

IMPORTANT NOTICE

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

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus attached to this electronic transmission, and you are therefore advised to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES OF THE ISSUER FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS. THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. PERSON. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the managers or any affiliate of the managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the managers or such affiliate on behalf of the Issuer in such jurisdiction.

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

This Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer nor the Transaction Parties or any person who controls any such person or any director, officer, employee or agent of any such person (or affiliate of any such person) accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Issuer or Lloyds TSB Bank plc.

EDGBASTON RMBS 2010-1 PLC

(Incorporated in England and Wales with limited liability under registered number 7070646)

Notes	Initial Principal Amount	Issue Price	Interest Rate	Final Maturity Date	First Call Option Date / Final Call Option Date	Ratings (Fitch/Moody's)
Class A1	£603,170,000	100%	1.65% margin above One-Month Sterling LIBOR	December 2051	18 August 2017 / 18 August 2022	AAA/Aaa
Class A2	£603,170,000	100%	1.70% margin above One-Month Sterling LIBOR	December 2051	18 August 2017 / 18 August 2022	AAA/Aaa
Class A3	£1,809,520,000	100%	2.00% margin above One-Month Sterling LIBOR	December 2051	18 August 2017 / 18 August 2022	AAA/Aaa
Class B	£558,480,000	100%	0.01%	December 2051	18 August 2017 / 18 August 2022	AA-/A2
Class C	£148,950,000	100%	0.01%	December 2051	18 August 2017 / 18 August 2022	Unrated

Issