). The Unfair Practices Directive has been implemented in the UK through the Consumer Protection from Unfair Trading Regulations (the "**CPR**"), which came into force on 26 May 2008. The CPR prohibits certain practices, which are deemed "unfair" within the terms of the CPR. Breach of the CPR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying Consumer Loan Agreement may result in unrecoverable losses on amounts to which such agreements apply. If losses arise on the Receivables, they will be borne by the Transferor by being set-off against the Transferor Deferred Purchase Price. This may result in adverse consequences such as a loss on, or the early redemption of, the notes.

(b) *EU directive relating to payment services*

The Payment Services Directive (the "**PSD**") is part of the EU's development of the Single European Payments Area, which is intended to harmonise and remove legal barriers for payments throughout the EU. Once implemented, the PSD will introduce authorisation and conduct of business requirements including rules covering pre and post contract information requirements, notice of variation of terms, termination rights and information on transactions. Other provisions address authorisation procedures for payments, refunds, liability for unauthorised or incorrect payments, procedure for execution and value dating.

(c) *EU directive relating to consumer credit*

The second EU directive relating to consumer credit (the "**Consumer Credit Directive**") relates to consumer loans between €200 and €75,000, which are not required to be repaid within a month. The main effects of the Consumer Credit Directive are: the standardisation of information to be provided in advertising, the requirement for pre-contractual and contractual information, consumer cancellation rights, the right to early repayment and rules for the calculation of compensation and a requirement to specify the annual percentage rate of charge. It is required to be implemented in the UK by May 2010.

Until the PSD and the Consumer Credit Directive are implemented into UK legislation (expected by 1 November 2009 in respect of the PSD and by 2010 in respect of the Consumer Credit Directive), it is not

possible to determine or predict accurately to what extent they will affect the receivables arising on the Loans.

(d) *Banking Act 2009*

Actions may be taken by the UK Treasury (the "Treasury") and the Bank of England under Part 1 of the Banking Act 2009 (the "Banking Act") pursuant to the special resolution regime instituted to address a situation where a UK bank (a UK institution with permission to accept deposits under the Financial Services and Markets Act 2000) (the "UK Bank") is likely to encounter financial difficulties. The Banking Act gives the Treasury and the Bank of England certain wide powers to support the implementation of the stabilisation measures contemplated by the Banking Act.

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer instruments and/or orders pursuant to which there may be transferred to a commercial purchaser or a nominee of or a company wholly owned by the Treasury, all or some of the Securities issued by a UK Bank or its UK holding company. The share transfers can extend to a wide range of "Securities" including shares and bonds issued by the UK Bank or its UK holding company and warrants for such and also deferred shares or private membership rights in a building society and (b) the power to transfer all or some of the property, rights and liabilities of a UK Bank or a building society to a commercial purchaser or Bank of England entity. In certain circumstances encumbrances and trusts can be over-reached or varied. Power also exists to override any default provisions in transactions otherwise affected by these powers. Compensation may be payable in the context of share transfer instruments and/or orders and property transfer instruments. In the case of share transfers any compensation will be paid to the person who held the security immediately before the transfer, who may not be the encumbrancer. The Banking Act also includes provisions relating to two new insolvency procedures which may be commenced by specified UK authorities (bank insolvency and bank administration).

The Banking Act also vests power in the Bank of England (amongst other things) to override, vary or impose contractual obligations between the UK Bank or its UK holding company and its former group undertakings (as defined in the Banking Act), for reasonable consideration, in order to enable any transferee or successor bank of the UK Bank, or its UK holding company, to operate effectively. There is also power for the Treasury to amend the law (save for a provision made by or under the Banking Act) by order for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

It is difficult to determine to what extent the enactment of the Banking Act and any exercise of any powers granted thereunder might impact the Securitised Portfolio.

**Application of Consumer Credit Act 1974, as Amended by the Consumer Credit Act 2006 may Affect the Yield Obtained by/on the Securitised Portfolio and Cause a Loss on and/or the Early Redemption of the Notes.**

There is an increasing volume of legislation that is applicable to consumer credit in the United Kingdom. Of particular importance for prospective investors' investment in the Notes is the Consumer Credit Act 1974, as amended by the Consumer Credit Act 2006. The Consumer Credit Act 2006 is referred to as the "CCA 2006" and the Consumer Credit Act 1974, as amended by the CCA 2006 as the "CCA". The Office of Fair Trading (the "OFT") is responsible for the issue of licences under, and the superintendence of, the CCA and related consumer credit regulations and other consumer protection legislation. The OFT may review business and operations, provide guidelines to follow and take action when necessary.

Any consumer loan agreement that is wholly or partly regulated by the CCA or treated as such has to comply with requirements under the CCA as to licensing of lenders and brokers, documentation and procedures and (in so far as applicable) pre-contract disclosure. If a consumer loan agreement entered into before 6 April 2007 does not comply with these requirements, then, to the extent that the consumer loan agreement is regulated by the CCA or treated as such, it may, depending upon the nature of the non-compliance and origination of the agreement, be totally unenforceable or enforceable only with a court order.

In respect of consumer loan agreements entered into on or after 6 April 2007, the CCA 2006 abolished the total unenforceability provisions. Accordingly, if such an agreement does not comply with the relevant requirements, it will be enforceable albeit only with a court order.

Where the court is able to exercise its discretion, the court will take into account any prejudice suffered by the debtor and any culpability by the creditor.

The court has the discretion if it appears just to do so, to amend the consumer loan agreement, impose conditions upon its performance or to make a time order (for example, give extra time for arrears to be cleared). Should a consumer loan agreement be unenforceable against a borrower without a court order, the originator cannot guarantee that a court order could be obtained if required.

The CCA 2006 introduced an unfair relationship test to all new and existing credit agreements. There is no statutory definition of what constitutes an unfair relationship. The test allows the courts to be able to consider a wide range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. Once the debtor alleges that an unfair relationship exists, the burden of proof is on the creditor to prove the contrary.

If a consumer loan agreement is found to be unfair, the court may require the creditor to repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return property provided by a surety, alter the terms of the agreement or direct accounts to be taken.

The possible unenforceability of liabilities due to an underlying consumer loan agreement constituting an unfair relationship may result in unrecoverable losses on such agreements.

With respect to those consumer loan agreements which may not be compliant such that a court order enforcing such agreement could not be obtained, Bank of Scotland does not anticipate any material increase in the percentage of these Receivables in the Securitised Portfolio. In respect of those Designated Agreements that do not comply with the CCA, it may still be possible to collect payments and seek arrears from debtors who are falling behind with their payments. It is unlikely that Bank of Scotland will have an obligation to pay or to account to a debtor for any payments received by a debtor because of this non-compliance with the CCA.

**Ongoing Regulatory Investigations may Affect the Yield Obtained by/on the Securitised Portfolio and Cause a Loss on and/or the Early Redemption of the Notes.**

There are various ongoing regulatory investigations into consumer credit and related financial services, in particular by the UK Competition Commission, the OFT and the UK Financial Services Authority (the "FSA"). The outcome of these investigations is uncertain but they may have an impact on the yield obtained on the Securitised Portfolio.

**(a) *Inquiries into payment protection insurance***

In 2007 and in response to a super-complaint made by the Citizen's Advice Bureau and a reference from the OFT, the UK Competition Commission ("CC") commenced an in-depth inquiry into the payment protection insurance ("PPI") market. The CC published its final report on 29 January 2009 and concluded that businesses that offer PPI alongside credit face little or no competition when selling PPI to their credit customers. To address this, the CC is introducing a package of measures via working with regulators and implementation of a Payment Protection Insurance Services Market Investigation Order. These measures include, *inter alia*, a ban on the sale of PPI during the sale of the credit product for seven days afterwards and a prohibition on single-premium policies. The CC is also introducing disclosure requirements in marketing materials and distributions and intermediaries will be required to provide a personal PPI quote which states the cost of the PPI individually and when added to the credit product, distributors and intermediaries will also be required to provide annual statements. The CC expects that the measures will come into force during 2010, with the information remedies in place by April 2010 and other measures by October 2010.

Separately, the FSA has published specific rules within its conduct of business rules sourcebook (ICOBS) relating to PPI sales practices and continues to undertake further work in this area.

On 30 September 2008, the FSA published its interim findings on the third phase of its thematic review of the sales processes and systems and controls around the sale of PPI. The FSA's findings are that some firms are failing to adequately explain PPI, determine customers' eligibility and suitability and establish appropriate compliance procedures. As a result of these findings the FSA has confirmed that it will continue with the review and initiate enforcement action against firms which fail to meet FSA standards.

On 23 February 2009, the FSA published a letter sent to the chief executives of those firms offering single premium PPI policies. In this letter the FSA requires the sale of single premium PPI policies to cease no later than 29 May 2009 and notes the actions taken by Lloyds Banking Group plc and its subsidiary undertakings from time to time ("**Lloyds Banking Group**") (including Bank of Scotland and Halifax) to cease the sale of single premium PPI policies.

It is difficult to determine whether, or to what extent, any subsequent action by the CC, the OFT or the FSA in respect of PPI and to what extent ceasing to offer single premium PPI would affect the Securitised Portfolio.

(b) *Market study into personal current accounts*

In April 2007, the OFT announced a market study into personal current accounts in the UK. Findings from the study were published in July 2008. The OFT has since requested formal responses to the study findings. Once received the OFT will publish a final report early in 2009.

It is difficult to determine and there is no basis on which to predict accurately, what effect this market study might have on consumer loan agreements. No assurance can be given that the results of the market study and further OFT reports will not adversely affect the ability of the issuer to make payments on the Notes, cause a loss on and/or the early redemption of the Notes. It should, however, be noted that the OFT has previously investigated default fees in respect of credit cards and set an intervention threshold of £12 in 2006.

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

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

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

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

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

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

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

**There may be adverse consequences for Notcholders if the new UK special regime for the taxation of securitisation companies does not apply to the Issuer**

The Taxation of Securitisation Companies Regulations 2006 (the "Regulations") were made under section 84 of the Finance Act 2005 on 11 December 2006 to deal with the corporation tax position of securitisation companies with effect for their periods of account beginning on or after 1 January 2007. If the Regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. Based on advice received, the Issuer considers that it will be taxed under the special taxation regime for which provision is made by the Regulations. Investors should note, however, that the Regulations are in short-form and it is expected that advisors will rely significantly upon guidance from the UK tax authorities when advising on the scope and operation of the Regulations including whether any particular company falls within the new regime. Investors should note that if the Issuer is not taxed under the new regime then its profits or losses for tax purposes might be different from its cash position. Any unforeseen taxable profits in the Issuer could have an adverse effect on its ability to make payments to Noteholders.

**EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

**European Monetary Union**

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

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

### English law security and insolvency considerations

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

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

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

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

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

### Liquidation expenses

Prior to the House of Lords' decision in the case of *Re Leyland Daf* in 2004, the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. *Re Leyland Daf* reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act (and, to the extent relevant in Northern Ireland, Article 150ZA of the Insolvency (Northern Ireland) Order 1989), which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in *Re Leyland Daf*. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such

expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986 (and, to the extent relevant in Northern Ireland, rules 4.228A to 4.228E of the Insolvency Rules (Northern Ireland) 1991). In general, the reversal of *Leyland Daf* applies in respect of all liquidations commenced on or after 6 April 2008.

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

**Limited resources**

The ability of the Issuer to meet its obligations under the Notes will be dependent upon the receipt by it in full of (a) principal and interest from the Borrowers in respect of the Receivables (b) payments (if any) due from the Swap Counterparty and (c) interest income on the Bank Accounts. Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes.

Upon enforcement of the Security, the Security Trustee will, in practice, have recourse only to the Receivables and to any other assets of the Issuer then in existence as described in this document.

## SUMMARY OF THE KEY TRANSACTION DOCUMENTS

### Receivables Securitisation Deed

The Transferor and the Issuer will enter into a receivables securitisation deed to be dated on or around the Closing Date (the "RSD") which will be governed by English law and in respect of Northern Irish Receivables, Northern Irish law, governing, *inter alia*, the terms and conditions of the sale and assignment by the Transferor to the Issuer of (i) present and future Receivables owing under Consumer Loan Agreements originated or purchased by Bank of Scotland identifiable by certain specific product brands ("**Designated Agreements**") in existence on 1 March 2009 (the "**Pool Selection Date**") and (ii) the future assignment of Receivables owing under additional Consumer Loan Agreements. Where Receivables under a Designated Agreement are governed by Scots law, a Scottish assignment and trust ("**Scottish Assignment and Trust**") over all Scottish Receivables under such Designated Agreement will be entered into.

The terms of the RSD provide that any sale of Receivables to the Issuer (a "**Sale**") will comprise an assignment (or, where such Designated Agreements are governed by Scots law, a Scottish Assignment and Trust over) of:

- (i) all Receivables under Designated Agreements as at the opening of business on the relevant Proposed Addition Date;
- (ii) (to the extent such are capable of assignment) the benefit of each guarantee or insurance policy obtained by the Transferor in respect of the obligations of a Borrower to make payments on such Designated Agreements; and
- (iii) the Associated Rights in respect of each Designated Agreement.

Pursuant to the terms of the RSD, on each Transfer Date, the Transferor will execute a Scottish Assignment and Trust which will cover all of the Receivables and Associated Rights arising under Designated Agreements which have been sold by the Transferor to the Issuer during the immediately preceding Monthly Period.

"**Associated Rights**" means all of the rights of the Transferor under a Consumer Loan Agreement which permit the Transferor to make a demand for immediate payment of all amounts payable by a Borrower to the Transferor and all rights to make demands, bring proceedings or take any other action in respect thereof.

"**Proposed Addition Date**" shall mean, in respect of a Sale, the date specified in the notice of Sale ("**Sale Notice**") as the date upon which such Sale is to take effect.

"**Addition Date**" means the date on which a Sale takes effect in accordance with the provisions of the RSD.

The initial Sale by the Transferor will take effect on the Closing Date (the "**Initial Sale**").

Until the Final Maturity Date, the agreements under which the Receivables arise will be Designated Agreements, not including any Redesignated Agreements.

Receivables arising under Designated Agreements are either Principal Receivables or Finance Charge Receivables.

"**Principal Receivables**" means, on any day, PPI Premium and principal payments (whether or not yet due) which remain to be paid by the relevant Borrowers under the Consumer Loan Agreements, but excludes all Recoveries.

Certain consumer loans ("**Consumer Loans**") under Consumer Loan Agreements originated or purchased by the Transferor carry a payment protection insurance policy (a "**PPI Policy**"). The single premium payable in respect of a PPI Policy ("**PPI Premium**") is added to the initial principal balance of a Consumer Loan and amounts received in respect of PPI Premia will be treated as Principal Collections. If a Consumer Loan with a PPI Policy is repaid prior to its scheduled final repayment date by a Borrower, such Borrower is entitled to a rebate in respect of the portion of such PPI Premium relating to the period



from which the Consumer Loan is prepaid to the date of scheduled maturity of such Consumer Loan, which will be treated as a loss of Receivables under such Consumer Loan, which will be borne by the Transferor by setting off the amount of the loss against the Transferor Deferred Purchase Price payable by the Issuer (see "*Calculations and Allocations*") below.

"**Finance Charge Receivables**" means all payments (whether or not yet due) which remain to be paid by the relevant Borrower under a Designated Agreement, including interest, Transaction Fees and Recoveries but excluding Principal Receivables.

"**Transaction Fees**" means any fees payable by a Borrower as required by the relevant Consumer Loan Agreement.

#### **Redesignation of Consumer Loan Agreements**

Each Designated Agreement will continue to be a Designated Agreement until such time as it becomes a Defaulted Agreement or the Transferor reclassifies it as being no longer a Designated Agreement (each of the foregoing a "**Redesignated Agreement**").

A "**Defaulted Agreement**" means a Designated Agreement in respect of which the Receivables have become Charged-Off Receivables.

Other than in the case of Defaulted Agreements, a Designated Agreement will become a Redesignated Agreement as of such date (the "**Redesignation Date**") as is specified by the Transferor to the Issuer to the extent the conditions below are met. However, no Designated Agreement, other than in the case of Defaulted Agreements, shall be redesignated by the Transferor unless: (i) the redesignation of any Receivables related to such proposed redesignated Consumer Loan Agreements shall not, in the reasonable belief of the Transferor (1) cause a Pay Out Event to occur on the Redesignation Date, (2) cause a Partial Amortisation Trigger Event to occur on the relevant Redesignation Date, (ii) the Transferor represents and warrants to the Issuer that the proposed redesignation will not result in a downgrade or withdrawal of the then current rating of the Rated Notes, in respect of which the Transferor may take into account any written confirmation from the Rating Agencies which confirms the same, (iii) the Transferor and the Servicer shall certify to the Issuer that Collections have been received by the Issuer or the Issuer has otherwise received payment from the Transferor in respect of every Receivable which has been assigned to the Issuer in respect of that Consumer Loan Agreement other than Receivables which have become Charged-Off Receivables; and (iv) the Transferor has delivered an officer's certificate confirming that all the prerequisites in (i), (ii) and (iii) have been satisfied.

"**Charged-Off Receivable**" means any Receivable under a Consumer Loan Agreement which has a Monthly Rental Income Outstanding of 6 or greater or any Receivable relating to a Borrower who has become bankrupt, is subject to a sequestration, has entered into an individual voluntary arrangement or granted a protected trust deed, or is deceased.

In the case of a Defaulted Agreement, such Defaulted Agreement shall automatically become a Redesignated Agreement as at the date on which it becomes a Defaulted Agreement. For the avoidance of doubt, no Receivable which has been assigned or entrusted to the Issuer will be reassigned or released to the Transferor except in the limited circumstances referred to below in "*Summary of Key Transaction Documents - Receivables Securitisation Deed—Representations*" below) or pursuant to the Call Option Agreement.

#### **Recoveries**

The Transferor will from time to time make Recoveries in respect of Charged-Off Receivables that arise on Defaulted Agreements. Such Recoveries will be treated as Finance Charge Collections and an amount in respect of Recoveries equal to the Investor Floating Percentage will be allocated to Available Finance Charge Collections and the remaining portion of such Recoveries will be payable to the Transferor as Transferor Deferred Purchase Price Payments, (see "*Calculations and Allocations — Allocation of Charge-Off Amounts*" below).

"**Recoveries**" means all amounts recovered in respect of Charged-Off Receivables.

#### **Reductions in Receivables and Early Collections**

If any Receivable assigned or entrusted to the Issuer is reduced by reason of any set-off, counterclaim or any other matter between a Borrower and the Transferor (a "**Reduction**") and the Transferor has received a benefit, in money or money's worth as a consequence of such Reduction (including without limitation, any reduction in any liability owing by the Transferor to such Borrower), the Transferor shall be treated as having been paid the amount of such Reduction and the Transferor will pay to the Issuer an amount equal to that reduction by way of set-off against the Transferor Deferred Purchase Price.

If, in respect of any Receivable which the Transferor has purported to assign to or hold on trust for the Issuer, the Transferor has received a partial or full collection prior to the date on which that Receivable was purportedly assigned or entrusted to the Issuer then the portion thereof which shall have been so collected (an "**Early Collection**") shall be treated as having been collected by the Transferor immediately following such purported assignment or entrustment and the Transferor will pay to the Issuer an amount equal to the amount of that Early Collection by way of set-off against the Transferor Deferred Purchase Price.

In respect of Reductions and Early Collections referred to above, the obligation of the Transferor to make a payment in respect thereof to the Issuer is in addition to the obligation of the Transferor to pay all other amounts paid or payable in respect of the Receivable concerned to the Issuer.

The obligations of the Transferor to make payments in respect of Reductions or Early Collections will be satisfied in whole or in part by setting off the relevant Reduction or Early Collection against the amount of Transferor Deferred Purchase Price payable by the Issuer provided that the Transferor Deferred Purchase Price is greater than zero. To the extent that the amount payable by the Transferor exceeds the Transferor Deferred Purchase Price, the Transferor shall be obliged to pay to the credit of the Control Account an amount equal to the difference between the Reduction or Early Collection, as applicable, and the Transferor Deferred Purchase Price.

#### **Reductions for PPI Premium Rebates**

Pursuant to certain of the Consumer Loan Agreements, the Borrowers thereunder have purchased a PPI Policy. The single premium payable for the purchase of a PPI Policy ("**PPI Premium**") is added by way of an increase to the principal element of the Outstanding Face Amount of the Receivables at the time of origination of the relevant Consumer Loan Agreement.

Should any Consumer Loan Agreement pursuant to which a Borrower has purchased a PPI Policy terminate prior to the date on which such Consumer Loan is due to be repaid in full by the relevant Borrower, such Borrower will receive a rebate of the portion of the PPI Premium paid in respect of the remaining term of the Consumer Loan Agreement following the date of such early repayment (a "**PPI Premium Rebate**"). This rebate will cause the amount of Receivables outstanding on such Consumer Loan to be reduced in an amount equal to the PPI Premium Rebate. Such reduction in Receivables will be funded by the Transferor by setting off an amount equal to the PPI Premium Rebate against the Transferor Deferred Purchase Price payable by the Issuer provided that the Transferor Deferred Purchase Price is greater than zero. To the extent that the amount payable by the Transferor exceeds the Transferor Deferred Purchase Price, the Transferor shall be obliged to pay to the credit of the Control Account an amount equal to the difference between the PPI Premium Rebate and the Transferor Deferred Purchase Price.

Should any Borrower under a Consumer Loan Agreement who has purchased a PPI Policy request the termination of the PPI Policy but the continuation of the Consumer Loan Agreement, the entire Consumer Loan Agreement is terminated and a new Consumer Loan Agreement is entered into. Such new Consumer Loan Agreements will be designated as Designated Agreements when they come into existence and as such the Receivables arising under the new Consumer Loan Agreements shall be assigned to the Issuer. The loss of Receivables on the old Consumer Loan Agreement through the PPI Premium Rebate will be funded by the Transferor by setting off an amount equal to the PPI Premium Rebate against the amount of Transferor Deferred Purchase Price payable by the Issuer provided that the Transferor Deferred Purchase Price is greater than zero. To the extent that the amount payable by the Transferor exceeds the Transferor Deferred Purchase Price, the Transferor shall be obliged to pay to the credit of the Control Account an amount equal to the difference between the PPI Premium Rebate and the Transferor Deferred Purchase Price.

## **Representations**

Under the terms of the RSD, the Transferor will represent certain matters in relation to the Receivables comprised in a Sale which are Receivables, such representation being given as of the Addition Date, relating thereto.

The representations by the Transferor include:

- (a) that the assignment of (or, where relevant, Scottish Assignment and Trust over) each Receivable the subject of a Sale will be effective to pass to the Issuer good and marketable title (or in the case of a Scottish Assignment and Trust, a valid trust interest) thereto and the benefit thereof (including in such context, any Collections and other rights in connection therewith, such as related guarantees and insurance proceeds) are free of any encumbrances in favour of any person claiming through or under the Transferor or any of its affiliates to the Issuer and, subject to any limitations arising on enforcement in the jurisdiction of the relevant Borrower, no further act, condition or thing will be required to be done in connection therewith to enable the Issuer to require payment of any such Receivable or to enforce any such right in the courts of England and Wales, Scotland or Northern Ireland without the participation of the Transferor other than payment of any applicable United Kingdom stamp duty and the giving of a Notice of Assignment, or the joinder of the Transferor as a party to proceedings by the Issuer against the relevant Borrower;
- (b) that the assignment of (or, where relevant, Scottish Assignment and Trust over) each Receivable the subject of a Sale is in compliance with requirements of law applicable to the Transferor on the date of such assignment (or Scottish Assignment and Trust);
- (c) the Receivables which are the subject of a Sale are Eligible Receivables arising under Eligible Agreements on their Date of Eligibility; and
- (d) the Transferor is the person in whom the legal title to the Designated Agreements is held.

If a representation in respect of any Receivable proves to have been incorrect when made, the Transferor shall be treated as having received by way of a Collection the Outstanding Face Amount of such Principal Receivable and any interest accrued due and payable and shall be obliged to pay not later than the Business Day following the day on which the representation becomes known to the Transferor to have been incorrect when made an amount equal to the Outstanding Face Amount of such Receivable to the Control Account. The Receivable will thereafter be treated as an Ineligible Receivable assigned (or, in relation to Scottish Receivables, entrusted) to the Issuer by the Transferor and, except as referred to below, the Receivable will not be re-assigned (or otherwise released) by the Issuer to the Transferor.

The obligation of the Transferor to make a payment to the Issuer of the Outstanding Face Amount of any Principal Receivables in respect of any breach of representation will be fulfilled by setting off the Outstanding Face Amount of such Receivable against the Transferor Deferred Purchase Price provided that the Transferor Deferred Purchase Price is greater than zero. To the extent that the amount payable by the Transferor exceeds the Transferor Deferred Purchase Price, the Transferor shall be obliged to pay to the credit of the Control Account an amount equal to the difference between the Outstanding Face Amount of the Principal Receivable which is the subject of the breach of representation and the Transferor Deferred Purchase Price. Fulfilment of any such payment obligation by the Transferor will be in full satisfaction of any rights or remedies which the Issuer may have as a result of the representation concerned being incorrect.

The Issuer has not made and will not make any initial or periodic general examination of the Designated Agreements, Receivables or any records relating to the Receivables for the purpose of establishing the presence or absence of defects therein, compliance with the Transferor's representations and warranties or for any other purpose.

"Eligible Agreement" means a Consumer Loan Agreement which (i) as at the open of business on the Pool Selection Date (in the case of the Initial Sale Notice); (ii) as at the open of business on the Date of Eligibility (in the case of Future Receivables which become Existing Receivables after the date of the relevant Sale Notice); or (iii) as at the open of business on the relevant Additional Selection Date (in the case of any subsequent Sale Notice), as applicable, and:

- (i) where the Borrower is an individual;
- (ii) where the Borrower is not an employee of the Transferor;
- (iii) which was in existence and maintained with the Transferor prior to or at the time of its designation as a Designated Agreement;
- (iv) under which payments are payable in pounds sterling;
- (v) which is governed by an agreement based on the Transferor's standard form unsecured consumer loan agreement as amended from time to time (**provided that no amendments may be made to terms and conditions relating to the governing law of the agreement, the assignability thereof or the ability of the Transferor to provide information regarding Borrowers to any person assuming the Transferor's rights under the agreement**) or else, if acquired by the Transferor, is governed by contractual terms not materially different from such standard form unsecured consumer loan agreement in relation to such matters;
- (vi) which is governed in whole or in part by the CCA and creates legal, valid and binding obligations between the Transferor and the relevant Borrower and is enforceable against the relevant Borrower in accordance with the Consumer Loan Agreement and the CCA, subject to applicable bankruptcy laws, other similar laws affecting creditors' rights, general equitable principles and other limitations on enforcement in the jurisdiction of the relevant Borrower and was otherwise created and complies with all other applicable laws;
- (vii) where the Borrower's address on the date the Consumer Loan Agreement was entered into is located in either England, Wales, Scotland or Northern Ireland;
- (viii) where the Borrower has made its first monthly payment;
- (ix) where the Borrower does not have a Monthly Rental Income Outstanding of 2 or greater;
- (x) which has a term not exceeding 122 months;
- (xi) which has a maximum Outstanding Face Amount in respect of principal only not exceeding £25,000, excluding any PPI Premium;
- (xii) in relation to which, the Transferor has no missing data as to the interest rate, remaining term or outstanding balance of the relevant Consumer Loan Agreement;
- (xiii) which the Transferor does not suspect has any fraudulent activity and is not aware that legal proceedings have been commenced, that the Borrower is deceased, bankrupt, is subject to a sequestration order or has been granted an individual voluntary arrangement or granted a protected trust deed for creditors;
- (xiv) which has been originated or purchased by the Transferor;
- (xv) which has been operated since its origination (in the case of Consumer Loan Agreements originated by the Transferor) or purchase (in the case of Consumer Loan Agreements purchased by the Transferor), in all material respects, in accordance with the Consumer Loan Guidelines; and
- (xvi) the Receivables in respect of which are not Charged-off Receivables.

A Consumer Loan Agreement may be an Eligible Agreement even if one or more of the above is not satisfied if (i) the Transferor certifies in writing that in its opinion, formed on the basis of due consideration, such designation as an Eligible Agreement will not result in the withdrawal, qualification or downgrading by Moody's of the then current ratings of the Rated Notes and (ii) S&P shall have

provided confirmation that such designation as an Eligible Agreement will not result in the withdrawal, qualification or downgrading by S&P of the then current ratings of the Rated Notes.

"**Monthly Rental Income Outstanding**" means, on any date of determination, with respect to any Borrower, the number equivalent of a fraction, the numerator of which is the aggregate amount of Receivables owing under the relevant Consumer Loan Agreement which are delinquent and the denominator of which is an amount equal to one monthly payment under the Consumer Loan Agreement.

"**Notice of Assignment**" means a notice given to any Borrower of the assignment of the Receivables paid or payable by that Borrower (and the benefit of any related guarantees) to the Issuer upon the occurrence of a Notification Event.

A "**Notification Event**" shall occur on any day on which:

- (a) a duly authorised officer of the Transferor shall admit in writing that Transferor is unable to pay its debts as they fall due within the meaning of Section 123(1) of the Insolvency Act 1986 or the Transferor makes a general assignment or trust for the benefit of or a composition with its creditors or voluntarily suspends payments of its obligations with a view to the general readjustment or rescheduling of its indebtedness; or
- (b) either:
  - (i) the Transferor shall consent to or take any corporate action relating to the appointment of a receiver, administrator, administrative receiver, trustee, liquidator or similar officer of it or relating to all or substantially all of its revenues and assets; or
  - (ii) proceedings shall be initiated against the Transferor under any applicable liquidation, insolvency, composition, re-organisation or similar laws for its winding-up, dissolution, administration or reorganisation (except for a solvent reorganisation) and such proceedings are not discharged within 60 days; or
  - (iii) a receiver, administrator, administrative receiver, liquidator, trustee or similar officer of the Transferor or relating to all or substantially all of its revenues and assets is legally and validly appointed and such appointment is not discharged within 14 days; or
- (c) any execution, distress or diligence is levied or enforced against, or an encumbrancer takes possession of, the whole or any part of the property, undertaking or assets of the Transferor or any event occurs which under the laws of any jurisdiction has a similar or analogous effect, and such action is not discharged within 14 days; or
- (d) the Transferor (or the Servicer on behalf of the Transferor) fails to pay any sum due from it to the Issuer hereunder in respect of the Designated Agreements within five Business Days of the due date thereof or the date of demand, if payable on demand, in the currency and in the manner specified herein, and such failure is not remedied within ten Business Days after the Issuer has given notice thereof to the Transferor; or
- (e) the long-term senior unsecured indebtedness of the Transferor as rated by any of Standard & Poor's or Moody's falls below BBB+ or Baa3 respectively.

"**Date of Processing**" means, in respect of any transaction relating to a Consumer Loan Agreement (including, receipt of any Collections) the Business Day after the overnight processing which resulted in that transaction being first recorded on the computer master file of Consumer Loan Agreements used by the Servicer or, as the case may be, the Transferor (without regard to the effective date of such recording). Any reference to the date on which any Collections or transactions are processed will be taken as referring to the Date of Processing relative to such Collections or (as the case may be) transactions.

"**Eligible Principal Receivables**" means Principal Receivables which are Eligible Receivables.

"**Eligible Receivable**" means a Receivable which complies with the following criteria as at (i) in the case of Receivables which are the subject of the Initial Sale Notice made by the Transferor, at the open of business on the Pool Selection Date; (ii) in the case of Future Receivables which become Existing Receivables after the date of the relevant Sale Notice, at the open of business on the Date of Eligibility; or

(iii) in the case of any Receivable which is the subject of any subsequent Sale Notice made by the Transferor, at the open of business on the relevant Additional Selection Date in respect of such subsequent Sale Notice:

- (i) has arisen under an Eligible Agreement;
- (ii) (a) was otherwise created and complies with all other applicable laws; and  
(b) was originated in accordance with the Consumer Loan Guidelines (or in respect of a Receivable which has arisen on a Consumer Loan Agreement acquired by the Transferor prior to the date of acquisition, it was, to the best of the Transferor's knowledge and belief, originated in accordance with the consumer loan guidelines of the vendor of such Consumer Loan Agreement);
- (iii) is free and clear of any encumbrances exercisable against the Transferor or the Issuer arising under or through the Transferor (or any of its respective affiliates) and, to which, at the time of its creation (or at the time of its acquisition by the Transferor if such Receivable was originated by any person other than the Transferor) and at all times thereafter, the Transferor or the Issuer had good and marketable title;
- (iv) constitutes the legal, valid, and binding obligations of the relevant Borrower, enforceable in accordance with the terms of the relevant Consumer Loan Agreement, subject to usual bankruptcy laws, other similar laws affecting creditors' rights, general equitable or discretionary principles and other limitations arising on enforcement in the jurisdiction of the relevant Borrower; and
- (v) is not currently subject to any right of rescission, defence, dispute, set-off, counterclaim or enforcement order.

"Date of Eligibility" means the date upon which the relevant Borrower makes a first monthly payment in respect of the relevant Receivable.

"Additional Selection Date" means, with respect to any Sale of Existing Receivables, the date on which the amounts in respect of such Existing Receivables as specified in the relevant Sale Notice were determined.

"Existing Receivables" means all Receivables which are specified by (a) the Transferor in the Initial Sale Notice as being in existence on the Pool Selection Date with respect to the Initial Sale and with respect to Designated Agreements comprised in the Initial Sale Notice relating thereto or (b) the Transferor in any subsequent Sale Notice as being in existence under the Designated Agreements comprised in such Sale on the Additional Selection Date relating thereto.

"Future Receivables" means all Receivables on specified product brands which are not Existing Receivables.

"Initial Sale Notice" means the notice of sale delivered by the Transferor pursuant to the terms of the RSD in respect of the Initial Sale.

"Sale Notice" means the notice of sale delivered by the Transferor pursuant to the terms of the RSD in respect of each subsequent Sale.

"Ineligible Receivables" means Receivables which are the subject of a Sale Notice made by the Transferor which do not comply with all of the criteria for Eligible Receivables as at the open of business on the Proposed Addition Date in respect of that Sale.

#### **Purchase Price**

The purchase price ("Purchase Price") payable for the Receivables will consist of the following elements:

- (i) for Receivables sold or assigned on the Closing Date:
  - (a) a cash payment equal to the proceeds of the issuance of the Notes (as "Initial Purchase Price"); plus

- (b) on each Transfer Date, a cash payment equal to the lesser of Cash Available for Investment on such Transfer Date and the Outstanding Face Amount of all Principal Receivables whose Date of Eligibility has occurred during the immediately preceding Monthly Period (as "Initial Purchase Price"); plus
  - (c) amounts (the "Transferor Deferred Purchase Price Payments") equal to the Outstanding Face Amount of the Principal Receivables transferred or held on trust less the Initial Purchase Price. Such amounts will be paid from Collections on subsequent Transfer Dates; plus
  - (d) any amounts paid to the Transferor on each Transfer Date from Collections which are not required by the Issuer and which will equal amounts paid to the Transferor pursuant to items 1(xiv) and 3 of the Pre-Enforcement Finance Charge Priority of Payments and item 1(xii) of the Post-Enforcement Priority of Payments ("Deferred Contingent Consideration").
- (ii) on each following Transfer Date, an amount equal to the Outstanding Face Amount of Receivables transferred or becoming subject to trust during the preceding Monthly Period:
- (a) a cash payment equal to the lesser of Cash Available for Investment on such Transfer Date and the Outstanding Face Amount of all Principal Receivables whose Date of Eligibility has occurred during the immediately preceding Monthly Period (together with sub-paragraphs (i)(a) and (i)(b) above, the "Initial Purchase Price"); plus
  - (b) an amount to form part of the Transferor Deferred Purchase Price Payments equal to the difference between the Outstanding Face Amount of the Principal Receivables transferred or becoming subject to trust during the immediately preceding Monthly Period and the amounts paid as Initial Purchase Price for such Receivables, which such will remain outstanding and will be paid from Collections on subsequent Transfer Dates; plus
  - (c) Deferred Contingent Consideration.

"Transferor Deferred Purchase Price" means on any date of determination:

- (a) the Outstanding Face Amount of all Eligible Principal Receivables arising under Designated Agreements assigned to the Issuer through the Initial Sale; plus
- (b) the Outstanding Face Amount of all Eligible Principal Receivables arising under Designated Agreements which have come into existence or otherwise been assigned to the Issuer after the Closing Date; less
- (c) the Initial Purchase Price; less
- (d) the aggregate of all Transferor Default Amounts; less
- (e) the aggregate of all Reductions and Early Collections; less
- (f) the aggregate of all PPI Premium Rebates; less
- (g) the aggregate of all Transferor Deferred Purchase Price Payments.

On each Transfer Date the Transferor will also receive Transferor Deferred Purchase Price Payments which will include amounts in respect of the Transferor Deferred Purchase Price outstanding as at the end of the Monthly Period immediately preceding the most recent Monthly Period together with other amounts not required by the Issuer. This will include, if the amount of Principal Collections that are payable to the Transferor as Cash Available for Investment from Principal Collections exceeds the amount payable as Initial Purchase Price under sub-paragraph (ii)(b) above, a payment of the amount of the excess as a payment of Transferor Deferred Purchase Price Payment. The portion of such payment that represents Transferor Deferred Purchase Price will reduce the Transferor Deferred Purchase Price *pro tanto*.

Settlements in respect of a Monthly Period will occur on the Transfer Date in the month following the end of the Monthly Period. On the Transfer Date for a Monthly Period, activity in respect of that Monthly Period will be reported and payments made or amounts retained (a) by the Issuer to the Transferor in respect of Purchase Price for Receivables including Transferor Deferred Purchase Price Payments and (b) by the Issuer to its creditors, including the Noteholders, in respect of its ongoing obligations will be calculated by the Cash Manager and, to the extent required, paid or retained.

#### **Call Option Agreement**

The Transferor will enter into a call option arrangement (the "**Call Option Agreement**") under an agreement made between the Transferor and the Issuer. Under the terms of the Call Option Agreement, the Transferor may, from time to time, exercise its option to purchase from the Issuer some or all of the Receivables for consideration. The Transferor shall only exercise its option to purchase some, but not all of the Receivables should such repurchase not result in the Transferor Deferred Purchase Price falling below the Minimum Transferor Deferred Purchase Price as a result of such repurchase.

Pursuant to the Call Option Agreement the Transferor shall purchase from the Issuer all Receivables relating to Consumer Loans which have been subject to a rescheduling of payment amounts and or timings.

#### **Servicing and Cash Management Agreement**

##### *Introduction*

On the Closing Date, Bank of Scotland (in the capacities of "Servicer" and "Cash Manager") will be appointed by the Issuer to be its agent to service the Receivables and to perform certain cash management services on behalf of the Issuer.

##### *Instructions*

The Servicer must comply with any proper directions and instructions that the Issuer or, following service of a Note Enforcement Notice, the Security Trustee may from time to time give to it in accordance with the provisions of the Servicing and Cash Management Agreement. The Servicer is required to service the Receivables:

- in accordance with the Servicing and Cash Management Agreement; and
- as if the Receivables had not been sold to the Issuer but remained with the Transferor, and in accordance with the Transferor's procedures, administration, enforcement policies and usual practices relating to the operation of its general consumer loan business (the "**Consumer Loan Guidelines**") as they apply to those Receivables from time to time.

The Servicer's actions in servicing the Receivables in accordance with its procedures are binding on the Issuer.

##### *Powers*

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

- to exercise the rights, powers and discretions of the Issuer in relation to the Receivables and to perform their duties in relation to the Receivables; and
- to do or cause to be done any and all other things which it would be reasonable to expect a reasonably prudent consumer loans lender to do in administering the Receivables.

##### *Undertakings by the Servicer*

The Servicer has undertaken, among other things:

1. to maintain approvals, authorisations, permissions, registrations, consents and licences required in order to perform its obligations under the Servicing and Cash Management Agreement;



2. to keep records and accounts on behalf of the Issuer in relation to the Receivables;
3. to assist in the preparation of statutory accounts;
4. to keep customer files, (where applicable) PPI Policies and the receipt of notices of assignment relating to the Consumer Loan Agreements in safe custody and maintain records necessary to enforce each Consumer Loan Agreement;
5. to provide the Security Trustee and any other person nominated by it and each of their respective auditors upon reasonable notice during normal office hours to have access, or procure that such person or persons are granted access, to all books of record and account (including, for the avoidance of doubt, the relevant and customer files) relating to the administration of the Receivables;
6. to assist the Cash Manager in the preparation of a monthly report;
7. to take all reasonable steps to recover all sums due to the Issuer, including (without limitation) by the institution of proceedings and/or by the enforcement of any Consumer Loan Agreement;
8. to enforce any Consumer Loan Agreement or which is in default in accordance with its enforcement procedures or, if these are inapplicable having regard to the nature of the default in question, take such action as is not materially prejudicial to the interests of the Issuer;
9. to provide to the Rating Agencies such information relating to its consumer lending business and financial condition as required pursuant to the Servicing and Cash Management Agreement;
10. to act as collection agent for the Issuer under the Direct Debiting Scheme; and
11. to take all other action and do all other things which it would be reasonable to expect a reasonable, prudent lender of consumer loans to do in administering its loans.

*Remuneration of the Servicer*

The Servicer receives a fee for servicing the Receivables arising under the Designated Agreements. The Servicer receives a servicing fee (inclusive of VAT, if any) of 1 per cent. per annum, on the Outstanding Face Amount of all Eligible Principal Receivables arising on Designated Agreements as at the opening of business on the first day of the immediately preceding Monthly Period (or, as applicable, the Closing Date).

An amount equal to the portion of the Servicing Fee payable by the Issuer to the Servicer (with respect to each Transfer Date) in respect of the Investor Interest is called the "**Investor Servicing Fee Amount**" and shall equal one-twelfth of the product of (A) the Investor Floating Percentage and (B) an amount equal to one per cent. of the Outstanding Face Amount or all Eligible Principal Receivables arising on Designated Agreements as at the open of business on the first day of the immediately preceding Monthly Period.

An amount equal to the portion of the Servicing Fee (with respect to any Monthly Period) which the Issuer has not paid is called the "**Transferor Servicing Fee Amount**". The Transferor Servicing Fee Amount shall be paid to the Servicer by using amounts of Finance Charge Collections which are not Available Finance Charge Collections.

The fee is payable monthly in arrear on each Transfer Date in the manner contemplated by and in accordance with the Pre-Enforcement Finance Charge Priority of Payments or, as the case may be, the Post-Enforcement Priority of Payments.

*Removal or Resignation of the Servicer*

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

- (a) default is made by the Servicer in the payment on the due date of any payment due and payable by it under this Agreement and such default continues unremedied for a period of five (5) Business Days after receiving written notice of such default;

- (b) default is made by the Servicer in the performance or observance of any of its other covenants and obligations under the Servicing and Cash Management Agreement, which in the reasonable opinion of the Issuer (prior to the delivery of a Note Enforcement Notice) or the Security Trustee (after the delivery of a Note Enforcement Notice and as directed by the Note Trustee) is materially prejudicial to the interests of the Noteholders and such default continues unremedied for a period of sixty 60 days after becoming aware of such default;
- (c) the occurrence of an Insolvency Event in relation to the Servicer;
- (d) it is or will become unlawful for the Servicer to perform or comply with any of its obligations under the Servicing and Cash Management Agreement; or
- (e) the Servicer is prevented or severely hindered for a period of 60 Business Days or more from complying with its obligations under the Servicing and Cash Management Agreement as a result of a Force Majeure Event and such Force Majeure Event continues for 30 Business Days after written notice of such Force Majeure Event has been given by the Servicer to the Issuer and the Security Trustee,

and the Issuer is of the opinion, after due consideration and acting reasonably, that the appointment of the Servicer should be terminated,

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

**"Force Majeure Event"** means an event beyond the reasonable control of the person affected including strike, lock out, labour dispute, act of God, war, riot, civil commotion, malicious damage, accident, breakdown of plant or machinery, computer software, hardware or system failure, fire, flood and/or storm and other circumstances affecting the supply of goods or services.

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

#### *Liability of the Servicer*

The Servicer will indemnify each of the Issuer and the Security Trustee for any loss, liability, claim, expense or damage suffered or incurred by it in respect of the negligence or wilful default by the Servicer in carrying out its functions as Servicer under, or as a result of a breach by the Servicer of, the terms and provisions of the Servicing and Cash Management Agreement or such other transaction document to which the Servicer is a party (in its capacity as such) in relation to such functions.

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

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

- (a) apply, or cause to be applied Finance Charge Collections in accordance with the Pre-Enforcement Finance Charge Priority of Payments and Principal Collections in accordance with the applicable Pre-Enforcement Principal Priority of Payments; and
- (b) make withdrawals from the Cash Reserve Fund as and when required.

**"Available Finance Charge Collections"** means an amount with respect to any Monthly Period equal to the product of the Investor Floating Percentage and all Finance Charge Collections credited to the Finance Charge Collections Ledger for such Monthly Period, (ii) any Reserve Drawing and (iii) any interest earned in respect of the Control Account and the Issuer Collection Account.

**"Available Investor Principal Amounts"** means an amount with respect to any Monthly Period equal to the product of the Investor Floating Percentage or the Investor Fixed Percentage, as applicable, and all Principal Collections credited to the Principal Collections Ledger for such Monthly Period.

**"Reserve Drawing"** means a drawing from the Cash Reserve Fund.

In addition, the Cash Manager will:

- (a) maintain the following ledgers (the "**Ledgers**") on behalf of the Issuer:
  - (i) the "**Scheduled Finance Charge Collections Ledger**", which records all Scheduled Finance Charge Collections in the Control Account;
  - (ii) the "**Scheduled Principal Collections Ledger**", which records all Scheduled Principal Collections in the Control Account;
  - (iii) the "**Finance Charge Collections Ledger**", which records all Finance Charge Collections transferred to the Issuer Collection Account and the distribution of Finance Charge Collections in accordance with the Pre-Enforcement Finance Charge Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);
  - (iv) the "**Principal Collections Ledger**", which records all Principal Collections transferred to the Issuer Collection Account and the distribution of the Principal Collections in accordance with the Pre-Enforcement Principal Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);
  - (v) the "**Ineligible Transferor Deferred Purchase Price Ledger**", which records all amounts on Ineligible Collections received into the Control Account;
  - (vi) the "**Incorrect Payments Ledger**", which records all amounts of Incorrect Payments into the Control Account;
  - (vii) the "**Cash Reserve Ledger**", which records amounts credited to the cash reserve fund (the "**Cash Reserve Fund**") from the proceeds of the Initial Cash Reserve Advance of the Subordinated Loan Facility Agreement and from Available Finance Charge Collections in accordance with the Pre-Enforcement Finance Charge Priority of Payments on each Transfer Date (see "**Credit Structure — Cash Reserve Fund**" below);
  - (viii) the "**Principal Deficiency Ledger**", comprises two sub-ledgers - the "**Class A Principal Deficiency Ledger**" relating to the Class A Notes and the "**Class B Principal Deficiency Ledger**" relating to the Class B Notes records Investor Default Amounts. The Principal Deficiency Ledger will record as a credit Available Finance Charge Collections applied pursuant to items (vi) and (viii) of the Pre-Enforcement Finance Charge Priority of Payments (if any) (which amounts shall, for the avoidance of doubt, eliminate any debit thereon and thereafter form part of Available Investor Principal Amounts);
  - (ix) the "**Swap Collateral Ledger**", which records any amounts transferred to the Issuer by the Swap Counterparty as collateral pursuant to the Interest Rate Swap Agreement;
  - (x) the "**Issuer Profit Ledger**", which records amounts representing the profit of the Issuer retained by the Issuer pursuant to item (xii) of the Pre-Enforcement Finance Charge Priority of Payments or item (x) of the Post Enforcements Priority of Payments; and
  - (xi) the "**Interest Distribution Retention Ledger**", which records amounts of interest retained during each Interest Period for distribution on each Interest Payment Date;

- (xii) the "**Principal Distribution Retention Ledger**", which records amounts of principal retained during each Interest Period for distribution on each Interest Payment Date;
- (b) calculate on each Transfer Date the amount of Available Finance Charge Collections and Available Investor Principal Amounts to be applied on the relevant Transfer Date;
- (c) provide the Issuer, the Transferor, the Security Trustee and the Rating Agencies with monthly reports in relation to the Securitised Portfolio; and
- (d) invest moneys standing from time to time to the credit of the Control Account and the Issuer Collection Account in Permitted Investments as determined by the Issuer or by the Servicer subject to the following provisions:
  - (i) any such Permitted Investment shall be made in the name of the Issuer;
  - (ii) any costs properly and reasonably incurred in making and changing Permitted Investments will be reimbursed to the Cash Manager by the Issuer; and
  - (iii) all income and other distributions arising on, or proceeds following the disposal or maturity of, Permitted Investments shall be credited to the relevant Bank Account.

*Remuneration of Cash Manager*

The Cash Manager receives a fee for its cash management services under the Servicing and Cash Management Agreement. The Cash Manager receives a cash management fee of £250,000 per annum (inclusive of VAT, if any). An amount equal to the portion of the Cash Management Fee payable by the Issuer to the Cash Manager (with respect to each Transfer Date) is called the "**Investor Cash Management Fee Amount**" and shall equal one-twelfth of the product of (A) the Investor Floating Percentage and (B) £250,000.

An amount equal to the portion of the Cash Management Fee (with respect to any Monthly Period) which the Issuer has not paid is called the "**Transferor Cash Management Fee Amount**". The Transferor Cash Management Fee Amount shall be paid to the Cash Manager by using amounts of Finance Charge Collections which are not Available Finance Charge Collections.

The fee is payable monthly in arrear on each Transfer Date in the manner contemplated by and in accordance with the Pre-Enforcement Finance Charge Priority of Payments or, as the case may be, the Post-Enforcement Priority of Payments.

*Termination of Appointment of Cash Manager*

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

- (a) default is made by the Cash Manager in the payment on the due date of any payment due and payable by it under this Agreement and such default continues unremedied for a period of five (5) Business Days after receiving written notice of such default;
- (b) default is made by the Cash Manager in the performance or observance of any of its other covenants and obligations under the Servicing and Cash Management Agreement, which in the reasonable opinion of the Issuer (prior to the delivery of a Note Enforcement Notice) or the Security Trustee (after the delivery of a Note Enforcement Notice and as directed by the Note Trustee) is materially prejudicial to the interests of the Noteholders and such default continues unremedied for a period of sixty 60 days after becoming aware of such default;
- (c) the occurrence of an Insolvency Event in relation to the Cash Manager;
- (d) it is or will become unlawful for the Cash Manager to perform or comply with any of its obligations under the Servicing and Cash Management Agreement; or
- (e) the Cash Manager is prevented or severely hindered for a period of 60 Business Days or more from complying with its obligations under the Servicing and Cash Management Agreement as a result of a Force Majeure Event and such Force Majeure Event continues for 30 Business Days

after written notice of such Force Majeure Event has been given by the Cash Manager to the Issuer and the Security Trustee,

and the Issuer is of the opinion, after due consideration and acting reasonably, that the appointment of the Cash Manager should be terminated,

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

If the appointment of the Cash Manager is terminated, the Cash Manager must deliver customer files relating to the Designated Agreements to, or at the direction of, the Issuer or the Security Trustee. The Servicing and Cash Management Agreement will terminate when the Issuer ceases to have any interest in the Receivables.

#### *Liability of the Cash Manager*

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

#### *Governing law*

The Servicing and Cash Management Agreement is governed by English law.

#### **Deed of Charge**

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

#### *Security*

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

- (a) an assignment of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's right, title, interest and benefit in and to the Transaction Documents;
- (b) an assignment of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's interest in the Receivables and each Consumer Loan Agreement;
- (c) an assignment in security over all of the Issuer's interest in the Scottish Receivables and other rights in relation to Scottish assets comprised in the Securitised Portfolio;
- (d) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof;
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Permitted Investments permitted to be made by the Issuer; and

- (f) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge but extending over all of the Issuer's property, assets, rights and revenues (whether or not the subject of fixed charges as aforesaid).

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

"Permitted Investments" means:

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

provided that in all cases either such investments (i) have a maturity date of 31 days or less and mature on or before the next following Transfer Date or (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Transfer Date, and in each case be redeemable at par and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least A-1 by S&P and P-1 by Moody's (and "A+" (long-term) by S&P and Aa3 by Moody's if the issuing or guaranteeing entity has a long-term rating).

"Transaction Documents" means the Servicing and Cash Management Agreement, the Paying Agency Agreement, the Account Bank Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge including, for the avoidance of doubt, each Scottish Supplemental Charge), the Interest Rate Swap Agreement, the Master Framework Agreement, the RSD, each Scottish Assignment and Trust, the Subordinated Loan Facility Agreement, the Note Purchase Agreement, the Trust Deed, the Call Option Agreement and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes.

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

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

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

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

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

The floating charge created by the Deed of Charge may "crystallise" and become a fixed charge over the relevant class of assets owned by the Issuer at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Deed of Charge (but in relation to Scottish assets only on receivership and winding-up), including, among other events, when a Note Enforcement Notice is served in accordance with Condition 10 (*Events of Default*). A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part but will rank behind the expenses of any administration or liquidator, the claims of preferential creditors and the beneficiaries of the prescribed part on enforcement of the Security.

#### *Pre-Enforcement Finance Charge Priority of Payments and Pre-Enforcement Principal Priority of Payments*

Prior to the Note Trustee serving a Note Enforcement Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes, declaring the Notes to be immediately due and payable, the Cash Manager (on behalf of the Issuer) shall apply moneys standing to the credit of the Issuer Collection Account as described in "*Calculations and Allocations*" below.

#### *Post-Enforcement Priority of Payments*

After the Note Trustee has served a Note Enforcement Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes, declaring the Notes to be immediately due and payable, the Security Trustee shall apply the moneys available in accordance with the Post-Enforcement Priority of Payments defined in "*Calculations and Allocations — Post-Enforcement Priority of Payments*" below.

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

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

#### *Governing Law*

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

**Other Agreements**

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



## CREDIT STRUCTURE

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

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

### 1. Credit Support for the Notes provided by Available Finance Charge Collections

It is anticipated that, during the life of the Notes, Finance Charge Collections will, assuming that all of the Receivables are fully performing, be sufficient so that the Available Finance Charge Collections will be sufficient to pay the amounts payable under items (i) to (xiii) of the Pre-Enforcement Finance Charge Priority of Payments. The actual amount of any excess will vary during the life of the Notes. A key factor determining such variation is the performance of the Securitised Portfolio.

### 2. Performance of the Securitised Portfolio

Available Finance Charge Collections may be applied (after making payments or provisions ranking higher in the Pre-Enforcement Finance Charge Priority of Payments) on each Transfer Date towards reducing any Principal Deficiency Ledger entries which may arise from Investor Default Amounts.

To the extent that the amount of Available Finance Charge Collections on each Transfer Date exceeds the aggregate of the payments and provisions required to be met in priority to item (vii) of the Pre-Enforcement Finance Charge Priority of Payments, such excess is available to replenish and increase the Cash Reserve Fund up to and including an amount equal to the Cash Reserve Required Amount.

### 3. Cash Reserve Fund

On the Closing Date, the Issuer will establish a fund called the "Cash Reserve Fund". The Cash Reserve Fund will be funded on the Closing Date from the proceeds of the issue of the Initial Cash Reserve Advance of the Subordinated Loan in the sum of £522,000,000 (being an amount equal to 20 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date). The Cash Reserve Fund will be credited to the Cash Reserve Account (with a corresponding credit to the Cash Reserve Ledger). The Issuer may invest the amounts standing to the credit of the Cash Reserve Account in Permitted Investments. The interest and other investment income – net of investment expenses and losses – earned on the investments will be retained in the Cash Reserve Fund until the next Transfer Date.

The Cash Reserve Fund will be used to fund shortfalls in Available Finance Charge Collections in the order of priority described in "*Calculations and Allocations – Pre-Enforcement Finance Charge Payments Waterfall*". On each Transfer Date, the Cash Manager will withdraw available funds on deposit in the Cash Reserve Account from such account and apply it as Available Finance Charge Collections.

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

After the Closing Date, the Cash Reserve Fund will be funded up to the Cash Reserve Required Amount from Available Finance Charge Collections and will be replenished from Available Finance Charge Collections in accordance with the provisions of the Pre-Enforcement Finance Charge Priority of Payments.

The "**Cash Reserve Required Amount**" will be an amount equal to £522,000,000 (being an amount equal to 20 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date).

If over any period of 90 consecutive days, the amount standing to the credit of the Cash Reserve Fund is less than the Cash Reserve Required Amount, a Partial Amortisation Trigger Event will occur and a Partial Amortisation Period will commence and continue until the next following Partial Amortisation Settlement Date on which funds standing to the credit of the Cash Reserve Fund are equal to or greater than the Cash Reserve Required Amount (see "*Calculations and Allocations — Partial Amortisation Period*" below).

On any Interest Payment Date on which the Notes are redeemed in full, the Cash Reserve Fund will be applied to repay the Initial Cash Reserve Advance of the Subordinated Loan only. If there are still amounts held in the Cash Reserve Fund once the Subordinated Loan has been repaid, the excess will then form part of the Available Finance Charge Collections.

4. **Principal Deficiency Ledger**

The Principal Deficiency Ledger, comprising two sub-ledgers, known as the Class A Principal Deficiency Ledger (relating to the Class A Notes) and the Class B Principal Deficiency Sub-Ledger (relating to the Class B Notes) (each a "**Principal Deficiency Ledger**"), will be established on the Closing Date in order to record any Investor Default Amounts.

On each Transfer Date, Available Finance Charge Collections standing to the credit of the Finance Charge Collections Ledger shall, after making the payments or provisions required to be met in priority to item (vi) of the Pre-Enforcement Finance Charge Priority of Payments, be applied in an amount necessary to reduce to nil the balance on the Class A Principal Deficiency Ledger. Then once the balance on the Class A Principal Deficiency Ledger is reduced to nil (in accordance with the Pre-Enforcement Finance Charge Priority of Payments) and the Cash Reserve has been funded up to the Cash Reserve Required Amount, Available Finance Charge Collections shall be applied to reduce to nil the balance on the Class B Principal Deficiency Ledger and shall then be applied to pay interest due on the Class B Notes (see "*Calculations and Allocations - Pre Enforcement Finance Charge Priority of Payments*" below).

5. **Available Funds**

To the extent that the Available Finance Charge Collections and Available Investor Principal Amounts standing to the credit of the Issuer Collection Account are sufficient on any Transfer Date, they shall be paid on that Transfer Date to the persons entitled thereto (or a relevant provision made) in accordance with the Pre-Enforcement Finance Charge Priority of Payments or the Pre-Enforcement Principal Priority of Payments, as applicable.

If, on any Interest Payment Date, there are insufficient Finance Charge Collections to pay the interest otherwise due on the Notes, then under Condition 6 (*Payments*) the Issuer will defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date. This will not constitute an Event of Default.

6. **Subordinated Loan**

The Subordinated Loan Provider will make a subordinated loan (the "**Subordinated Loan**") to the Issuer on the Closing Date pursuant to the Subordinated Loan Facility Agreement, pursuant to a subordinated loan facility consisting of two tranches. The first tranche of the Subordinated Loan (the "**Initial Expenses Advance**") will be in an amount up to £1,500,000 and will be credited to the Finance Charge Collections Ledger to be used for meeting the costs and expenses of the Issuer arising in the Initial Sale to the Issuer and other closing expenses. The second tranche of the Subordinated Loan (the "**Initial Cash Reserve Advance**") will be in an amount of £522,000,000 and will be used to fund the Cash Reserve Fund and will be credited to the Cash Reserve Account (with a corresponding credit to the Cash Reserve Ledger).

The Subordinated Loan Facility Agreement is governed by English law.

7. **Interest Rate Risk for the Notes**

The Designated Agreements pay a fixed rate of interest. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to Three-Month Sterling LIBOR.

To provide a hedge against the possible variance between:

- (a) the fixed rates of interest payable on the Designated Agreements; and
- (b) Three-Month Sterling LIBOR,

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

Under the Interest Rate Swap Agreement, on each Interest Payment Date the following amounts will be calculated:

- (a) the amount produced by applying Three-Month Sterling LIBOR plus a spread for the relevant Interest Period to the notional amount of the Interest Rate Swap (known as the "Interest Period Swap Provider Amount"); and
- (b) the amount produced by applying a rate equal to the weighted average of the fixed rates of interest payable on the Designated Agreements, for the relevant Interest Period to the notional amount of the Interest Rate Swap (known as the "Interest Period Issuer Amount").

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

- (a) if the Interest Period Swap Provider Amount is greater than the Interest Period Issuer Amount, then the Swap Counterparty will pay the difference, less the amount of interest earned in respect of the Control Account during such Interest Period, to the Issuer;
- (b) if the Interest Period Issuer Amount is greater than the Interest Period Swap Provider Amount, then the Issuer will pay the difference, less the amount of interest earned in respect of the Control Account during such Interest Period, to the Swap Counterparty; and
- (c) if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Swap Counterparty, that payment will be credited to the Issuer Collection Account and will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments.

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

- (a) the aggregate Principal Amount Outstanding of the Notes during the relevant Interest Period, less
- (b) the balance of the Principal Deficiency Ledger during the relevant Interest Period, less
- (c) the amount of the Principal Collections in the Issuer Collection Account during the relevant Interest Period.

The Interest Rate Swap will terminate on the date on which the aggregate Principal Amount Outstanding of the Notes is reduced to zero. In the event that the Interest Rate Swap is terminated prior to the service of a Note Enforcement Notice or the Final Maturity Date of the Notes the Issuer shall enter into a replacement Interest Rate Swap on terms specified in the Interest Rate Swap Agreement and with a swap provider which meets the replacement swap provider criteria specified in the Interest Rate Swap Agreement. If the Issuer is unable to enter into a replacement Interest Rate Swap on such terms, this may affect amounts available to pay interest on the Notes.

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

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

- (a) if there is a failure by a party to pay amounts due under the Interest Rate Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a change of law results in the obligations of one of the parties becoming illegal;
- (d) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under an Interest Rate Swap or if certain tax representations by either the Issuer or the Swap Counterparty prove to have been incorrect or misleading in any material respect;
- (e) if the Swap Counterparty is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described above;
- (f) if the Note Trustee serves a Note Enforcement Notice on the Issuer pursuant to Condition 10 (*Events of Default*) of the Notes; and
- (g) if there is a redemption of the Notes pursuant to Condition 7.2 (*Optional Early Redemption in Full of the Notes*).

Upon an early termination of the Interest Rate Swap, the Issuer or the Swap Counterparty may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated transaction as determined on the basis of quotations sought from leading dealers as to the costs of entering into a transaction with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if no quotations can be obtained and will include any unpaid amounts that became due and payable prior to the date of termination. Any such termination payment could be substantial and may affect the funds available to pay amounts due to the Noteholders.

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

If a withholding or deduction for or on account of taxes is imposed on payments made by the Issuer under an Interest Rate Swap, the Issuer shall not be obliged to gross-up those payments. Conversely, if a withholding or deduction for or on account of taxes is imposed on payments made by the Swap Counterparty under an Interest Rate Swap, the Swap Counterparty shall be obliged to gross up those payments. The Interest Rate Swap may be terminated in such circumstances provided that certain conditions are met.

The Interest Rate Swap Agreement is governed by English law.

For the purposes of the above provisions, "Required Swap Rating" means that the rating where the unsecured and unsubordinated debt obligations of the relevant entity are rated no lower than "P-2" by Moody's (short-term) and "A3" (long-term), "A-1" by S&P (short-term) (or, if the relevant entity has no short-term, unsecured and unsubordinated debt obligations which are rated by S&P or Moody's, then "A+" by S&P (long-term) and "A3" by Moody's (long-term)), as applicable or such other rating as the relevant Rating Agency confirms will not adversely affect the then current rating of the Rated Notes.

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

## CALCULATIONS AND ALLOCATIONS

### Allocation of Charge-Off Amounts

On each Transfer Date, the Cash Manager will calculate the Investor Default Amount for the preceding Monthly Period.

For the purpose of the calculation, "**Investor Default Amount**" means, with respect to any Receivable in a Defaulted Agreement, an amount equal to the product of (a) the Charge-Off Amount and (b) the Investor Floating Percentage for the Monthly Period in which such Consumer Loan Agreement became a Defaulted Agreement.

The Cash Manager will also calculate, with respect to any Receivable in a Defaulted Agreement, an amount, the "**Transferor Default Amount**", equal to the difference between the Charge-Off Amount and the Investor Default Amount. On each Transfer Date, any Transferor Default Amount will be allocable to the Transferor and will be set-off against the Transferor Deferred Purchase Price Payments payable by the Issuer.

"**Charge-Off Amount**" means the amount outstanding of a Receivable as at the date that it becomes a Charged-Off Receivable.

On each Transfer Date, any Investor Default Amount will be entered as a debit in the Class B Principal Deficiency Ledger until the debit balance of the Class B Principal Deficiency Ledger equals the Principal Amount Outstanding of the Class B Notes, following which any Investor Default Amount will be entered as a debit balance in the Class A Principal Deficiency Ledger. The Principal Deficiency Ledger will be credited with Available Finance Charge Collections on each Transfer Date (see "*Credit Structure - Principal Deficiency Ledger*" above).

### Allocation and Application of Collections

On each day during a Monthly Period, the Servicer will receive collections in respect of Receivables (the "**Collections**"). Once identified as Collections, the Collections will be transferred on a daily basis to an account in the name of the Issuer held with the Account Bank (the "**Control Account**"). It is anticipated that it will not be possible initially to identify all Collections and that some Collections may only be identified at the end of a Monthly Period.

Any Collections transferred to the Issuer in accordance with the above paragraph during a Monthly Period will be retained in the Control Account or distributed to the Transferor as Advance Payments. Amounts retained in the Control Account will be invested in Permitted Investments or to the extent specified, used to provide advance payments of Transferor Deferred Purchase Price Payments to the Transferor as specified in "*Calculations and Payments by the Cash Manager during a Monthly Period*" below.

The Cash Manager will calculate at the start of a Monthly Period the amount of Finance Charge Collections ("**Scheduled Finance Charge Collections**") and the amount of Principal Collections (the "**Scheduled Principal Collections**") due and payable during such Monthly Period. Thereafter, during that Monthly Period, the Cash Manager will treat all amounts retained in the Control Account as Finance Charge Collections and so allocate those amounts to the Scheduled Finance Charge Collections Ledger until such time as an amount equal to the amount of Scheduled Finance Charge Collections for the Monthly Period has been received. All subsequent amounts received will be treated as Principal Collections during such Monthly Period and shall be allocated to the Scheduled Principal Collections Ledger. Following each Monthly Period, the Servicer will determine the amount of Finance Charge Collections and the amount of Principal Collections actually received and the Cash Manager will adjust its books and records accordingly. This has the effect that when Collections for any Monthly Period are finally allocated between Finance Charge Collections and Principal Collections, the reported amount of Finance Charge Receivables and Principal Receivables outstanding will need to be adjusted to reflect the amount of Finance Charge Collections and Principal Collections actually received and allocated.

On any Transfer Date relating to the preceding Monthly Period, once Collections are allocated between Finance Charge Collections and Principal Collections, they will be transferred from the Scheduled Finance Charge Collections Ledger and Scheduled Principal Collections Ledger of the Control Account into the relevant ledger of the Issuer collection account (the "**Issuer Collection Account**") held with a Qualified Institution (initially to be the Account Bank) in which there is established a Principal

Collections Ledger and a Finance Charge Collections Ledger to which Principal Collections and Finance Charge Collections are credited, respectively.

"**Monthly Period**" means the period from and including the first day of a calendar month to and including the last day of the same calendar month, except that the first Monthly Period will begin on and include the Closing Date and end on and include 30 April 2009.

"**Transfer Date**" means the 20<sup>th</sup> day of each calendar month commencing on the First Transfer Date, provided that if any such day is not a Business Day, the Transfer Date shall be the immediately succeeding Business Day unless it would as a result fall into the next calendar month, in which case it will be brought forward to the immediately preceding Business Day.

"**First Transfer Date**" means 20 May 2009.

"**Qualified Institution**" means an institution which at all times has a short-term unsecured debt rating of at least A-1 by S&P (or, where no short-term unsecured debt rating by S&P is available, at least A+ by S&P) and P-1 by Moody's and a long-term unsecured debt rating of at least A1 by Moody's.

#### **Ineligible Receivables, Ineligible Collections and Incorrect Payments**

The Issuer has directed the Servicer that Collections in respect of Finance Charge Receivables ("**Finance Charge Collections**") and Collections in respect of Principal Receivables ("**Principal Collections**") and other monies paid into the BOS Collection Account are to be transferred to the Control Account by the end of the Business Day on which they are identified as being in respect of Receivables. The Issuer must regard all monies in the Control Account as Collections in respect of Receivables unless the Servicer has notified the Issuer that part or all of such monies have been incorrectly paid into such account ("**Incorrect Payments**"), such amounts to be credited to the Incorrect Payments Ledger.

If, from time to time, Collections paid into the Control Account representing Collections in respect of Ineligible Receivables ("**Ineligible Collections**") have been initially considered to be Principal Collections in respect of Eligible Receivables ("**Allocated Ineligible Collections**") and incorrectly allocated in accordance with the terms of the Transaction Documents then, upon prompt notification to the Issuer by the Servicer that Allocated Ineligible Collections have been so allocated as Principal Collections in respect of Eligible Receivables, the Issuer shall credit such amount of such Ineligible Collections to a separate ledger of the Control Account called the "**Ineligible Transferor Deferred Purchase Price Ledger**", to be paid to the Transferor on the relevant Transfer Date. For the avoidance of doubt, Ineligible Collections shall be paid to the Transferor, provided that the Transferor has transferred value to the Issuer in the amount of the Outstanding Face Amount to the relevant Ineligible Receivable.

#### **Principal Collections and Finance Charge Collections**

Collections on Designated Agreements are allocated as Principal Collections, Finance Charge Collections or Ineligible Collections.

The Principal Collections, Finance Charge Collections and Charge-Off Amounts will be calculated by the Cash Manager on each Transfer Date in respect of the preceding Monthly Period.

#### **Calculations and Payments by the Cash Manager during a Monthly Period**

The Cash Manager will make the following daily (unless otherwise stated) transfers of Collections from, or on a daily basis identify and record in separate ledgers in, the Control Account in the following priority:

- (i) the amount of any Incorrect Payments notified to the Issuer not previously allocated as Collections, to an account in the name of the Transferor utilised to receive amounts owing to the Transferor from the Issuer, from time to time (the "**Transferor Payment Account**");
- (ii) the amount of Ineligible Collections notified to the Issuer not previously allocated as Finance Charge Collections, to the Transferor Payment Account;
- (iii) during the Revolving Period, an amount equal to the Scheduled Finance Charge Collections shall be retained in the Control Account during the relevant Monthly Period. An amount calculated as

equal to the product of (i) the proportion that (A) the Principal Amount Outstanding of the Notes bears to (B) the Outstanding Face Amount of all Eligible Principal Receivables at the start of the relevant Monthly Period (the "Investor Floating Percentage") and (ii) Finance Charge Collections shall be retained in the Control Account during the relevant Monthly Period, then shall, on each Transfer Date, be credited to the Finance Charge Collections Ledger of the Issuer Collection Account as Available Finance Charge Collections.

provided however, that with respect to any Monthly Period in which an Addition Date, Call Date or a Redesignation Date occurs, the Outstanding Face Amount of all Principal Receivables shall be calculated for the purposes of determining the Investor Floating Percentage as follows:

- (a) for the period from (and including) the first day of the Monthly Period to (but excluding) the Addition Date, Call Date or Redesignation Date (as applicable) an amount equal to the Outstanding Face Amount of all Eligible Principal Receivables (excluding Charged-Off Receivables) as at the close of business on the last day of the prior Monthly Period; and
- (b) for the period from (and including) the Addition Date, Call Date or Redesignation Date (as applicable) to (and including) the last day of the Monthly Period, an amount equal to the aggregate amount of Eligible Principal Receivables (excluding Charged-Off Receivables) at the beginning of the day on the related Addition Date, Call Date or Redesignation Date (as applicable), as adjusted for the Outstanding Face Amount of Principal Receivables which are Eligible Principal Receivables (excluding Charged-Off Receivables) at the beginning of such day (if any) added to, or, as the case may be, removed on such Addition Date, Call Date or Redesignation Date (as applicable);
- (iv) during the Revolving Period, amounts remaining after allocation of amounts in (i) to (iii) above will be advanced to the Transferor as advance payments ("Advance Payments") of Cash Available for Investment (to the extent required) and Transferor Deferred Purchase Price;
- (v) during the Amortisation Period (or during any Partial Amortisation Period), an amount equal to the product of (i) the Investor Floating Percentage and (ii) Finance Charge Collections shall be calculated by the Cash Manager, then shall, on each Transfer Date be credited to the Finance Charge Collections Ledger of the Issuer Collection Account as Available Finance Charge Collections
- (vi) during the Amortisation Period (or during any Partial Amortisation Period), an amount equal to the product of (i) the proportion that (a) the amount calculated by reference to the amount outstanding for the Principal Amount Outstanding of the Notes as at the start of the Amortisation Period (or Partial Amortisation Period, if applicable) bears to (b) the Outstanding Face Amount of all Eligible Principal Receivables at the start of the relevant Monthly Period (the "Investor Fixed Percentage") and (ii) Principal Collections shall be calculated by the Cash Manager, then shall, on each Transfer Date, be credited to the Principal Collections Ledger of the Issuer Collection Account as Available Investor Principal Amounts; and
- (vii) during the Amortisation Period (or during any Partial Amortisation Period), amounts remaining after allocation of amounts in (i) and (ii) above will be retained in the relevant ledger of the Control Account until the following Transfer Date at which time all Principal Collections shall be credited to the Principal Collections Ledger of the Issuer Collection Account and all Finance Charge Collections shall be credited to the Finance Charge Collections Ledger of the Issuer Collection Account.

"Eligible Principal Receivables" means Principal Receivables which are Eligible Receivables.

#### **Application of Cash Available for Investment on a Transfer Date**

During the Revolving Period, Scheduled Amortisation Period or any Partial Amortisation Period, the Issuer will utilise a portion of Principal Collections ("Cash Available for Investment") to fund the following amounts (however, no amounts of Cash Available for Investment are used to pay for Receivables which are notified by the Transferor to be Ineligible Receivables):



- (i) on each Transfer Date, an amount of Cash Available for Investment for the preceding Monthly Period to meet the obligations of the Issuer to make payments in respect of (*inter alia*) Receivables under Consumer Loan Agreements having its Date of Eligibility during such Monthly Period in accordance with the terms of the RSD, provided however that if, on any Transfer Date, there is insufficient Cash Available for Investment to fund the Issuer's purchase of such Receivables, the amount of the shortfall, if any, shall increase the Transferor Deferred Purchase Price by the amount of such shortfall; and
- (ii) on each Transfer Date, if the amount of Cash Available for Investment exceeds the amount of paid Receivables under Consumer Loan Agreements coming into existence during the preceding Monthly Period which are Eligible Receivables and available to be purchased by the Issuer on any Business Day, the excess amount of Cash Available for Investment will be paid to the Transferor in order to decrease the amount of the Transferor Deferred Purchase Price by the amount of such excess.

**"Outstanding Face Amount"** means, in respect of any Receivable on any date, the amount which is the outstanding amount stated to be payable in respect thereof as determined or notified by the Servicer as at the close of business on the day immediately preceding such date.

#### **Pay Out Events**

If any one of the following events (each a "Pay Out Event") occurs:

- (a) the Transferor shall consent or take any corporate action in relation to the appointment of a receiver, administrator, administrative receiver, liquidator or trustee or similar officer of it relating to all or substantially all of its revenues and assets;
- (b) proceedings shall be initiated against the Transferor under any applicable liquidation, insolvency, composition, re-organisation or similar laws for its winding-up, dissolution, administration or re-organisation (other than a solvent re-organisation) and such proceedings are not discharged within 60 days or a receiver, administrator, administrative receiver, liquidator, trustee or other similar officer of it or relating to all or substantially all of its revenues and assets is legally and validly appointed and such appointment is not discharged within 30 days;
- (c) a duly authorised officer of the Transferor shall admit in writing that the Transferor is unable to pay its debts as they fall due or the Transferor makes a general assignment or assignation in trust for the benefit of or a composition with its creditors or voluntarily suspends payment of its obligations with a view to the general readjustment or rescheduling of its indebtedness;
- (d) the Transferor shall become unable for any reason to transfer the Receivables arising on Designated Agreements to the Issuer (or, as the case may be, hold the same on trust) in the manner contemplated in the RSD;
- (e) any Servicer Termination Event has occurred which would have a Material Adverse Effect;
- (f) the average Portfolio Yield for any three consecutive Monthly Periods is less than the average Expense Rate for such period or with respect to the period from the Closing Date to the end of the third Monthly Period from the Closing Date, the average Portfolio Yield is less than the average Expense Rate for that period; or
- (g) the average Arrears Percentage for any three consecutive Monthly Periods (or with respect to the period from the Closing Date to the end of the third Monthly Period from the Closing Date) exceeds three (3) per cent.,

then a Pay Out Event will occur without any notice or action on the part of the Issuer, the Note Trustee or any Noteholder immediately upon the occurrence of such event. Different consequences in terms of actions undertaken by the Issuer will follow upon the occurrence of an Insolvency Event as set out below.

**"Portfolio Yield"** means, with respect to any Monthly Period, the annualised percentage equivalent of a fraction,

- (a) the numerator of which is an amount equal to the sum of:

- (i) the amount of Finance Charge Collections distributed (by credit to the Finance Charge Collections Ledger of the Issuer Collection Account) to the Issuer for such Monthly Period; less
  - (ii) the aggregate Investor Default Amounts for such Monthly Period; and
- (b) the denominator of which is the Investor Interest on the first day of such Monthly Period.

"**Investor Interest**" means, on any date of determination, an amount equal to the Principal Amount Outstanding of the Notes as reduced by an aggregate of the balances of the Class A Principal Deficiency Ledger and the Class B Principal Deficiency Ledger.

"**Expense Rate**" shall mean, with respect to any Transfer Date, the annualised percentage equivalent of a fraction, (A) the numerator of which is the aggregate of amounts payable in respect of items (i) through (v) and (ix) of the Pre-Enforcement Finance Charge Priority of Payments on such Transfer Date and (B) the denominator of which is the weighted average of the Investor Interest on each day of the Monthly Period preceding such Transfer Date.

"**Arrears Percentage**" means, with respect to any Monthly Period, the percentage equivalent of a fraction, the numerator of which is the Outstanding Face Amount of all Principal Receivables which have a Monthly Rental Income Outstanding of 3 or greater as at the last day of such Monthly Period and the denominator of which is the Outstanding Face Amount of all Principal Receivables as at the last day of such Monthly Period.

"**Material Adverse Effect**" has the meaning given to that term in the Master Framework Agreement.

"**Insolvency Official**" means, in relation to a company, a liquidator (except, in the case of the Issuer, a liquidator appointed for the purpose of a merger, reorganisation or amalgamation the terms of which have previously been approved either in writing by the Security Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of Notes), provisional or interim liquidator, administrator, administrative receiver, receiver, receiver or manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian, judicial factor or other similar officer in respect of such company or in respect of any arrangement, compromise or composition with any creditors or any equivalent or analogous officer under the law of any jurisdiction.

#### **Additional Rights Upon the Occurrence of an Insolvency Event**

If an Insolvency Event occurs in respect of the Transferor then, on such day on which such Insolvency Event occurs:

- (a) the Transferor shall immediately give notice to the Issuer of the occurrence of such Insolvency Event; and
- (b) the Transferor shall not be entitled to sell further Receivables to the Issuer.

"**Insolvency Event**" in respect of a company means:

- (a) such company is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts; or
- (b) the value of the assets of such company is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or
- (c) a moratorium is declared in respect of any indebtedness of such company; or
- (d) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (e) any corporate action, legal proceedings or other procedure or step is taken in relation to:

- (i) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any part of the undertaking or assets of such company except, in the case of the issuer, the application to the Court under paragraph 12 or the filing of notice of intention to appoint an administrator under paragraph 26 of Schedule B1 to the Insolvency Act 1986 (as amended) by the Issuer or its directors, or the appointment of an administrative receiver by the Security Trustee following any such application or notice; or
  - (ii) an encumbrancer (excluding, in relation to the Issuer, the Security Trustee or any Receiver) taking possession of the whole or any part of the undertaking or assets of such company; or
  - (iii) the making of an arrangement, composition or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such company, a reorganisation of such company, a conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protections from the creditors of such company generally other than in connection with any refinancing in the ordinary course of business or;
  - (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking of any assets of such company (excluding, in relation to the Issuer, by the Security Trustee or any Receiver); or
- (f) any procedure or step is taken, or any event occurs, analogous to those set out in (a) to (e) above, in any jurisdiction.

#### **Issuer Accounts**

Pursuant to the Account Bank Agreement, the Issuer has opened and agreed to maintain the Bank Accounts listed below, each to be operated by the Cash Manager.

#### **Control Account**

The account held with the Account Bank into which all receipts in respect of the Designated Agreements are transferred from the BOS Collection Account on a daily basis are identified as Collections by the Servicer. The Control Account will contain the Incorrect Payments Ledger into which Incorrect Payments are credited and the Ineligible Transferor Deferred Purchase Price Ledger into which the Outstanding Face Amount of Ineligible Collections is credited, such amount to be transferred to the Transferor on the relevant Transfer Date and shall contain the Scheduled Finance Charge Collections Ledger and the Scheduled Principal Collections Ledger.

#### **Issuer Collection Account**

The account held with the Account Bank into which all Finance Charge Collections and Principal Collections for a Monthly Period are transferred prior to the related Transfer Date once they are allocated in the Control Account. There are six ledgers in the Issuer Collection Account:

- (1) Finance Charge Collections Ledger — where Finance Charge Collections are retained until a Transfer Date.
- (2) Principal Collections Ledger — where Principal Collections are retained until a Transfer Date.
- (3) Principal Deficiency Ledger — which comprises two sub-ledgers - the Class A Principal Deficiency Ledger relating to the Class A Notes and the Class B Principal Deficiency Ledger relating to the Class B Notes where Investor Default Amounts are recorded.
- (4) Swap Collateral Ledger — which records any amounts transferred to the Issuer by the Swap Counterparty as collateral pursuant to the Interest Rate Swap Agreement.
- (5) Interest Distribution Retention Ledger - which records amounts of interest retained during each Interest Period for distribution on each Interest Payment Date.

- (6) **Principal Distribution Retention Ledger** — which records amounts of principal retained during each Interest Period for distribution on each Interest Payment Date.

#### **Cash Reserve Account**

The account held with the Account Bank into which all amounts in respect of the Cash Reserve Fund will be transferred and recorded in the Cash Reserve Ledger.

#### **Pre-Enforcement Finance Charge Priority of Payments**

On each Transfer Date, prior to the delivery of a Note Enforcement Notice, the Cash Manager, on behalf of the Issuer, will make the following payments from the Finance Charge Collections Ledger in respect of the preceding Monthly Period in the following order of priority:

- I. utilising amounts representing Available Finance Charge Collections:
  - (i) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
    - (A) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Note Trustee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) value added tax ("VAT") thereon as provided therein; and
    - (B) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Security Trustee under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
  - (ii) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
    - (A) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Monthly Period to them under the provisions of the Paying Agency Agreement, together with (if payable) VAT thereon as provided therein; and
    - (B) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
  - (iii) *third*, to pay amounts due to the Swap Counterparty in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Swap Counterparty Excluded Termination Amount to the extent it is not satisfied by the payment by the Issuer to the Swap Counterparty of any Replacement Swap Premium);
  - (iv) *fourth*, in or towards satisfaction *pro rata* and *pari passu* an amount equal to the class A monthly distribution amount in respect of interest on the Class A Notes shall be retained in the Issuer Collection Account and credited by the Issuer to the Interest Distribution Retention Ledger for payment on the immediately succeeding Interest Payment Date, in each case as described in "Quarterly Payments" below;
  - (v) *fifth*, an amount equal to the Investor Servicing Fee Amount to be paid to the Servicer as Investor Servicing Fee Amount and an amount equal to the Investor Cash Management Fee Amount to the Cash Manager as Investor Cash Management Fee Amount;

- (vi) *sixth*, (so long as the Class A Notes will remain outstanding following such Transfer Date) to credit the Class A Principal Deficiency Ledger in an amount sufficient to eliminate any debit thereon and thereafter to form part of Available Investor Principal Amounts;
  - (vii) *seventh*, to credit the Cash Reserve Account up to the Cash Reserve Required Amount;
  - (viii) *eighth*, (so long as the Class B Notes will remain outstanding following such Transfer Date) to credit the Class B Principal Deficiency Ledger in an amount sufficient to eliminate any debit thereon and thereafter to form part of Available Investor Principal Amounts;
  - (ix) *ninth*, in or towards satisfaction *pro rata* and *pari passu* an amount equal to the class B monthly distribution amount in respect of interest on the Class B Notes shall be retained in the Issuer Collection Account and credited by the Issuer to the Interest Distribution Retention Ledger for payment on the immediately succeeding Interest Payment Date, in each case as described in "*Quarterly Payments*" below;
  - (x) *tenth*, an amount equal to all other costs and expenses incurred by the Issuer in the immediately preceding Monthly Period;
  - (xi) *eleventh*, to pay the Swap Counterparty in respect of a Swap Counterparty Excluded Termination Amount (to the extent not satisfied by payment to the Swap Counterparty by the Issuer of any Replacement Swap Premium);
  - (xii) *twelfth*, to pay to the Issuer an amount equal to £2,800 on each Transfer Date falling on or before the Transfer Date falling in December 2009, and £100 on each Transfer Date thereafter in each case to be retained by the Issuer as profit on the Issuer Profit Ledger in respect of the business of the Issuer;
  - (xiii) *thirteenth*, to pay all amounts of interest due and accrued (if any) due to the Subordinated Loan Provider under the Subordinated Loan Facility Agreement; and
  - (xiv) *fourteenth*, the balance to be paid to the Transferor as Deferred Contingent Consideration;
2. utilising all remaining Finance Charge Collections to pay an amount equal to the Transferor Servicing Fee Amount to the Servicer as Transferor Servicing Fee Amount and an amount equal to the Transferor Cash Management Fee Amount to the Cash Manager as Transferor Cash Management Fee Amount;
  3. utilising all remaining Finance Charge Collections to be paid to the Transferor as Transferor Deferred Purchase Price Payments;
  4. utilising all remaining Finance Charge Collections after the application in 1, 2 and 3 above to be paid to the Transferor as Deferred Contingent Consideration.

Amounts paid by the Issuer as Advance Payments during a Monthly Period to which a Transfer Date relates will be netted off against the obligation of the Issuer to pay Transferor Deferred Purchase Price Payments in the Pre-Enforcement Finance Charge Priority of Payments on such Transfer Date.

#### Pre-Enforcement Principal Priority of Payments

Following the allocation of Charge-Off Amounts and application of Finance Charge Collections to the Pre-Enforcement Finance Charge Priority of Payments as described above, on each Transfer Date prior to the service of a Note Enforcement Notice, the Cash Manager will make the following payments from the Principal Collections Ledger in respect of the preceding Monthly Period:

1. utilising amounts representing Available Investor Principal Amounts:
  - (i) *first*, in or towards payment *pro rata* and *pari passu* of amounts equal to principal amounts to be paid in respect of the Class A Notes shall be retained in the Issuer

Collection Account, credited by the Issuer to the Principal Distribution Retention Ledger for payment, in each case as described in "Quarterly Payments" below;

- (ii) *second*, if there are not sufficient Finance Charge Collections to pay items (i) to (v) in the Pre-Enforcement Finance Charge Collections Priority of Payments, an amount to be retained for distribution on that Transfer Date to pay any shortfall in items (i) to (v) on the Pre-Enforcement Finance Charge Collections Priority of Payments;
  - (iii) *third*, in or towards payment *pro rata* and *pari passu* of amounts equal to principal amounts to be paid in respect of the Class B Notes shall be retained in the Issuer Collection Account and credited by the Issuer to the Principal Distribution Retention Ledger for payment on the immediately succeeding Interest Payment Date, in each case as described in "Quarterly Payments" below;
  - (iv) *fourth*, to pay all amounts of principal due (if any) due to the Subordinated Loan Provider under the Subordinated Loan Facility Agreement, provided that the Principal Amounts Outstanding in respect of the Class A Notes and Class B Notes shall have been reduced to zero; and
  - (v) *fifth*, the balance (if any) to be utilised in (2) below;
2. utilising remaining Principal Collections to make payments of Initial Purchase Price for Receivables which the Transferor sold to the Issuer in the preceding Monthly Period (Cash Available for Investment);
  3. utilising all remaining Principal Collections after the application in 1 and 2 above to make payment to the Transferor as Transferor Deferred Purchase Price Payments;
  4. utilising all remaining Principal Collections after the application in 1, 2 and 3 above to make payment to the Transferor as Deferred Contingent Consideration.

Amounts paid by the Issuer as Advance Payments during a Monthly Period to which a Transfer Date relates will be netted off against the obligation of the Issuer to pay Transferor Deferred Purchase Price Payments in the Pre-Enforcement Principal Priority of Payments on such Transfer Date.

#### **Quarterly Payments**

In respect of each Interest Payment Date, the aggregate of the payments for interest in respect of the relevant Notes credited to the Interest Distribution Retention Ledger on the Transfer Date falling on an Interest Payment Date and the two Transfer Dates immediately prior to such Interest Payment Date, shall be utilised by the Issuer to make payment on the relevant Interest Payment Date to the Swap Counterparty pursuant to the terms of the Interest Rate Swap Agreement in exchange for an amount which will be transferred by the Swap Counterparty to the Issuer Collection Account and credited to the Finance Charge Collections Ledger. Such amount shall be paid by the Issuer to the Noteholders on the relevant Interest Payment Date in accordance with and subject to the Conditions.

In respect of each Interest Payment Date, the aggregate of the payments of principal in respect of the relevant Notes credited to the Principal Distribution Retention Ledger on the Transfer Date falling on an Interest Payment Date and the two Transfer Dates immediately prior to such Interest Payment Date, shall be paid by the Issuer to the Noteholders on the relevant Interest Payment Date in accordance with and subject to the Conditions.

#### **Post Enforcement Priority of Payments**

Following the service of a Note Enforcement Notice, payments by the Issuer will be applied in the following order of priority:

- (i) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof:
  - (a) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Note

Trustee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein; and

- (b) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period, including amounts incurred in respect of enforcing or preserving title to the Security, to the Security Trustee and any Receiver under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (ii) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (a) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Monthly Period to them under the provisions of the Paying Agency Agreement, together with (if payable) VAT thereon as provided therein; and
  - (b) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (iii) *third*, to pay amounts due to the Swap Counterparty in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Swap Counterparty Excluded Termination Amount);
- (iv) *fourth*, in or towards satisfaction *pro rata* and *pari passu* an amount equal to the interest and principal payable on the Class A Notes, first to be applied as interest and then principal;
- (v) *fifth*, an amount equal to the Investor Servicing Fee Amount to be paid to the Servicer as Investor Servicing Fee Amount and an amount equal to the Investor Cash Management Fee Amount to the Cash Manager as Investor Cash Management Fee Amount;
- (vi) *sixth*, an amount equal to all other costs and expenses incurred by the Issuer;
- (vii) *seventh*, to pay the Swap Counterparty in respect of a Swap Counterparty Excluded Termination Amount;
- (viii) *eighth*, in or towards satisfaction *pro rata* and *pari passu* an amount equal to interest and principal payable on the Class B Notes, first to be applied as interest and then principal;
- (ix) *ninth*, to pay all amounts due and payable or accrued (if any) but unpaid and any amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Facility Agreement;
- (x) *tenth*, to pay to the Issuer an amount equal to £2,800 on each Transfer Date falling on or before the Transfer Date falling in December 2009, and £100 on each Transfer Date thereafter in each case to be retained by the Issuer as profit on the Issuer Profit Ledger in respect of the business of the Issuer;
- (xi) *eleventh*, to pay to the Transferor any Transferor Deferred Purchase Price Payments due and payable under the RSD; and
- (xii) *twelfth*, to pay to the Transferor any Deferred Contingent Consideration due and payable under the RSD.

### **Revolving Period**

The "Revolving Period" is the period from (and including) the Closing Date to (but excluding) the earliest of:

- (i) the day the Scheduled Amortisation Period commences (as may be extended as described below); and
- (ii) the day the Early Amortisation Period commences.

The Revolving Period shall be suspended from (and including) the date on which a Partial Amortisation Period commences and shall resume on the date from (but excluding) the date on which Partial Amortisation Period ends (see "*Calculations and Allocations — Partial Amortisation Period*" below).

The "Early Amortisation Period" is the period from (and including) the Early Amortisation Commencement Date to and including the Final Maturity Date.

### **Scheduled Amortisation Period**

Unless a Pay Out Event occurs, the "Scheduled Amortisation Period" will commence on the Scheduled Amortisation Commencement Date, unless extended with the agreement of Noteholders, and will end upon the Final Maturity Date.

During the Scheduled Amortisation Period, Principal Collections credited to the Control Account on any Business Day will be accumulated by the Issuer during each Monthly Period in the Control Account. On each Transfer Date, such collections shall be transferred to the Principal Collections Ledger of the Issuer Collection Account for distribution in accordance with the Pre-Enforcement Principal Priority of Payments. On each Interest Payment Date during the Scheduled Amortisation Period, amounts so credited to the Principal Distribution Retention Ledger will be paid by the Issuer to the Noteholders in accordance with Condition 7.1 (*Scheduled Redemption*) of the Notes.

### **Partial Amortisation Period**

A "Partial Amortisation Period" will commence, if at any time during the Revolving Period a Partial Amortisation Trigger Event occurs and will end on the earlier to occur of (a) the Amortisation Commencement Date or (b) the relevant Partial Amortisation Settlement Date on which the Partial Amortisation Trigger Event is no longer continuing.

"Partial Amortisation Trigger Event" means:

- (a) over any period of thirty consecutive days, the Transferor Deferred Purchase Price averaged over that period is less than the Minimum Transferor Deferred Purchase Price (as defined below) for that period, and the Transferor Deferred Purchase Price does not increase by the tenth Business Day following such period to a level such that the average Transferor Deferred Purchase Price is at least equal to the Minimum Transferor Deferred Purchase Price for that period; or
- (b) over any period of 90 consecutive days, the amount standing to the credit of the Cash Reserve Account is less than the Cash Reserve Required Amount.

During a Partial Amortisation Period, Scheduled Principal Collections credited to the Control Account on any Business Day will be accumulated by the Issuer during each Monthly Period in the Scheduled Principal Collections Ledger and on each Transfer Date all such Principal Collections shall be credited to the Principal Collections Ledger in the Issuer Collection Account. Once so credited, Available Investor Principal Amounts shall be utilised to meet the Class A Monthly Principal Distribution Amount and the Class B Monthly Principal Distribution Amount in accordance with the Pre-Enforcement Principal Priority of Payments.

A Partial Amortisation Period will end on the Partial Amortisation Settlement Date on which the Partial Amortisation Trigger Event is no longer continuing.

"Minimum Transferor Deferred Purchase Price" means, at any relevant date, an amount equal to 21 per cent. of the Outstanding Face Amount of all Eligible Principal Receivables relating to Designated



Agreements, provided however, that the Transferor may reduce the Minimum Transferor Deferred Purchase Price upon (a) 30 days' prior written notice to the Issuer, the Note Trustee and each Rating Agency, (b) written confirmation from each Rating Agency that such reduction will not result in the reduction or withdrawal of the ratings of each Rating Agency on the Rated Notes and (c) delivery to the Issuer and the Note Trustee of an officer's certificate stating that the Transferor reasonably believes that such reduction will not, based on the facts known to such officer at the time of such certification, then or thereafter cause a Pay Out Event or a Partial Amortisation Trigger Event to occur.

#### **Advance Payments**

During the Revolving Period amounts deposited in the Control Account on any Business Day during a Monthly Period in excess of the Scheduled Finance Charge Collections will be advanced to the Transferor on such Business Day as advance payments ("**Advance Payments**") against the obligation of the Issuer to make payments in respect of Transferor Deferred Purchase Price on the Transfer Date in respect of such Monthly Period. In the event that the Cash Manager determines that the amount of Advance Payments made during a Monthly Period exceeds the amount of Collections available to make such payments on the related Transfer Date, the Transferor shall refund the amount of the excess prior to such Transfer Date by way of payment to the Control Account. Other than as set out in the previous sentence, amounts paid to the Transferor as Advance Payments are non-refundable.

## DESCRIPTION OF THE NOTES

### General

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

The Global Note Certificates will be deposited on or about the Closing Date with a Common Depository for both Euroclear and Clearstream, Luxembourg.

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

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

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

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

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer or consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to direct the registered holder of the Notes to act in accordance with the usual procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and, if applicable, their Participants. There can be no assurance that such procedures will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Individual Note Certificates are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

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

Purchasers of Book-Entry Interests in the Notes will hold Book-Entry Interests in the Global Note Certificates relating thereto. Investors may hold their Book-Entry Interests in respect of a Global Note Certificate directly through Euroclear or Clearstream, Luxembourg, if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Global Note Certificate on behalf of their account holders through securities accounts in the respective account holders' names on Euroclear's and Clearstream, Luxembourg's respective book-entry registration and transfer systems.

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

#### **Payments on Global Note Certificates**

Payment of principal and interest on, and any other amount due in respect of, the Global Note Certificates will be made in Sterling by Deutsche Bank AG, London Branch (the "Principal Paying Agent") on behalf of the Issuer to the Clearing Systems. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the Clearing Systems in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

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

#### **Information Regarding Euroclear and Clearstream, Luxembourg**

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

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

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

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

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

#### **Redemption**

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

#### **Cancellation**

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

#### **Transfers and Transfer Restrictions**

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

#### **Issuance of Individual Note Certificates**

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

in excess thereof, in integral multiples of £1,000 up to and including £99,000 (See "*Risk Factors — Denominations*" above).

#### **Notices**

For so long as the Global Note Certificate(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, the Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Note Certificates or the Book-Entry Interests. Notices regarding the Notes may also be published in a leading newspaper having a general circulation in London (which so long as the Notes are listed on the London Stock Exchange and the rules of such Stock Exchange shall so require, is expected to be the *Financial Times*) in accordance with Condition 15 (*Notice to Noteholders*). Any notices specifying the Rate of Interest, the redemption rate, an interest amount, an amount of additional interest or of deferred interest, a principal payment or a principal amount outstanding shall be deemed to have been duly given if the information contained in such notice appears on the Relevant Screen.

## TERMS AND CONDITIONS OF THE NOTES

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

### 1. GENERAL

The £1,510,000,000 class A asset backed floating rate Notes due 2028 (the "Class A Notes") and the £1,100,000,000 class B asset backed floating rate Notes due 2028 (the "Class B Notes" and, together with the "Class A Notes", the "Notes") in each case of Handbridge Financing plc (the "Issuer") are constituted by a trust deed (the "Trust Deed") dated on or about 26 March 2009 (the "Closing Date") and made between the Issuer and Deutsche Trustee Company Limited as trustee for the Noteholders (in such capacity, the "Note Trustee"). Any reference in these terms and conditions (the "Conditions") to a "class" of Notes or of Noteholders shall be a reference to the Class A Notes or the Class B Notes, as the case may be, or to the respective holders thereof. Any reference in these Conditions to the "Noteholders" means the registered holders for the time being of the Notes, or if preceded by a particular Class or class designation of Notes, the registered holders for the time being of such class of Notes.

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

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

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

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

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

In these Conditions:

"**Amortisation Period**" means the period commencing on the earlier of the Scheduled Amortisation Commencement Date or the Early Amortisation Commencement Date and ending on the Final Maturity Date;

"**Business Day**" means:

- (a) in relation to any day falling prior to the Redenomination Date, a day on which commercial banks and foreign exchange markets settle payments in London; and

(b) in relation to any day falling on or after the Redenomination Date, a day on which the TARGET2 system is operating;

**"Euro Commencement Date"** means the date on which the United Kingdom becomes a Participating Member State;

**"Early Amortisation Period"** means the period from (and including) the Early Amortisation Commencement Date to and including the Final Maturity Date;

**"Extraordinary Resolution"** means a resolution passed at a Meeting duly convened and held in accordance with the Provisions for Meetings of Noteholders by a majority of not less than three quarters of the votes cast;

**"Final Discharge Date"** means the date on which the Note Trustee notifies the Issuer and the Secured Creditors that it is satisfied that all the Secured Amounts and/or all other moneys and liabilities due or owing by the Issuer have been paid or discharged in full;

**"First Transfer Date"** means 20 May 2009;

**"Global Note Certificate"** means the Original Global Note Certificates and any other global note certificates representing the Further Notes or any of them;

**"Individual Note Certificate"** means the Original Individual Note Certificates and any other Individual Note Certificates representing the Further Notes or any of them issued in the circumstances set out in the Trust Deed;

**"Interest Rate Swap"** means the interest rate swap which enables the Issuer to hedge the possible variance between the fixed interest rates payable on the Consumer Loans in the Securitised Portfolio and Three-Month Sterling LIBOR;

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

**"Issuer Jurisdiction"** means England and Wales (or the United Kingdom for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 16(d) (*Substitution of Issuer*)) is incorporated;

**"Liabilities"** means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including reasonable legal fees and any Taxes and penalties incurred by that person;

**"Monthly Period"** means the period from and including the first day of a calendar month to and including the last day of the same calendar month, except that the first Monthly Period will begin on and include the Closing Date and end on and include 30 April 2009;

**"Most Senior Class"** means, so long as any of the Class A Notes remain outstanding, the Class A Notes and thereafter the Class B Notes;

**"Note Certificate"** means an Original Note Certificate and any other note certificate representing Further Notes or any of them;

**"Original Global Note Certificate"** means the original global note certificate representing the Notes;

**"Original Individual Note Certificate"** means any Individual Note Certificate representing a Noteholder's entire holding of Notes;

**"Original Note Certificate"** means any Original Global Note Certificate or Original Individual Note Certificate and including any replacement Note Certificate issued pursuant to Condition 14 (*Replacement of Note Certificates*);

**"Participating Member State"** means at any time any member state of the European Union that has adopted the euro as its lawful currency in accordance with the Treaty establishing the European Communities, as amended;

**"Permitted Investments"** means:

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

**provided that** in all cases either such investments (i) have a maturity date of 31 days or less and mature on or before the next following Transfer Date or (ii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Transfer Date, and in each case be redeemable at par and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least A-1 by S&P and P 1 by Moody's (and "A+" (long-term) by S&P and Aa3 by Moody's if the issuing or guaranteeing entity has a long-term rating);

**"Principal Amount Outstanding"** means on any day:

- (a) in relation to a Note, the principal amount of that Note on the Closing Date less the aggregate amount of all Principal Payments in respect of that Note that have been paid by the Issuer to the Noteholder since the Closing Date;
- (b) in relation to a class, the aggregate of the amount in (a) in respect of all Notes outstanding in such class; and
- (c) in relation to the Notes outstanding at any time, the aggregate of the amount in (a) in respect of all Notes outstanding, regardless of class;

**"Principal Collections"** means Collections in respect of Principal Receivables;

**"Priority of Payments"** means each of the Pre-Enforcement Finance Charge Priority of Payments, the Pre-Enforcement Principal Priority of Payments and the Post-Enforcement Priority of Payments, or any of them;

**"Provisions for Meetings of Notcholders"** means the provisions contained in Schedule 4 to the Trust Deed;

**"Rated Notes"** means the Class A Notes;

**"Rating Agencies"** means Standard & Poors Rating Services, a division of the McGraw Hill Companies, Inc. and Moody's Investors Services Limited;

**"Ratings Test"** means confirmation from the Rating Agencies (or, where specified, one of them) that, in respect of any event or matter where such confirmation is required, the then current rating of the Rated Notes will not be adversely affected to the extent of being downgraded, qualified or withdrawn as a result of the relevant event or matter;

**"Receivables"** means Principal Receivables and Finance Charge Receivables;

**"Receiver"** means any receiver, manager or administrative receiver appointed in respect of the Issuer by the Security Trustee in accordance with the terms of the Deed of Charge;

**"Redenomination Date"** means an Interest Payment Date falling on or after the Euro Commencement Date on which the Issuer intends to (or does) redenominated the currency of the Notes into euro;

**"Reserved Matter"** means any proposal:



- (a) to change any date fixed for payment of principal or interest in respect of the Notes of any class, to reduce the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of any payment in respect of the Notes of any class on redemption or maturity;
- (b) (except in accordance with Condition 16(d) (*Substitution of Issuer*) and Clause 16 (*Substitution*) of the Trust Deed) to effect the exchange, conversion or substitution of the Notes of any class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (c) to change the currency in which amounts due in respect of the Notes are payable (other than pursuant to redenomination into euro);
- (d) to alter the priority of payment of interest or principal in respect of the Notes;
- (e) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution; or
- (f) to amend this definition;

**"Revolving Period"** means the period from (and including) the Closing Date to (but excluding) the earliest of:

- (a) the day the Scheduled Amortisation Period commences (as may be extended as described below); and
- (b) the day the Early Amortisation Period commences;

**"Secured Amounts"** means the aggregate of all moneys and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;

**"Secured Creditors"** means the Security Trustee, the Note Trustee, any Receiver, the Noteholders, the Transferor, the Servicer, the Cash Manager, the Swap Counterparty, the Account Bank, the Subordinated Loan Provider, the Corporate Services Provider, the Paying Agents, the Registrar, the Agent Bank and any other person who is expressed in any deed supplemental to the Deed of Charge to be a secured creditor;

**"SPV Criteria"** means the criteria established from time to time by the Rating Agencies for a single purpose company in the Issuer Jurisdiction;

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

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

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

**"Substituted Obligor"** means a single purpose company incorporated in any jurisdiction that meets the SPV Criteria;

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

**"Swap Counterparty Downgrade Event"** means the occurrence of an Additional Termination Event (as defined in the Interest Rate Swap Agreement) following the failure by the Swap

Counterparty to comply with the requirements of the ratings downgrade provisions set out in the Interest Rate Swap Agreement;

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

"**TARGET2 Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**TARGET2 system**" means the Trans European Automated Real-time Gross Settlement Express Transfer payment system which utilises a single platform and which was launched on 19 November 2007;

"**Transaction Documents**" means the Servicing and Cash Management Agreement, the RSD, the Paying Agency Agreement, the Account Bank Agreement, the Trust Deed, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge including, for the avoidance of doubt, each Scottish Supplemental Charge), the Interest Rate Swap Agreement, the Master Framework Agreement, the Corporate Services Agreement, each Scottish Assignment and Trust, the Subordinated Loan Facility Agreement, the Note Purchase Agreement, the Call Option Agreement and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes;

"**Transfer Date**" means the 20<sup>th</sup> day of each calendar month in each year commencing on the First Transfer Date, provided that if any such day is not a Business Day, the Transfer Date shall be the immediately succeeding Business Day unless it would as a result fall into the next calendar month, in which case it will be brought forward to the immediately preceding Business Day;

"**Written Resolution**" means a resolution in writing signed by or on behalf of all holders of Notes of the relevant class for the time being outstanding who for the time being are entitled to receive notice of a Meeting in accordance with the Provisions for the Meetings of Noteholders, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more such holders of the Notes.

## 2. FORM, DENOMINATION AND TITLE

### 2.1 *Form and Denomination*

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

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

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

A Global Note Certificate will be exchanged for Notes of the relevant class in definitive registered form (the "**Individual Note Certificates**") only if any of the following applies:

- (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Note Trustee is available; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof

having power to tax, or in the interpretation or administration by a revenue authority or a court or in the application of such laws or regulations, which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding for or on account of tax from any payment in respect of the Notes which would not be required were the Notes in definitive registered form.

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

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

The minimum denominations of the Notes in global and (if issued) definitive form will be £50,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000. Individual Note Certificates, if issued, will be printed and issued in minimum denominations of £50,000 and any amount in excess thereof in integral multiples of £1,000 up to and including £99,000. No Individual Note Certificates will be issued with a denomination above £99,000.

References to "Notes" in these Conditions shall, where the context so permits, include the Global Note Certificates and the Individual Note Certificates.

## 2.2 *Title*

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

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

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

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

The Notes are not issuable in bearer form.

3. **STATUS AND RELATIONSHIP BETWEEN THE NOTES, SECURITY AND PRIORITY OF PAYMENT**

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

- (a) The Notes are constituted by the Trust Deed and are direct, secured and unconditional obligations of the Issuer which will at all times rank *pari passu* without preference or priority amongst the Notes of each class.
- (b) The Class A Notes will rank in priority to the Class B Notes.
- (c) The Trust Deed and the Deed of Charge contain provisions requiring the Note Trustee and the Security Trustee, respectively, to have regard to the interests of the Class A Noteholders and the Class B Noteholders equally as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee and the Security Trustee (except where expressly provided otherwise), but requiring the Note Trustee and the Security Trustee in any such case (except in relation to Reserved Matters) to have regard only to the interests of the Most Senior Class of Notes outstanding if, in the Note Trustee's or, as the case may be, the Security Trustee's opinion, there is a conflict between the interests of the Noteholders of the Most Senior Class of Notes outstanding and the holders of the junior Notes. As long as the Notes are outstanding, the Security Trustee shall not have regard to the interests of the other Secured Creditors.
- (d) The Trust Deed and the Deed of Charge contain provisions limiting the powers of the Class B Noteholders to request or direct the Note Trustee or the Security Trustee to take any action or to pass an effective Extraordinary Resolution (as defined in the Trust Deed) according to the effect thereof on the interests of the Class A Noteholders.

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

3.2 ***Security***

As security for the payment of all monies payable in respect of the Notes and to the Secured Creditors and otherwise under the Trust Deed (including the remuneration, expenses and any other claims of the Security Trustee and any Receiver appointed under the Deed of Charge), the Issuer will enter into the Deed of Charge creating the following security ("**Security**") in favour of the Security Trustee in favour of itself and on trust for the other Secured Creditors:

- (a) an assignment by way of first fixed security of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's right, title, interest and benefit in and to the Transaction Documents;
- (b) an assignment by way of first fixed security of (and, to the extent not assigned, a charge (which may take effect as a floating charge) over) all of the Issuer's interest in the Receivables and other related rights comprised in the Securitised Portfolio;
- (c) an assignment in security over all of the Issuer's interest in the Scottish Receivables and other rights in relation to Scottish assets comprised in the Securitised Portfolio;
- (d) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in its bank accounts maintained with the Account Bank and any sums standing to the credit thereof;
- (e) a charge by way of first fixed charge (which may take effect as a floating charge) over the Issuer's interest in all Permitted Investments permitted to be made by the Issuer; and
- (f) a floating charge over all other assets of the Issuer not otherwise subject to a fixed charge but extending over all of the Issuer's property, assets, rights and revenues (whether or not the subject of fixed charges as aforesaid),

all as more particularly described in the Deed of Charge.

The Security will become enforceable upon delivery by the Note Trustee of a Note Enforcement Notice in accordance with Condition 10 (*Events of Default*) and subject to the matters referred to in Condition 11 (*Enforcement*).

In respect of property, rights and assets referred to in paragraph (c) above, fixed security will be expressed to be created over such property, rights and assets sold to the Issuer on or after the Closing Date by means of Scottish Supplemental Charges granted pursuant to the Deed of Charge.

### 3.3 **Priority of Payments**

The Trust Deed and the Deed of Charge contain provisions regulating the priority of application of amounts prior to the service of a Note Enforcement Notice. Following the service of a Note Enforcement Notice, payments shall be applied in the following order (the "**Post Enforcement Priority of Payments**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Note Trustee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period, including amounts incurred in respect of enforcing or preserving title to the Security, to the Security Trustee and any Receiver under the provisions of the Deed of Charge and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
  - (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any fees, costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Monthly Period to them under the provisions of the Paying Agency Agreement, together with (if payable) VAT thereon as provided therein; and
  - (ii) any fees, costs, charges, liabilities and expenses and all other amounts then due or to become due and payable in the immediately succeeding Monthly Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement and the other Transaction Documents together with (if payable) VAT thereon as provided therein;
- (c) *third*, to pay amounts due to the Swap Counterparty in respect of the Interest Rate Swap Agreement (including any termination payment due and payable by the Issuer but excluding any related Swap Counterparty Excluded Termination Amount);
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu* an amount equal to the interest and principal payable on the Class A Notes, first to be applied as interest and then principal;
- (e) *fifth*, an amount equal to the Investor Servicing Fee Amount to be paid to the Servicer as Investor Servicing Fee Amount and an amount equal to the Investor Cash Management Fee Amount to the Cash Manager as Investor Cash Management Fee Amount;
- (f) *sixth*, an amount equal to all other costs and expenses incurred by the Issuer;

- (g) *seventh*, to pay the Swap Counterparty in respect of a Swap Counterparty Excluded Termination Amount;
- (h) *eighth*, in or towards satisfaction *pro rata* and *pari passu* an amount equal to interest and principal payable on the Class B Notes, first to be applied as interest and then principal;
- (i) *ninth*, to pay all amounts of interest due and payable or accrued (if any) but unpaid and any amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Facility Agreement;
- (j) *tenth*, to pay to the Issuer an amount equal to £2,800 on each Transfer Date falling on or before the Transfer Date falling in December 2009, and £100 on each Transfer Date thereafter in each case to be retained by the Issuer as profit on the Issuer Profit Ledger in respect of the business of the Issuer;
- (k) *eleventh*, to pay to the Transferor any Transferor Deferred Purchase Price Payments due and payable under the RSD; and
- (l) *twelfth*, to pay to the Transferor any Deferred Contingent Consideration due and payable under the RSD.

#### 4. COVENANTS

Save with the prior written consent of the Note Trustee (which consent may be given if to do so is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders) or unless otherwise permitted under any of the Transaction Documents, the Issuer shall not, so long as any Note remains outstanding:

- (a) **Negative pledge:** create or permit to subsist any encumbrance (unless arising by operation of law) or other security interest whatsoever over any of its assets or undertaking;
- (b) **Restrictions on activities:** (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities of which the Transaction Documents provide or envisage that the Issuer will engage or (ii) have any subsidiaries, any subsidiary undertaking (as defined in the Companies Act 1985 and the Companies Act 2006 (as applicable)) or any employees (but shall procure that, at all times, it shall retain at least one independent director) or premises;
- (c) **Disposal of assets:** transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (d) **Equitable Interest:** permit any person, other than itself and the Security Trustee, to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (e) **Dividends or distributions:** pay any dividend or make any other distribution to its shareholders or issue any further shares save from Issuer retained profit payable pursuant to item (xii) of the Pre-Enforcement Finance Charge Priority of Payments and item (x) of the Post-Enforcement Priority of Payments;
- (f) **Indebtedness:** incur any financial indebtedness or give any guarantee in respect of any financial indebtedness or of any other obligation of any person;
- (g) **Merger:** consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (h) **No modification or waiver:** permit any of the Transaction Documents to which it is a party to become invalid or ineffective or permit the priority of the security interests created or evidenced thereby or pursuant thereto to be varied or agree to any modification of, or grant any consent, approval, authorisation or waiver pursuant to, or in

connection with, any of the Transaction Documents to which it is a party or permit any party to any of the Transaction Documents to which it is a party to be released from its obligations or exercise any right to terminate any of the Transaction Documents to which it is a party;

- (i) **Bank accounts:** have an interest in any bank account other than the Bank Accounts or any bank account opened in accordance with the Transaction Documents, unless such account or interest therein is charged to the Security Trustee on terms acceptable to the Security Trustee; or
- (j) **US activities:** engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

## 5. INTEREST

### 5.1 *Interest Accrual*

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

### 5.2 *Interest Payment Dates*

Interest on the Notes is payable quarterly in arrear on the 20th day of January, April, July and October in each year (or, if such day is not a Business Day, the next succeeding Business Day) (each such day an "Interest Payment Date").

To the extent that amounts standing to the credit of the Issuer Collection Account calculated in accordance with the Servicing and Cash Management Agreement on an Interest Payment Date are insufficient to pay the full amount of interest on any class of Notes on such Interest Payment Date, payment of the interest shortfall ("Deferred Interest"), which will be borne by each Note of the relevant class in a proportion equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of the relevant class of Notes (as determined on the Interest Payment Date on which such Deferred Interest arises), will be deferred until the earliest Interest Payment Date occurring thereafter on which funds are available to the Issuer to pay such Deferred Interest to the extent of amounts standing to the credit of the Interest Distribution Retention Ledger or until the service of a Note Enforcement Notice or the Final Maturity Date. Such Deferred Interest will accrue interest ("Additional Interest") at the then current Rate of Interest and payment of any Additional Interest will also be deferred until the earliest Interest Payment Date thereafter on which funds are available to the Issuer to pay such Additional Interest to the extent of amounts standing to the credit of the Interest Distribution Retention Ledger.

Each period beginning on (and including) the Closing Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date is herein called an "Interest Period"; provided, however, that with respect to an Interest Period that commences during the Revolving Period and ends during the Amortisation Period, such Interest Period will end on the originally scheduled Interest Payment Date. The first interest payment will be made on the Interest Payment Date falling in July 2009 (or if 20 July 2009 is not a Business Day, the next succeeding Business Day) in respect of the Interest Period from (and including) the Closing Date to (but excluding) 20 July 2009 (or if 20 July 2009 is not a Business Day, the next succeeding Business Day).

Interest will cease to accrue on any part of the Principal Amount Outstanding of a Note from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 5 (*Interest*) (as well after as before judgment) until whichever is the earlier of (i) the

day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Note Trustee has notified the relevant Noteholders either in accordance with Condition 15 (*Notice to Noteholders*) or individually that it has received all sums due in respect of the relevant Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

### 5.3 **Rate of Interest**

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

- (a) the rate of interest payable shall be a floating rate of interest calculated in accordance with paragraphs (i), (ii) and (iii) below:
  - (i) on the initial Determination Date (as defined below), the Agent Bank will determine the Initial Relevant Screen Rate as at or about 11.00 a.m. (London time) on that date. If the Initial Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month and four-month Sterling deposits of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on such initial Determination Date and the Rates of Interest for the first Interest Period shall be the aggregate of (A) the Relevant Margin and (B) the Initial Relevant Screen Rate, or, if the Initial Relevant Screen Rate is unavailable, the linear interpolation of the arithmetic mean of such offered quotations for three-month and four-month Sterling deposits (rounded upwards, if necessary, to five decimal places);
  - (ii) on each subsequent Determination Date, the Agent Bank will determine the Relevant Screen Rate as at or about 11.00 a.m. (London time) on the Determination Date in question. If the Relevant Screen Rate is unavailable, the Agent Bank will request the principal London office of each of the Reference Banks to provide the Agent Bank with its offered quotation to leading banks for three-month Sterling deposits of £10,000,000 in the London interbank market as at or about 11.00 a.m. (London time) on the relevant Determination Date and the Rates of Interest for the relevant Interest Period shall be the aggregate of (A) the Relevant Margin and (B) the Relevant Screen Rate or, if the Relevant Screen Rate is unavailable, the arithmetic mean of such offered quotations for three-month Sterling deposits (rounded upwards, if necessary, to five decimal places); and
  - (iii) if, on any Determination Date, the Relevant Screen Rate is unavailable and only two or three of the Reference Banks provide offered quotations, the Rates of Interest for the relevant Interest Period shall be determined in accordance with the provisions of subparagraphs (i) and (ii) above on the basis of the offered quotations of those Reference Banks providing such quotations. If, on any such Determination Date, only one or none of the Reference Banks provides the Agent Bank with such an offered quotation, the Agent Bank shall forthwith consult with the Note Trustee and the Issuer for the purposes of agreeing two banks (or, where one only of the Reference Banks provided such a quotation, one additional bank) to provide such a quotation or quotations to the Agent Bank and the Rates of Interest for the Interest Period in question shall be determined, as aforesaid, on the basis of the offered quotations of such banks as so agreed (or, as the case may be, the offered quotations of such bank as so agreed and the relevant Reference Bank). If no such bank or banks is or are so agreed or such bank or banks as so agreed does or do not provide such a quotation or quotations, then the Rates of Interest for the relevant Interest Period shall be the Rates of Interest in effect for the last preceding Interest Period to which subparagraph (i) or (ii), as the case may be, shall have applied but, taking account of any change in the Relevant Margin.



There will be no minimum or maximum Rate of Interest;

- (b) in these Conditions (except where otherwise defined):
- (i) **"Initial Relevant Screen Rate"** means the linear interpolation of the arithmetic mean of the offered quotations to leading banks for 3-month Sterling deposits and the arithmetic mean of the offered quotations to leading banks for 4-month Sterling deposits (in each case) (rounded upwards, if necessary, to five decimal places), displayed on the Reuters Screen page LIBOR01 (or such replacement page on that service which displays the information) or, if that service ceases to display the information, such other screen service as may be determined by the Issuer with the approval of the Note Trustee;
  - (ii) **"Relevant Margin"** means for the Class A Notes, 0.10 per cent. per annum and for the Class B Notes, 0.25 per cent. per annum;
  - (iii) **"Relevant Screen Rate"** means:
    - (A) in respect of the first Interest Period, the Initial Relevant Screen Rate, if any; and
    - (B) in respect of subsequent Interest Periods, the arithmetic mean of offered quotations for three-month Sterling deposits in the London interbank market displayed on the Reuters Screen page LIBOR01 (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;
  - (iv) **"Reference Banks"** means, prior to the Redenomination Date, the principal London office of each of four major banks engaged in the London interbank market selected by the Agent Bank with the approval of the Issuer, and after the Redenomination Date, the principal Euro zone office of four major banks in the Euro zone interbank market selected by the Agent Bank with the approval of the Issuer, **provided that**, once a Reference Bank has been selected by the Agent Bank, that Reference Bank shall not be changed unless and until it ceases to be capable of acting as such; and
  - (v) **"Determination Date"** means
    - (A) prior to the Redenomination Date, each Interest Payment Date or, in the case of the first Interest Period, the Closing Date; and
    - (B) on or after the Redenomination Date, each day which is two TARGET2 Settlement Days prior to an Interest Payment Date,

and, in relation to an Interest Period, the related Determination Date means, on or prior to the Redenomination Date, the Determination Date which falls on the first day of such Interest Period and, after the Redenomination Date, the Determination Date immediately preceding the commencement of such Interest Period.

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

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

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

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

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

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

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

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

5.8 ***Agent Bank***

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

6. **PAYMENTS**

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

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

6.2 **Laws and Regulations**

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

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

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

6.4 **Change of Paying Agents**

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

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

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

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

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

6.6 **Partial Payment**

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

6.7 **Payment of Interest**

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

7. **REDEMPTION**

7.1 **Scheduled Redemption**

On each Interest Payment Date following the Amortisation Commencement Date, each Note shall, subject to Condition 7.2 (*Optional Early Redemption in Full*) and Condition 7.3 (*Partial Redemption*), be repaid to the extent of amounts standing to the credit of the Principal Distribution Retention Ledger sequentially in the following order of priority:

- (a) first, in or towards repayment *pro rata* and *pari passu* of the Class A Notes; and

- (b) second, in or towards repayment *pro rata* and *pari passu* of the Class B Notes.

7.2 **Optional Early Redemption in Full**

On any Interest Payment Date falling on or after the first Interest Payment Date (the "Call Date") and upon giving not more than 60 nor less than 30 days' prior written notice to the Note Trustee and the Noteholders (in accordance with Condition 15 (*Notice to Noteholders*)), the Issuer may redeem all (but not some only) of the Notes then outstanding at their Principal Amount Outstanding together with accrued interest (including Deferred Interest and Additional Interest) thereon, **provided that**, prior to giving such notice, (i) the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the Notes on such Interest Payment Date as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with the Notes in accordance with the relevant Priority of Payments and (ii) the Note Trustee is satisfied in accordance with the terms of the Transaction Documents that there are sufficient funds to allow the Issuer to redeem the Notes.

7.3 **Partial Redemption**

The Notes may be redeemed in part on each Interest Payment Date falling during a Partial Amortisation Period (each, a "**Partial Amortisation Settlement Date**") on the Issuer's giving not less than 30 nor more than 60 days' notice to the Note Trustee and the Noteholders in accordance with Condition 15 (*Notice to Noteholders*) (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes on the relevant Partial Amortisation Settlement Date at such price as indicated in the notice plus accrued interest to such date). A Partial Amortisation Period shall commence on the occurrence of a Partial Amortisation Trigger Event and will continue until the Partial Amortisation Settlement Date on which the Partial Amortisation Trigger Event is no longer continuing on that Partial Amortisation Settlement Date.

Each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Partial Amortisation Settlement Date bears to the aggregate principal amount of outstanding Notes on such date.

"**Partial Amortisation Trigger Event**" means:

- (i) over any period of 30 consecutive days, the Transferor Deferred Purchase Price averaged over that period is less than the Minimum Transferor Deferred Purchase Price for that period, and the Transferor Deferred Purchase Price does not increase by the tenth Business Day following such period to a level such that the average Transferor Deferred Purchase Price is at least equal to the Minimum Transferor Deferred Purchase Price for that period; or
- (ii) over any period of 90 consecutive days, the amount standing to the credit of the Cash Reserve Account is less than the Cash Reserve Required Amount.

7.4 **Final Redemption**

If the Notes have not previously been redeemed in full pursuant to this Condition 7 (including in any case where any interest (including Deferred Interest and Additional Interest) thereon has not earlier been paid), the Notes will be finally redeemed at their then Principal Amount Outstanding together with accrued interest (including Deferred Interest and Additional Interest) thereon on the Interest Payment Date falling in July 2028 (the "**Final Maturity Date**").

7.5 **Other Redemption**

The Issuer shall not be entitled to redeem the notes otherwise than as provided in paragraphs 7.1, 7.2, 7.3 and 7.4 above.

7.6 **Purchase**

The Issuer may not, at any time, purchase the Notes in the open market or otherwise.

7.7 **Cancellation**

All Notes redeemed pursuant to the foregoing provisions shall be cancelled forthwith and may not be reissued or resold.

8. **TAXATION**

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

9. **PRESCRIPTION**

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

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

10. **EVENTS OF DEFAULT**

The Note Trustee at its absolute discretion may, and if so directed in writing by the holders of at least 25% in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if so directed by an Extraordinary Resolution of the Most Senior Class of Notes, shall (subject, in each case, to being indemnified and/or secured and/or pre-funded to its satisfaction), give notice (a "**Note Enforcement Notice**") to the Issuer that all classes of the Notes are immediately due and repayable at their respective Principal Amounts Outstanding, together with accrued interest as provided in the Trust Deed, in any of the following events (each, an "**Event of Default**"):

- (a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of three days in the case of principal or five days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions or any Transaction Document to which it is a party and (except in any case where the Note Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for a period of 30 days (or such longer period as the Note Trustee may permit) following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied and the Note Trustee has certified in writing to the Issuer that such event is, in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes; 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 Resolutions of the Most Senior Class of Notes then outstanding; 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 Most Senior Class of Notes then outstanding, 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

- (c) if (i) proceedings are initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, application to the court for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) or an administration order is granted or the appointment of an administrator takes effect or an administrative or other receiver, manager or other similar official is appointed, in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer or an encumbrancer takes possession of the whole or any part of the undertaking or assets of the Issuer, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of the Issuer and (ii) in the case of any such possession or any such last-mentioned process, unless initiated by the Issuer, is not discharged or otherwise ceases to apply within 14 days; or
- (f) if the Issuer (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or makes a conveyance, assignment 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).

Upon the service of a Note Enforcement Notice by the Note Trustee in accordance with this Condition 10, all the Notes then outstanding shall thereby immediately become due and repayable at their respective Principal Amount Outstanding, together with accrued interest as provided in the Trust Deed.

## 11. ENFORCEMENT

### 11.1 *Proceedings*

The Note Trustee may, at its discretion and without further notice, institute such proceedings or take such action as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes of each class and the other Transaction Documents, but it shall not be bound to do so unless:

- (a) so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes; or
- (b) so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of outstanding Notes;

and in any such case, only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction.

### 11.2 *Directions to the Note Trustee*

If the Note Trustee shall take any action described in Condition 11.1 it may take such action without having regard to the effect of such action on individual Noteholders or any other Secured Creditor, **provided that** so long as any of the Most Senior Class of Notes are outstanding, the Note Trustee shall not, and shall not be bound to, act at the request or direction of the Noteholders of any other class of Notes unless:

- (a) to do so would not, in its opinion, be materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes; or

- (b) (if the Note Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Most Senior Class of Notes.

11.3 ***Restrictions on Disposal of Issuer's Assets***

If a Note Enforcement Notice has been delivered by the Note Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Security Trustee will not be entitled to dispose of any of the assets of the Issuer subject to the Security or any part thereof unless either:

- (a) a sufficient amount would be realised to allow payment in full of all amounts owing to the Noteholders of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; or
- (b) the Security Trustee is of the opinion, which shall be binding on the Noteholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Security Trustee (and, if the Security Trustee is unable to obtain such advice having made reasonable efforts to do so, this Condition 11.3(b) shall not apply) that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments.

The Security Trustee shall not be bound to make the determination contained in Condition 11.3(b) unless the Security Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction.

11.4 ***No action by Noteholders or any other Secured Creditor***

Only the Note Trustee or the Security Trustee, as applicable, may pursue the remedies available under the general law or under the Trust Deed or the Deed of Charge to enforce the Security and no Noteholder or other Secured Creditor shall be entitled to proceed directly against the Issuer to enforce the Security. In particular, none of the Noteholders or any other Secured Creditor (nor any person on its or their behalf, other than the Note Trustee or Security Trustee, where appropriate) are entitled:

- (a) otherwise than as permitted by these Conditions, to direct the Note Trustee or the Security Trustee, as applicable, to enforce the Security or take any proceedings against the Issuer to enforce the Security; or
- (b) to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due by the Issuer to the Noteholders or the Secured Creditors; or
- (c) until the date falling two years after the Final Discharge Date, to initiate or join any person in initiating any Insolvency Proceeding in relation to the Issuer; or
- (d) to take or join any person in taking any steps or proceedings which would result in the Priority of Payments not being observed.

11.5 ***Limited Recourse***

If at any time following:

- (a) the occurrence of either:
  - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each class are due and payable; or
  - (ii) the service of a Note Enforcement Notice; and

- (b) Realisation of the Security and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable priority (or priorities) of payments

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable priority (or priorities) of payments, to pay in full all amounts then due and payable under any class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (ii) above) under such class of Notes (and any class of Notes junior to that class of Notes) shall, on the day following such application in full of the amounts referred to in (ii) above, cease to be due and payable by the Issuer.

For the purposes of this Condition 11.5, "Realisation" means, in relation to any Security, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Security including (without limitation) through sale or through performance by an obligor.

## 12. MEETINGS OF NOTEHOLDERS

### 12.1 *Meetings of Noteholders*

- (a) *Convening:* The Trust Deed contains provisions for convening separate or combined meetings of Noteholders of any class to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed.
- (b) *Separate and combined meetings:* The Trust Deed provides that:
- (i) an Extraordinary Resolution which in the opinion of the Note Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;
  - (ii) an Extraordinary Resolution which in the opinion of the Note Trustee affects the Noteholders of more than one class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one class of Notes and the holders of another class of Notes shall be transacted either at separate meetings of the Noteholders of each such class or at a single meeting of the Noteholders of all such classes of Notes as the Note Trustee shall determine in its absolute discretion; and
  - (iii) an Extraordinary Resolution which in the opinion of the Note Trustee affects the Noteholders of more than one class and gives rise to any actual or potential conflict of interest between the Noteholders of one class of Notes and the Noteholders of any other class of Notes shall be transacted at separate meetings of the Noteholders of each such class.
- (c) *Request from Noteholders:* A meeting of Noteholders of a particular class may be convened by the Note Trustee or the Issuer at any time and must be convened by the Note Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than ten per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that class.
- (d) *Quorum:* The quorum at any meeting convened to vote on:
- (i) an Extraordinary Resolution, other than regarding a Reserved Matter, relating to a meeting of a particular class or classes of the Notes will be one or more persons holding or representing a majority of the Principal Amount Outstanding of the outstanding Notes of that class or those classes or, at any adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the outstanding Notes of such class or classes so held or represented by it or them; and



- (ii) an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be one or more persons holding or representing in the aggregate at least 75 per cent. of the Principal Amount Outstanding of the outstanding Notes of the relevant class or classes or, at any adjourned meeting, one or more persons holding or representing not less than in the aggregate 33 1/3 per cent. of the Principal Amount Outstanding of the outstanding Notes of the relevant class or classes.
- (c) *Relationship between Classes:*
- In relation to each class of Notes:
- (i) no Extraordinary Resolution involving a Reserved Matter that is passed by the holders of one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of the other class of Notes (to the extent that there are outstanding Notes in such other class);
  - (ii) no Extraordinary Resolution to approve any matter other than a Reserved Matter of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of the Most Senior Class of Notes unless (x) such class is then the Most Senior Class of Notes or (y) the Note Trustee considers in its sole discretion that the interests of the holders of each of the other classes of Notes ranking senior to such class would not be materially prejudiced by such Extraordinary Resolution; and
  - (iii) any resolution passed at a Meeting of Noteholders of one or more classes of Notes duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such class or classes, whether or not present at such Meeting and whether or not voting and, except in the case of a meeting relating to a Reserved Matter, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes.

*Resolutions in writing:* A Written Resolution shall take effect as if it were an Extraordinary Resolution.

## 12.2 **Modification and Waiver**

- (a) *Modification:* The Note Trustee may, at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, concur with the Issuer and any other relevant parties in making:
  - (i) any modification to these Conditions, the Trust Deed, the Notes or the other Transaction Documents in relation to which its consent is required which, in the opinion of the Note Trustee, is not materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding; or
  - (ii) any modification to these Conditions, the Trust Deed, the Notes or the other Transaction Documents, in relation to which its consent is required, if, in the opinion of the Note Trustee, such modification is of a formal, minor or technical nature, or is made to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven.
- (b) *Waiver:* In addition, the Note Trustee may, without the consent of the Noteholders or any other Secured Creditor concur with the Issuer or any other relevant parties in authorising or waiving any proposed breach or breach of the covenants or provisions contained in the Trust Deed, the Notes or any of the other Transaction Documents (including an Event of Default) if, in the opinion of the Note Trustee, the interests of the holders of the Most Senior Class of outstanding Notes are not materially prejudiced by such waiver.

- (c) *Restriction on power to modify or waive:* The Note Trustee shall not exercise any powers conferred upon it by this Condition 12.2 in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes, but so that no such direction or request shall affect any modification, authorisation, waiver or determination previously given or made.
- (d) *Regard to Interests of Noteholders:* Where, in connection with the exercise or performance by each of them of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents (including, without limitation, in relation to any modification, waiver, authorisation, determination as referred to above), the Note 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 shall not be entitled to require, nor shall any Noteholder be entitled to claim from the Issuer or the Note Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders.
- (e) *Notification:* Unless the Note Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification or determination to be notified to the Noteholders and the other Secured Creditors in accordance with Condition 15 (*Notice to Noteholders*) and the Transaction Documents, as soon as practicable after it has been made.
- (f) *Binding Nature:* Any authorisation, waiver, determination or modification referred to in Condition 12.2 shall be binding on the Noteholders and the other Secured Creditors.

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

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

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

14. **REPLACEMENT OF NOTE CERTIFICATES**

If any Note 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 Note Certificate will only be made on payment of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. A mutilated or defaced Note Certificate must be surrendered before a new one will be issued.

15. **NOTICE TO NOTEHOLDERS**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times). Any such notice shall be deemed to have been given on the date of first publication.

Until such time as any Individual Note Certificates are issued, there may, so long as the Global Note Certificate(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg, be substituted for such publication in such newspaper the delivery of the relevant notice to Euroclear, Clearstream, Luxembourg, for communication by them to the Noteholders. Any such notice shall be deemed to have been given to the holders of the relevant Notes on the day after the day on which such notice was given to Euroclear and/or Clearstream, Luxembourg (as applicable).

Any notices specifying the Rate of Interest, the redemption rate, an interest amount, an amount of additional interest or of deferred interest, a principal payment or a principal amount outstanding shall be deemed to have been duly given if the information contained in such notice appears on the relevant page of the Reuters Screen or the Bloomberg screen or such other medium for the electronic display of data as may be approved by the Note Trustee and notified to the relevant class of Noteholders (in each case a "Relevant Screen"). Any such notice shall be deemed to have been given on the first date on which such information appeared on the Relevant Screen. If it is impossible or impracticable to give notice in accordance with this paragraph, then notice of the matters referred to in this Condition shall be given in accordance with the preceding paragraphs.

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

Copies of all notices given in accordance with these provisions shall be sent by the Issuer to the London Stock Exchange and (for so long as the Global Note Certificate(s) is or are held in its or their entirety on behalf of Euroclear and/or Clearstream, Luxembourg) to Euroclear and Clearstream, Luxembourg.

16. **FURTHER NOTES, NEW NOTES AND REPLACEMENT NOTES**

(a) *Further Notes, New Notes and Replacement Notes*

- (i) The Issuer shall be at liberty, without the consent of the Noteholders, but subject always to the provisions of these Conditions and the Trust Deed, to raise further funds from time to time by (i) the creation and issue of further Class A Notes (the "Further Class A Notes") and/or further Class B Notes (the "Further Class B Notes" and, together with the Further Class A Notes, the "Further Notes"), in each case in registered form carrying the same terms and conditions in all respects (or in all respects except in relation to the issue date, the first Interest Period and first Interest Payment Date) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A Notes and/or Class B Notes, as the case may be, and/or (ii) the creation and issue of new notes (the "New Notes") in registered form which may rank ahead of the Class A Notes *pari passu* with the Class A Notes (or after the Class A Notes but ahead of, *pari passu* with or after the Class B Notes) or *pari passu* with the Class B Notes carrying terms which differ from any class of Notes and which do not form a single series with any class of Notes and/or (iii) the creation and issue of replacement notes (the "Replacement Notes" and, together with the Further Notes and the New Notes, the "Additional Notes") in registered form which may replace the Notes in whole or in part and may rank *pari passu* with or below the remaining Class A Notes or the remaining Class B Notes, or below them carrying terms which differ from the Notes and which do

not form a single series with the remaining Class A Notes or Class B Notes, **provided that:**

- (ii) the aggregate principal amount of all Further Notes or, as the case may be, New Notes or, as the case may be, Replacement Notes to be issued on such date is not less than £10,000,000 or its equivalent in another currency;
  - (iii) the Rating Agencies confirm in writing to the Note Trustee that any Further Notes or, as the case may be, New Notes ranking *pari passu* with any class of Notes are assigned the same ratings as the then current ratings of the class of Notes with which they rank *pari passu*;
  - (iv) the Ratings Test will be satisfied notwithstanding the proposed issue of the Further Notes or, as the case may be, the New Notes or, as the case may be, the Replacement Notes;
  - (v) other than in respect of New Notes which are subordinated to any class of Notes then in issue, the proceeds of such note issuances will be applied to fund the acquisition of Receivables arising on Designated Agreements;
  - (vi) the Note Trustee has received a legal opinion in form and substance satisfactory to it in relation to the issue of such Further Notes or, as the case may be, the New Notes or, as the case may be, the Replacement Notes from a reputable London law firm; and
  - (vii) no Event of Default has occurred or would occur as a result of such issue.
- (b) *Supplemental Trust Deeds and Security*

Any such Additional Notes shall be secured by the Security, will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the Security pursuant to the Deed of Charge as described above in Condition 2 (*Form, Denomination and Title*).

- (c) *Redenomination, Renominalisation and Reconventioning*
- (i) **Notice of Redenomination:** If the United Kingdom becomes, or announces its intention to become, a Participating Member State, the Issuer may, without the consent of the Noteholders or the Note Trustee, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate an Interest Payment Date as the Redenomination Date.
  - (ii) **Redenomination:** Notwithstanding the other provisions of these Conditions, with effect from the Redenomination Date:
    - (A) the Notes in each class shall be deemed to be redenominated into euro in the denomination of euro 0.01 with the Principal Amount Outstanding of each Note in each class being equal to the Principal Amount Outstanding of that Note in such class in Sterling, converted into euro at the rate for conversion of Sterling into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); and
    - (B) notwithstanding Condition 3.2.1, if the Issuer determines, with the agreement of the Trustee, that the then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provision shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the London Stock Exchange and the Paying Agents of such deemed amendments in accordance with Condition 15 (*Notice to Noteholders*).

- (iii) **Notice of Redenomination Date:** The Issuer will notify the Noteholders of the intended Redenomination Date in accordance with Condition 16 (Notice to Noteholders).
  - (iv) **Effect of Redenomination:** With effect from the Redenomination Date:
    - (A) if Individual Note Certificates have been issued by the Issuer, new Individual Note Certificates denominated in euro will be issued in exchange for Individual Note Certificates denominated in Sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in accordance with Condition 15 (*Notice to Noteholders*); and
    - (B) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as Sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with a bank in the principal financial centre of any Participating Member State.
- (d) **Substitution of Issuer**
- (i) **Substitution of Issuer:** The Note Trustee may, without the consent of the Noteholders or any other Secured Creditor, subject to such further conditions as are specified in the Trust Deed (including the Rating Agencies confirming that the Rated Notes will not be downgraded), agree with the Issuer to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Trust Deed, the Notes and the Secured Amounts.
  - (ii) **Notice of Substitution of Issuer:** Not later than fourteen days after any substitution of the Issuer in accordance with this Condition 16, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with Condition 15 (*Notice to Noteholders*) and the other relevant Transaction Documents.
  - (iii) **Change of Law:** In the case of a substitution pursuant to this Condition 16, the Note Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors, to a change of the law governing the Notes and/or any of the Transaction Documents **provided that** such change is not, in the opinion of the Note Trustee, materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes, **provided that** the Rating Agencies are notified by the Substituted Obligor.
  - (iv) **No indemnity:** No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

## 17. GOVERNING LAW

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

18. **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, these Conditions or the Trust Deed, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

#### **USE OF PROCEEDS**

The Issuer will use the gross proceeds of the Notes principally to pay the Initial Purchase Price payable by the Issuer for the Receivables to be acquired from the Transferor on the Closing Date.

## FEES

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

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Servicing Fees	1% per annum (inclusive of VAT, if any) on the Outstanding Face Amount of the Eligible Principal Receivables at the opening of business on the first day of the immediately preceding Monthly Period	Below the Class A Notes and ahead of the Class B Notes	Monthly in arrear on each Transfer Date
Cash management fee	£250,000 per annum (inclusive of VAT, if any)	Below the Class A Notes and ahead of the Class B Notes	Monthly in arrear on each Transfer Date
Other fees and expenses of the Issuer	estimated at £1,500,000 each year (exclusive of VAT, if any)	Ahead of all outstanding Notes	Monthly in arrear on each Transfer Date
VAT is currently chargeable at 15.0%			



**EXPENSE OF THE ADMISSION TO TRADING**

The estimated total expenses related to the admission to trading of the Notes will be £1,275 (exclusive of VAT, if any).

## RATINGS

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

<u>Class of Notes</u>	<u>S&amp;P</u>	<u>Moody's</u>
Class A Notes	AAA	Aaa
Class B Notes	Unrated	Unrated

## THE ISSUER

### Introduction

The Issuer was incorporated in England and Wales on 5 December 2008 (registered number 6766862) as a public limited company under the Companies Act 1985 (as amended). The registered office of the Issuer is 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is +44 (0)20 7398 6300. The authorised share capital of the Issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of £1 each, partly-paid up in cash of 25p each and 2 fully paid shares of £1 each with 49,999 shares being held by Holdings and one share being held by SFM Nominees Limited under the terms of a share declaration of trust in favour of Holdings.

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

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

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

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

The Issuer has not engaged, since its incorporation, in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer, as necessary, intends to make a notification under the Data Protection Act 1998 and intends to apply for a consumer credit licence under the CCA. As at 24 March 2009, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2009.

There is no intention to accumulate surpluses in the Issuer (other than amounts standing to the credit of the Cash Reserve Fund).

### Directors

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

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

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

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
Jonathan Eden Keighley	35 Great St. Helen's, London EC3A 6AP	Company Director
James Garner Smith Macdonald	35 Great St. Helen's, London EC3A 6AP	Company Director
Robert William Berry	35 Great St. Helen's, London EC3A 6AP	Company Director
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Company Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Company Director
Paivi Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Company Director
Cane Valentine Pickersgill	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
Debra Pursall	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
Annika Aman-Goodwille	St. James House, 13 Kensington Square, London WR 5HD	Alternative Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry

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

The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at 24 March 2009.

#### **Capitalisation Statement**

The following table shows the capitalisation of the Issuer as at 24 March 2009:

	<b>As at 24 March 2009</b>
	<b>£</b>
Authorised share capital	<u>50,000</u>
Ordinary shares of £1 each	
Issued share capital	12,501.50
50,000 ordinary shares 49,998 paid up to 25 pence and 2 fully paid shares of £1 each	

#### **Financial position of the Issuer**

The Issuer has not traded since its incorporation on 5 December 2008. As of the date of this Prospectus, no financial statements in respect of the Issuer have been made up.

## HOLDINGS

### Introduction

Holdings was incorporated in England and Wales on 17 November 2008 (registered number 6751286) as a private limited company under the Companies Act 1985 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The authorised share capital of Holdings comprises 100 ordinary shares of £1 each. The issued share capital of Holdings comprises 1 ordinary share of £1. SFM Corporate Services Limited (the "Share Trustee") holds the entire beneficial interest in the issued share under a discretionary trust for charitable purposes. Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

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

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

### Directors

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

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

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

Name	Business Address	Principal Activities
Jonathan Eden Keighley	35 Great St. Helen's, London EC3A 6AP	Company Director
James Garner Smith Macdonald	35 Great St. Helen's, London EC3A 6AP	Company Director
Robert William Berry	35 Great St. Helen's, London EC3A 6AP	Company Director
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Company Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Company Director
Piivi Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Company Director
Cane Valentine Pickersgill	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
Debra Parsall	35 Great St. Helen's, London EC3A 6AP	Alternate Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry
Annika Aman-Goodwill	St. James House, 13 Kensington Square, London W8 5HD	Alternative Director to Jonathan Eden Keighley, James Garner Smith Macdonald and Robert Berry

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

The accounting reference date of Holdings is 31 December.

Holdings has no employees.

## BANK OF SCOTLAND PLC

### Bank of Scotland plc

#### Transaction Roles

Bank of Scotland plc ("**Bank of Scotland**") will perform the roles of Transferor, Servicer, Cash Manager, Swap Counterparty, Subordinated Loan Provider, Lead Manager and Account Bank in connection with the issuance of the Notes.

#### Description of Bank of Scotland

Bank of Scotland was originally established in 1695 as The Governor and Company of the Bank of Scotland by an Act of the Parliament of Scotland. On 17 September 2007, in accordance with the provisions of the HBOS Group Reorganisation Act 2006 (the "Act"), The Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act and changed its name to *Bank of Scotland plc*, registered number SC327000. On the same day, under the Act, the business activities, assets (including investments in subsidiaries) and liabilities of Capital Bank plc, Halifax plc and HBOS Treasury Services plc transferred to Bank of Scotland.

Bank of Scotland together with its subsidiaries and subsidiary undertakings (as defined in the Companies Act 1985) are collectively referred to as Bank of Scotland group. The registered office of Bank of Scotland is located at The Mound, Edinburgh EH11 1YZ, Scotland, with telephone number +44 (0)870 600 5000.

Bank of Scotland is a United Kingdom clearing bank with its headquarters in Edinburgh and an "authorised person" under the Financial Services and Markets Act 2000. Bank of Scotland is engaged in a range of banking, insurance broking, financial services and finance-related activities throughout the UK and internationally. As at 31 December 2008, it operated from branch outlets throughout the UK, overseas branches in Amsterdam, Frankfurt, Grand Cayman, Hong Kong, Madrid, New York City, Paris, Stockholm and Sydney and representative offices in Boston, Chicago, Dallas, Houston, Los Angeles, Miami, Minneapolis and Seattle. It is a member of the British Bankers' Association and the Committee of Scottish Clearing Bankers. The Bank Notes (Scotland) Act 1845 confirmed Bank of Scotland's right to issue bank notes in Scotland.

Bank of Scotland is a wholly owned subsidiary of HBOS plc ("**HBOS**"), which in turn is a wholly owned subsidiary of Lloyds Banking Group.

#### Recent Developments

##### *Bank charges test case*

On 27 July 2007 it was announced that HBOS, along with seven other major UK current account providers, had reached agreement with the OFT to commence legal proceedings in the High Court of England and Wales for a declaration (or declarations) to resolve legal uncertainties concerning the fairness and lawfulness of unarranged overdraft charges (the "Test Case"). It was also announced that HBOS and those other providers will seek a stay of all current and potential future court proceedings which are brought against them in the UK concerning these charges and have obtained the consent of the Financial Ombudsman Service not to proceed with consideration of the merits of any complaints concerning these charges that are referred to them prior to the resolution of the Test Case. By virtue of a waiver granted by the FSA of its complaints handling rules, HBOS (and other banks, including the banks party to the Test Case) will not be dealing with or resolving customer complaints about unarranged overdraft charges while the waiver is in force. On 22 January 2009, the FSA confirmed that it is extending its waiver regarding unarranged overdraft charges complaints until 26 July 2009.

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

At a court hearing on 22 and 23 May 2008, the Judge granted HBOS and the other Test Case banks permission to appeal his decision that current unarranged overdraft charges are assessable for fairness under the 1999 Regulations. On 26 February 2009 the Court of Appeal dismissed the appeal of HBOS and the other current account providers and held that the charges are assessable for fairness. HBOS and the other providers will now be applying to the House of Lords for permission to appeal this judgment.

A further hearing took place in early July 2008, at which the Court was asked to consider whether terms and conditions previously used by the Test Case banks are capable of being penalties and whether the Judge's decision in April 2008 (that the banks' current contractual terms are capable of being assessed for fairness under the 1999 Regulations) can be applied to historic terms.

The Court handed down its judgment on 8 October 2008 on this second stage of the test case process. The Court ruled that charges applied under Halifax and Bank of Scotland's previously used terms and conditions cannot be penalties. However, the Court also ruled that the historic terms and conditions are not exempt from assessment for fairness under the 1999 Regulations. The banks intend to appeal this latter decision.

Further Court hearings will be required before the test case process is concluded.

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

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

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

During 2008 and 2009, global financial markets have experienced extremely turbulent conditions. As a consequence of this, governments and central banks have undertaken a series of escalating actions in an attempt to improve liquidity within their respective banking systems. In September and October, the Bank of England, the European Central Bank and the US Federal Reserve announced a number of new mechanisms and tools for the provision of liquidity to banks in their respective jurisdictions, including those in which Lloyds Banking Group and Bank of Scotland operate. Such measures include weekly and longer term repurchase agreements, expanding the types of collateral accepted by these central banks as security for funding; and co-ordinating global action to strengthen the banking system and functioning of the interbank markets. On 8 October 2008, the UK Government announced a broad range of measures intended to ease both the cause and the symptoms of the current difficulties in the UK banking system, including the provision of liquidity and funding support to banks. This currently consists of the Discount Window Facility, whereby banks and building societies can exchange eligible securities for UK Treasury bills; and a guarantee on short and medium term debt issuance by HM Treasury.

However, there can be no assurance that these global measures will succeed in improving the funding and liquidity of the markets in which the major banks, including Bank of Scotland and Lloyds Banking Group, operate. Bank of Scotland believes Lloyds Banking Group remains relatively well positioned to access a number of wholesale funding sources from a range of counterparties, markets, sectors and geographical markets. However, despite the relatively advantageous situation enjoyed by Lloyds Banking Group, the uncertainty facing the markets is such that management believe that no institution is immune from the effects of an extended closure of the wholesale markets without the support of the central bank and/or government. It is likely that in this context, Lloyds Banking Group will continue to draw on the Discount Window Facility, and will take advantage of the guaranteed funding provided by HM Treasury.

As discussed above, the global markets for short, medium, and long term sources of funding on which banks rely to support their business activities have undergone a period of unprecedented upheaval and contraction, which has led to direct intervention by HM Treasury (via the introduction of the government guarantee scheme for senior funding) and the Bank of England (via the extended Long Term Repo facility and the Discount Window facility) in order to provide further assurance of liquidity support for the markets. Lloyds Banking Group is eligible to participate in the schemes, and will use these tools as appropriate in future liquidity and funding management, particularly in an environment as currently experienced.

On 26 February 2009, HM Treasury announced the establishment of an asset protection scheme ("**Asset Protection Scheme**"), under which HM Treasury will, in return for a fee, provide protection for eligible financial institutions against credit losses incurred on certain defined asset classes. Pursuant to the Asset Protection Scheme, a participating eligible institution will be required to bear the first part of the credit losses on the protected assets. This first loss will remain with the eligible financial institution and the protection provided by HM Treasury will cover 90 per cent. of the remaining loss.

On 7 March 2009 Lloyds Banking Group announced its intention to participate in the Asset Protection Scheme in respect of assets and exposures on its balance sheet with an aggregate par value of approximately £260 billion, including residential mortgages, unsecured personal loans, corporate and commercial loans and treasury assets and will bear a first loss on these covered assets up to £25 billion. Upon accession to the Asset Protection Scheme, Lloyds Banking Group will pay a fee to HM Treasury of £15.6 billion amortised over an estimated 7 year period. The proceeds of this fee will be applied by HM Treasury in subscribing for an issue by Lloyds Banking Group of B shares, carrying a dividend of the greater of 7 per cent. per annum and 125 per cent. of the dividend on ordinary shares.

#### *Recapitalisation of Financial Institutions*

The global financial system has recently experienced an unprecedented degree of volatility. The UK Government has announced a package of measures to address the current instability in the financial markets, which include a recapitalisation scheme for the UK banking sector. As part of the recapitalisation scheme, HM Treasury has in October 2008 acquired a significant shareholding in certain financial institutions issued under placings and open offers, including Lloyds Banking Group. HM Treasury currently owns 43.5 per cent. of the ordinary share capital of the Lloyds Banking Group. If shareholders do not claw back any entitlement to the ordinary shares to be issued pursuant to the preference share replacement announced on 7 March 2009, HM Treasury will own approximately 65 per cent. of the ordinary share capital of Lloyds Banking Group. In addition, in the event of full conversion of the B shares, if HM Treasury retained all the ordinary shares resulting from such conversion and assuming it still retained all its existing shareholding in Lloyds Banking Group, then HM Treasury's aggregate ordinary shareholding would be 77 per cent. HM Treasury may not exercise its option to convert the B shares to the extent that by doing so it would hold more than 75 per cent. of the ordinary shares in Lloyds Banking Group, although this limitation does not apply in the event of mandatory conversion of the B shares. In no circumstances will HM Treasury be able to exercise more than 75 per cent. of the voting rights in Lloyds Banking Group.

HM Treasury has confirmed to the board of directors of the Lloyds Banking Group that its objective in increasing its potential holding of ordinary shares in the Lloyds Banking Group is to provide financial support. In the event that HM Treasury increases its ownership of the ordinary shares, HM Treasury does not envisage any change to the constructive relationship it currently enjoys with the board of directors of the Lloyds Banking Group.



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

Deutsche Trustee Company Limited will be appointed as the Note Trustee and Security Trustee to the Issuer pursuant to the Trust Deed and the Deed of Charge respectively and will act in such capacity through its office at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

Deutsche Trustee Company Limited ("DTCL") is an English investment management firm registered under company number 338230 authorised and regulated by the Financial Services Authority. DTCL is a Trust Corporation and acts as trustee for Eurobond issues, other forms of complex financing structures and loan capital issues and as agent for the service of process. DTCL has an authorised share capital of £5,150,000 and is wholly owned by its ultimate parent Deutsche Bank AG.

### **THE CORPORATE SERVICES PROVIDER**

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

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

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

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

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

## THE RECEIVABLES

### Introduction

The Securitised Portfolio as at 1 March 2009 (the "Pool Selection Date") comprised 651,841 Designated Agreements drawn solely from the consumer loan book of Bank of Scotland originated under the Bank of Scotland, Halifax and Capital Bank brands (being all sterling-denominated consumer loans originated or purchased by the Transferor to individual Borrowers resident in the United Kingdom at the time of origination administered on either the Transferor's FEPS System or LSP System as at the date of this Prospectus and having an aggregate outstanding principal balance of £4,180,000,000 as at that date).

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

"English Loan" means a consumer loan granted pursuant to a Consumer Loan Agreement governed by English law.

"Northern Irish Loan" means a Consumer Loan granted pursuant to a Consumer Loan Agreement governed by Northern Irish law.

"Scottish Loan" means a consumer loan granted pursuant to a Consumer Loan Agreement governed by Scots law.

For a description of the conditions which a Consumer Loan must meet prior to its inclusion in the Securitised Portfolio, see "Summary of the Key Transaction Documents — Receivables Securitisation Deed", above.

All references in this section to "by value" of the Receivables means the percentage by the amount of principal outstanding as at the date specified in the relevant table.

### Characteristics of the Consumer Loans

The following is a description of some of the characteristics of the Consumer Loans currently or previously originated or purchased by the Transferor including details of the Consumer Loan and the underwriting process lending criteria. We believe the Consumer Loans have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the securities. Please see "Characteristics of the Securitised Portfolio" below for selected statistical information in relation to the Securitised Portfolio.

### Product Range

Bank of Scotland originates loans through the Bank of Scotland and Halifax brands. In addition, Bank of Scotland acquired the consumer loan business of Capital Bank in 1998.

All consumer loans originated or purchased by Bank of Scotland are fixed term, fixed rate loans on which borrowers make fixed monthly payments during the repayment term of the consumer loan. The fixed interest rates offered to borrowers differ based on the individual credit score of a borrower and the amount to be borrowed under a particular consumer loan.

At the point of sale of a consumer loan, Halifax and Bank of Scotland also offer borrowers the option of taking out an insurance policy which protects borrowers from being unable to repay their consumer loan in specific circumstances, such as through long-term illness or unemployment. This is currently arranged and sold by Halifax Insurance Ireland Ltd in Shannon. Since 1 February 2009 the premium for the insurance policy is not added to the principal amount of the consumer loan and is instead payable through regular premiums on a monthly basis. Consequently no interest is charged on the premium and Borrowers instead pay the monthly premium by way of a separate direct debit in addition to their scheduled monthly repayments of principal and interest. Amounts paid by Borrowers in respect of the monthly premium will not be part of Collections and will not be available to be utilised by the Issuer. The single premium insurance policy was only available until 31 January 2009.

### **Origination Channels**

The Transferor currently derives its consumer loan lending business primarily through its branch network, direct channels (telephony) and internet channels, with a very small volume (less than one per cent.) through intermediaries.

The Transferor can provide customers with an agreement in principle to lend almost immediately upon application at point of sale.

The Transferor is subject to FSMA (and other FSA rules) and the Financial Ombudsman Service, which is a statutory scheme under the FSMA, and follows the Code of Banking Practice.

### **Repayment Terms**

Each Consumer Loan in the Securitised Portfolio is repayable by the Borrower making monthly payments of both interest and principal so that, when the Consumer Loan matures, the full amount of the principal of the Consumer Loan will have been repaid.

### **Payment Methods**

All payments on the loans must be made in sterling and most payments are made by a direct debit instruction through the UK direct debit system (the "Direct Debiting Scheme") from another bank or building society account. A valid direct debit instruction must be in place prior to the advance of funds under a Consumer Loan Agreement.

### **Early Repayment of the Consumer Loans**

Prepayments may be made in whole or in part at any time during the term of a Consumer Loan unless the offer letter states otherwise. A prepayment of the whole of the outstanding balance of a Consumer Loan must be made together with all outstanding charges, arrears of interest and accrued interest thereon (the "Settlement Amount") which is calculated by the Servicer and notified to the relevant Borrower and which takes account of any rebate of interest or PPI Premium to which the relevant Borrower is entitled.

Where a Borrower prepays an amount less than the Settlement Amount, the Borrower fixed scheduled monthly repayments are not recalculated but instead, the scheduled maturity date of the relevant Consumer Loan is brought forward.

The Issuer has agreed to reimburse the Transferor any servicing related fees received in relation to the Consumer Loans.

### **Lending Criteria**

The Consumer Loans were originated according to the Transferor's lending criteria at the relevant time. The Transferor's lending criteria and underwriting policies are subject to change within the Transferor's sole discretion. Consumer Loans may only be included in the Securitised Portfolio if they were originated in accordance with the lending criteria applicable at the time the Consumer Loan is offered and the representations and warranties contained in "Summary of the Transaction Documents — Receivables Securitisation Deed", were correct as of the relevant Addition Date.

### **Term of Consumer Loans**

The minimum term in respect of a Consumer Loan is 12 months and the maximum term for a Consumer Loan is 122 months.

### **Age of Applicant**

All Borrowers under a Consumer Loan Agreement must be aged 18 or older.

### **Consumer Loan Amount**

The minimum amount that can be borrowed is £1,000 and the maximum amount is £25,000, in each case excluding any PPI Premium and interest accrued thereon.

### **Status of Applicant(s)**

The maximum amount of the aggregate Consumer Loan under a Consumer Loan Agreement is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost to the net disposable income that the applicant has available. Credit scoring (as described below) also influences the decision of how much to lend using the principle that high credit scores infer a proven ability to manage financial affairs. The Transferor maintains rules on the amount of overtime, bonus or commission income (whether regular or not guaranteed) that it will allow into the affordability model.

Since February 2006, the Transferor does not take income from a second job into account in determining affordability for mainstream applications. When there are two applicants, the Transferor adds joint incomes together for the purpose of calculating the applicants' total income. When there are more than two applicants, the Transferor will only take into account the two highest incomes when assessing affordability.

Employed applicants will be expected to have been employed for a minimum of 6 months in their current role and to have had continuous employment for the last 12 months. Self-employed applicants would normally be expected to have been self-employed for a minimum of 2 years.

The Transferor may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount of a Consumer Loan. Accordingly, these parameters may vary for some Consumer Loans.

The Transferor may take the following into account when exercising discretion: credit score result, existing customer relationship, stability of employment and career progression, availability of living allowances from the employer, employer's standing, regularity of overtime, bonus or commission, credit commitments and the increase in income needed to support the Consumer Loan.

### **Credit Search**

Credit searches are carried out in respect of all applicants' residential addresses for the 3 years prior to the date of application. Applications may be declined where an adverse credit history (e.g. county court judgment or the Northern Irish equivalent, Scottish court decree for payment, default, bankruptcy notice or sequestration) is revealed which falls outside the criteria for prime customers.

### **Credit Scoring**

The Transferor uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the Consumer Loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of an account going into arrears.

The Transferor reserves the right to decline an application that has received a passing score. The Transferor does have an appeals process if a potential borrower believes his or her application has been unfairly denied. It is the Transferor's policy to allow only authorised individuals to exercise discretion in granting variances from the credit score decision.

## CHARACTERISTICS OF THE CONSUMER LOANS

The statistical and other information contained in this Prospectus has been compiled by reference to the Receivables arising under the total portfolio of Consumer Loans as at the date of origination or as at 31 December 2008, as stated in the tables below. Columns may not add up to the total due to rounding. Except as otherwise indicated, these tables have been prepared using the current balance as at 31 December 2008, which includes all principal and accrued interest for the Consumer Loans.

### Outstanding Balances as at the date of origination

The following table shows the range of outstanding Consumer Loan balances (including capitalised interest and any PPI Premium) as at the date of origination.

Balance	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
<£3,000	78,331	10.6%	101,869,286	2.1%
£3,000 - £4,999	76,718	10.4%	207,781,401	4.3%
£5,000 - £6,999	107,035	14.5%	436,343,458	8.9%
£7,000 - £9,999	181,048	24.5%	1,025,571,337	20.9%
£10,000 - £14,999	191,250	25.9%	1,637,211,341	33.4%
£15,000 - £19,999	63,441	8.6%	774,728,042	15.8%
£20,000 - £24,999	22,336	3.0%	353,358,519	7.2%
£25,000 - £29,999	15,622	2.1%	296,981,131	6.1%
£30,000 +	3,002	0.4%	71,777,994	1.5%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>£4,906,622,509</b>	<b>100.0%</b>

The average balance outstanding (including capitalised interest and PPI Premium) at the date of origination was £9,118.

### Outstanding Balances as at 31 December 2008

The following table shows the range of outstanding Consumer Loan balances (including capitalised interest and any PPI Premium) as at 31 December 2008.

Balance	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
<£3,000	184,707	25.0%	299,774,619	6.1%
£3,000 - £4,999	137,161	18.6%	549,753,220	11.2%
£5,000 - £6,999	131,203	17.8%	783,081,564	16.0%
£7,000 - £9,999	136,073	18.4%	1,137,269,799	23.2%
£10,000 - £14,999	102,605	13.9%	1,234,995,287	25.2%
£15,000 - £19,999	31,475	4.3%	536,211,342	10.9%
£20,000 - £24,999	11,987	1.6%	266,501,197	5.4%
£25,000 - £29,999	2,807	0.4%	74,592,792	1.5%
£30,000 +	765	0.1%	24,442,688	0.5%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

The average current balance (including capitalised interest and PPI Premium) as at 31 December 2008 was £6,641.

### Geographical Distribution

The following table shows the distribution of the address at the time of completion of Borrowers under the Consumer Loans throughout England, Wales, Scotland and Northern Ireland. The Transferor's lending criteria and current credit scoring tests do not take into account the geographical location of the billing address of the Borrowers securing a Consumer Loan.

Region	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
East Anglia.....	21,887	3.0%	146,974,674	3.0%
London.....	75,724	10.2%	548,070,509	11.2%
Midlands.....	86,380	11.7%	571,233,075	11.6%

North East .....	119,727	16.2%	765,876,660	15.6%
North West .....	94,771	12.8%	605,453,752	12.3%
Northern Ireland .....	17,901	2.4%	116,405,357	2.4%
Scotland .....	136,048	18.4%	863,008,903	17.6%
South East .....	114,192	15.5%	806,963,825	16.4%
South West .....	45,670	6.2%	309,014,829	6.3%
Wales .....	26,483	3.6%	173,620,927	3.5%
<b>Totals .....</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

#### Seasoning of Loans

The following table shows the dates of origination of the Consumer Loans.

	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
Pre 2005	55,525	7.5%	198,625,629	4.0%
First half 2005	35,865	4.9%	161,288,899	3.3%
Second half 2005	39,858	5.4%	208,528,634	4.2%
First half 2006	61,314	8.3%	359,213,561	7.3%
Second half 2006	69,805	9.4%	433,806,415	8.8%
First half 2007	104,628	14.2%	703,753,190	14.3%
Second half 2007	128,618	17.4%	947,216,704	19.3%
First half 2008	134,617	18.2%	1,031,604,393	21.0%
Second half 2008	108,553	14.7%	862,585,084	17.6%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

The following table shows the number of remaining months of the term of the Consumer Loans as at the date of origination.

#### Years to Maturity of Consumer Loans at Origination

From	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
<18 months	12,185	1.6%	16,105,574	0.3%
18 - 26 months	47,574	6.4%	101,721,870	2.1%
27 - 38 months	95,170	12.9%	344,943,791	7.0%
39 - 50 months	93,491	12.7%	468,385,642	9.5%
51 - 62 months	211,192	28.6%	1,310,773,255	26.7%
63 - 74 months	52,257	7.1%	426,437,742	8.7%
75 - 86 months	220,382	29.8%	2,142,909,172	43.7%
87 - 98 months	2,583	0.3%	34,544,793	0.7%
99+ months	3,949	0.5%	60,800,669	1.2%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

The weighted average remaining term of the Consumer Loans as at the date of origination was 68.8 months.

#### Years to Maturity of Consumer Loans as at 31 December 2008

The following table shows the number of remaining months of the term of the Consumer Loans as at 31 December 2008.

From	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
<18 months	129,587	17.5%	239,574,132	4.9%
18 - 26 months	92,007	12.5%	358,753,153	7.3%
27 - 38 months	129,491	17.5%	717,928,227	14.6%
39 - 50 months	127,864	17.3%	935,623,455	19.1%
51 - 62 months	114,285	15.5%	1,009,521,072	20.6%
63 - 74 months	77,066	10.4%	827,053,749	16.9%
75 - 86 months	64,871	8.8%	759,218,489	15.5%
87 - 98 months	1,609	0.2%	24,694,499	0.5%
99+ months	2,003	0.3%	34,255,733	0.7%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

The weighted average term of the Consumer Loans as at 31 December 2008 was 52.3 months.

#### Arrears Experience of Consumer Loans

The following table summarises the Consumer Loans in arrears for the Consumer Loans as at 31 December 2008.

Number of monthly payments in arrears	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
Current	706,101	95.6%	4,664,539,193	95.1%
1 payment down	11,064	1.5%	76,408,829	1.6%
2 payments down	8,047	1.1%	59,872,505	1.2%
3 payments down	5,915	0.8%	45,278,320	0.9%
4 payments down	4,554	0.6%	36,031,376	0.7%
5 payments down	3,102	0.4%	24,492,285	0.5%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

There can be no assurance that the arrears experience with respect to the Consumer Loans comprising the Securitised Portfolio in the future will correspond to the experience of the Securitised Portfolio as set forth in the foregoing table. Adverse economic conditions, may affect the timely payment by Borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the Consumer Loans in the Securitised Portfolio.

#### Annual Percentage Rates

The following table shows the annual percentage rates applicable to the Consumer Loans as at 31 December 2008.

Annual Percentage Rate (APR)	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
< 6.000%	3,940	0.5%	31,331,234	0.6%
6.000% - 7.999%	224,535	30.4%	1,694,038,862	34.5%
8.000% - 9.999%	167,642	22.7%	1,358,232,927	27.7%
10.000% - 11.999%	103,997	14.1%	771,796,624	15.7%
12.000% - 14.999%	93,391	12.6%	545,101,742	11.1%
15.000% - 17.999%	72,333	9.8%	288,508,782	5.9%
18.000% - 19.999%	40,251	5.4%	120,955,571	2.5%
20.000% - 24.999%	24,335	3.3%	77,685,640	1.6%
25.000% +	8,359	1.1%	18,971,127	0.4%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

The weighted average APR of the Consumer Loans at the time of origination was 9.82%.

The weighted average APR on the outstanding balances of the Consumer Loans is 10.14%.

#### Borrower Employment Status at Origination

The following table shows the employment status of the Borrowers under the Consumer Loan Agreements as at the date of origination.

Employment Status	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
Unskilled	80,010	10.8%	518,239,634	10.6%
Services/Trades/Sales	159,728	21.6%	1,031,655,544	21.0%
Retired	56,972	7.7%	303,742,212	6.2%
Professional	208,225	28.2%	1,453,843,966	29.6%
Office	58,572	7.9%	370,679,457	7.6%
Executive Manager	133,131	18.0%	987,612,160	20.1%
Other	42,145	5.7%	240,851,536	4.9%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>



### Borrower Age at Origination

The following table shows the range of ages of the Borrowers under the Consumer Loan Agreements as at the date of origination.

Range of customer ages	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
< 21	26,239	3.6%	93,387,250	1.9%
21 - 25	85,621	11.6%	461,154,657	9.4%
26 - 30	93,602	12.7%	629,864,869	12.8%
31 - 35	90,755	12.3%	644,550,065	13.1%
36 - 40	94,933	12.8%	680,440,616	13.9%
41 - 46	92,954	12.6%	669,329,599	13.6%
46 - 50	79,406	10.7%	576,312,070	11.7%
51 - 55	61,443	8.3%	441,232,166	9.0%
56 - 50	48,120	6.5%	331,457,105	6.8%
61 +	65,710	8.9%	378,894,112	7.7%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

### Borrower Age at 31 December 2008

The following table shows the range of ages of the Borrowers under the Consumer Loan Agreements as at 31 December 2008.

Range of customer ages	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
< 21	11,203	1.5%	39,667,967	0.8%
21 - 25	71,525	9.7%	361,380,925	7.4%
26 - 30	92,552	12.5%	604,387,523	12.3%
31 - 35	87,844	11.9%	622,990,546	12.7%
36 - 40	93,170	12.6%	667,966,623	13.6%
41 - 46	94,545	12.8%	677,703,810	13.8%
46 - 50	84,375	11.4%	605,484,432	12.3%
51 - 55	67,138	9.1%	481,009,576	9.8%
56 - 50	52,333	7.1%	364,802,489	7.4%
61 +	84,098	11.4%	481,628,618	9.8%
<b>Totals</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

### Method of Calculation of Interest and Principal

The following table shows the method used by the Servicer of calculating interest and principal on the Consumer Loan Agreements.

Method of Calculation	Number of Consumer Loans	% of total	Aggregate outstanding current balance	% of total
Actuarial	539,638	73.0%	3,528,150,740	71.9%
Rule of 78	199,145	27.0%	1,378,471,769	28.1%
<b>Total</b>	<b>738,783</b>	<b>100.0%</b>	<b>4,906,622,509</b>	<b>100.0%</b>

### Historical Information

The following tables show historical information in relation to yield, delinquency and charge-offs on the Consumer Loan Agreements.

### Portfolio Yield<sup>1</sup>

	2008	2007	2006
Average monthly balance	5,972,037,389	5,836,553,170	5,662,675,308
Average finance charge and fees	42,340,054	37,828,107	37,871,074
Yield	8.5%	7.8%	8.0%

### Portfolio Delinquency

	2008	%	2007	%	2006	%
Balances outstanding (at year end)	5,705,864,409		5,974,855,585		5,736,424,482	
Delinquent balances						
1 payment down	77,080,838	1.4%	66,957,736	1.1%	65,163,414	1.1%
2 payments down	60,596,560	1.1%	43,232,468	0.7%	51,927,846	0.9%
3 payments down	45,779,927	0.8%	36,319,918	0.6%	38,484,339	0.7%
4+ payments down	72,831,184	1.3%	68,486,423	1.1%	99,149,629	1.7%
Charged off	748,128,360	13.1%	685,614,050	11.5%	677,513,316	11.8%
Total	1,804,416,869	17.6%	900,610,595	15.1%	932,238,544	16.3%

### Charge-Off Experience

	2008	2007	2006
Balances outstanding (at year end)	5,705,864,409	5,974,855,585	5,736,424,482
Gross charge offs in year	414,816,175	430,813,571	428,561,904
% of receivables	7.3%	7.2%	7.5%

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<sup>1</sup> The information in this table has been calculated by reference to interest and fees charged to Consumer Loans and not interest and fees actually received by Bank of Scotland.

## **CHARACTERISTICS OF THE UNITED KINGDOM CONSUMER LOAN MARKET**

From 2002 to 2007 all major consumer loan lenders in the United Kingdom, including Bank of Scotland, pursued a similar business model, focussing on increasing loan volume to optimise in year profitability.

In addition, from 2002 to 2007 bad debt performance in the UK consumer loan market was driven in part by historical risk management practice and also by regulatory changes which allowed debtors to obtain individual voluntary arrangements more easily. As a result of this the consumer lending operations began to see annual trading losses.

During the same period, Bank of Scotland experienced a similar performance for its consumer loan lending operations. During 2005/2006, Bank of Scotland strengthened its risk criteria and profit forecasting models significantly as well as actively managing its collections and recoveries process, which resulted in minimising the impact of credit losses on the financial performance of its consumer loan lending business. Bank of Scotland also changed its lending strategy in order to focus on originating more profitable consumer loans to drive an increase in the profitability of its consumer loan portfolio.

Since 2005, Bank of Scotland has reduced its levels of consumer loan lending to focus on originating more profitable consumer loan business, principally driven from its existing banking relationship base, rather than aggressively pricing for new to franchise customers. This strategy has resulted in lower absolute incomes on the consumer loan portfolio. In addition, credit losses on more mature loans in the portfolio have continued to depress profitability in the Bank of Scotland consumer loan business in the near term.

In recent years levels of competition in the UK consumer loan market have increased and this has resulted in UK consumer loan lenders strongly competing on price. Fixed rates of interest being offered to borrowers have fallen across the market as a result of the increased competition, which in turn has reduced income on the Bank of Scotland consumer loan portfolio. Over the last twelve months in particular, Bank of Scotland has focussed on margin widening and has dramatically improved the return of more recent vintages of consumer loans in the Bank of Scotland consumer loan portfolio. In addition, increased regulatory scrutiny, media coverage and pressure from consumer groups has seen the removal of the single premium payment protection insurance.

## THE SERVICER

### The Servicer

The Servicer services Receivables arising under all Consumer Loan Agreements originated by the Transferor. The day-to-day servicing of the Receivables will be performed by the Servicer in accordance with the Servicing and Cash Management Agreement through the Servicer's telephone and customer service centres.

Basic information on the organisation and history of the Servicer is set out in this Prospectus under "Bank of Scotland plc" above. For over 20 years, Bank of Scotland has been engaged in the servicing of consumer loans originated by them under the Bank of Scotland, Halifax and Capital Bank brands.

This section describes the Servicer's procedures in relation to loans generally. A description of the Servicer's obligation under the Servicing and Cash Management Agreement can be found under "*Servicing and Cash Management Agreement*" above.

### Servicing of Receivables

Servicing responsibilities and procedures include responding to customer enquiries, monitoring compliance with and servicing the Receivables and managing the arrears process in connection with the Receivables. See "*Summary of Key Transaction Documents — Servicing and Cash Management Agreement*" above.

Pursuant to the terms and conditions of the Consumer Loan, Borrowers must pay the monthly amount required on or before each monthly instalment due date. Interest accrues in accordance with the terms and conditions of each Consumer Loan Agreement and is collected from Borrowers monthly principally through the Direct Debiting Scheme.

Payments of interest and principal under the Consumer Loan Agreements are payable monthly in arrear. The Servicer is responsible for ensuring that all payments are made by the relevant Borrower into an account in the name of the Transferor (the "**Transferor Collection Account**") and transferred into the Control Account on a regular basis as set out in "*Calculations and Allocations*" above. Payments from Borrowers are generally made by direct debits from a suitable bank or building society account, although in some circumstances Borrowers pay by cash, debit card, cheque or standing order.

The Servicer initially credits the Control Account with the full amount of the monthly payments made by Borrowers into the Transferor Collection Account. However, direct debits may be returned unpaid up to three days after the due date for payment and, under the Direct Debit Indemnity Scheme, a Borrower may make a claim at any time to its bank for a refund of direct debit payments. In each case, the Servicer is permitted to reclaim from the Control Account the corresponding amounts previously credited. In these circumstances, the usual arrears procedures described in "*Arrears and Default Procedures*" below will apply.

### Recent Changes

From time to time, the Servicer reviews and updates its policies and procedures in relation to the servicing of the Receivables.

Changes can be driven by the Servicer from time to time reviewing its procedures and amending them to reflect current trading conditions.

### Arrears and Default Procedures

The Servicer will provide the Issuer with written details of Receivables that are in arrears. A Consumer Loan is identified as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date. In general, the Servicer attempts to collect all payments due under or in connection with the Receivables, having regard to the circumstances of the Borrower in each case. Receivables collection is conducted through payment collection departments located in Chester. The Servicer will work constructively with the Borrower to agree a course of action. Collections and recovery interventions, including legal action, will be commensurate with the rate of deterioration and the Borrower's willingness to address the arrears as well as risk of further default. The Servicer uses an

automated collections system to collect and/or negotiate with the Borrower through letter/telephone contact.

The Servicer's system tracks arrears and advances and calculates when an amount is in arrears. When arrears are first reported or an amount paid does not satisfy the full contractual monthly payment (calculated as at the due date), the relevant Borrower is contacted and asked for payment of the arrears. An automated process exists in which the Borrower is contacted through a series of letters and/or structured phone contacts with specific manual intervention at a certain stage commensurate with risk. Where manual intervention is required, the Servicer's personnel will decide on the appropriate course of action. Where no contact has been made or no agreement has been reached, this could result in telephone contact via a dialler and/or the use of an external agent in an attempt to reach a solution with the Borrower. The Servicer's employees responsible for settling arrears are trained in all collection and negotiation techniques.

Where considered appropriate, the Servicer may enter into arrangements with the Borrower regarding the arrears, including:

- arrangements to make each future monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to make each monthly payment as it falls due;
- arrangements to pay only a portion of each monthly payment as it falls due; and
- a deferment for an agreed period of time of all payments, including interest and principal (in whole or in part).

Any arrangements may be varied from time to time at the discretion of the Servicer, the primary aim being to rehabilitate the Borrower and recover the situation.

Legal proceedings do not usually commence until the arrears become at least 180 days overdue. However, the Servicer's employees review each case and have discretion to vary the usual timeframes, having due regard to the case history, reasonable attempts to find a solution, risk and type of lending. For very low risk loans, legal action may be delayed where appropriate to allow more time for recovery.

Once legal proceedings have commenced, the Servicer or the Servicer's solicitor may send further letters to the Borrower encouraging the Borrower to enter into discussions to pay the arrears and may still enter into an arrangement with a Borrower at any time prior to a court hearing. If a court order is made for payment and the Borrower subsequently defaults in making the payment, then the Servicer may take such action as it considers appropriate, including entering into a further arrangement with the Borrower.

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.

These arrears and security enforcement procedures may change over time as a result of a change in the Servicer's business practices or legislative and regulatory changes.

## UNITED KINGDOM TAXATION

The comments below are of a general nature based on current United Kingdom law and the practice of Her Majesty's Revenue and Customs ("HMRC"). They relate only to the position of Persons who are the absolute beneficial owners of their Notes relating thereto and may not apply to certain classes of Persons such as dealers. They do not necessarily apply where the income is deemed for tax purposes to be income of any other Person. The following is a general guide and should be treated with appropriate caution. Any Noteholders who are in doubt as to their tax position should consult their professional advisers. The following comments relate only to withholding tax and do not deal with any other aspect of the United Kingdom taxation treatment that may be applicable to Noteholders (including for example, income tax, capital gains tax, corporation tax and stamp taxes).

Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and, if so, under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

### (A) UK withholding tax on UK source interest

Notes which carry a right to interest will constitute "Quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the Notes are and continue to be Quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be regarded as listed on a recognised stock exchange for this purpose if (and only if) they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange. The London Stock Exchange has been designated as a recognised stock exchange for these purposes. Accordingly the Notes will constitute Quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted to trading on the London Stock Exchange.

In all cases falling outside the exemption described above, interest on the notes may fall to be paid under deduction of United Kingdom income tax at the basic rate, currently 20 per cent., subject to such relief as may be available under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

### (B) Provision of information

Noteholders should note that where any interest on notes is paid to them (or to any Person acting on their behalf) by the Issuer or any Person in the United Kingdom acting on behalf of the Issuer (a "Paying Agent"), or is received by any Person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "Collecting Agent"), then the Issuer, the Paying Agent or the Collecting Agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain cases, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

With effect from 6 April 2009, provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes which constitute "deeply discounted securities" for the purposes of section 18 of the Taxes Management Act 1970.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive, see below.

**(C) EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

**(D) Other rules relating to United Kingdom withholding tax**

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 recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution.

## SUBSCRIPTION AND SALE

Bank of Scotland (as "Note Purchaser") will, pursuant to a note purchase agreement dated on or about 24 March 2009 between the Note Purchaser and the Issuer (the "Note Purchase Agreement"), agreed with the Issuer (subject to certain conditions) to:

- (1) subscribe and pay for the Class A Notes at the issue price of 100% of the aggregate principal amount of the Class A Notes; and
- (2) subscribe and pay for the Class B Notes at the issue price of 100% of the aggregate principal amount of the Class B Notes.

The Issuer has agreed to indemnify the Note Purchaser against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Notes to the Official List and the admission to trading on the London Stock Exchange's Regulated Market, no action has been taken by the Issuer or the Note Purchaser, which would or is intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

The Note Purchaser will undertake not to offer or sell, directly or indirectly, Notes, or to distribute or publish this Prospectus or any other material relating to the Notes, in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

### United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions in reliance on Regulation S.

The Note Purchaser will agree that, except as permitted by the Note Purchase Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. See "Transfer Restrictions and Investor Representations", below.

### United Kingdom

The Note Purchaser will represent, warrant and agree with the Issuer, *inter alia*, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.



**General**

The Note Purchaser will undertake that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and Sales by the Initial Purchasers

The Notes (including interests therein represented by a Global Note Certificate, an Individual Note Certificate or a Book-Entry Interest) have not been and will not be registered under the Securities Act or any state securities laws, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to such registration requirements. Accordingly, the Notes are being offered and sold in offshore transactions pursuant to Regulation S.

### Investor Representations and Restrictions on Resale

Each purchaser of the Notes (which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed as follows:

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. person and who is acquiring the Notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) the Issuer, the Registrar, the Lead Manager and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

The Notes bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) OTHERWISE PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING OF THE OFFERING OF THE NOTES, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES."

*Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.*

## GENERAL INFORMATION

1. It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 26 March 2009. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the date of the transaction.
2. None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 5 December 2008 and 17 November 2008 (as applicable) (being the respective dates of incorporation of the Issuer and Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
3. No statutory or non-statutory accounts within the meaning of Section 240(5) of the Companies Act 1985 in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the London Stock Exchange's Regulated Market, the most recently published audited annual accounts of the Issuer from time to time shall be available at the specified office of the Principal Paying Agent in London. The Issuer does not publish interim accounts.
4. For so long as the Notes are admitted to the Official List and to trading on The London Stock Exchange's Regulated Market, the Issuer shall maintain a Paying Agent in the United Kingdom.
5. Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
6. Since 5 December 2008 (being the date of incorporation of the Issuer), there has been (a) no material adverse change in the financial position or prospects of the Issuer and (b) no significant change in the financial or trading position of the Issuer.
7. Since 17 November 2008 (being the date of incorporation of Holdings), there has been (a) no material adverse change in the financial position or prospects of Holdings and (b) no significant change in the financial or trading position of Holdings.
8. The issue of the Notes was authorised pursuant to a resolution of the board of directors of the Issuer passed on 18 March 2009.
9. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN Numbers and Common Codes:

Class of Notes	ISIN	Common Code
Class A	XS0417181962	041718196
Class B	XS0417182853	041718285

10. From the date of this Prospectus and for so long as the Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the offices of the Principal Paying Agent during usual business hours, on any weekday (public holidays excepted):
  - (a) the memorandum and articles of association of each of the Issuer and Holdings;
  - (b) copies of the following documents:
    - (i) the Paying Agency Agreement; and
    - (ii) the Trust Deed.
11. The Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Consumer Loans.

12. The Issuer confirms that the assets backing the issue of the Notes, taken together with the other arrangements to be entered into by the Issuer on the Closing Date (including those described in "*Credit Structure*" above), have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. However, investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Consequently investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

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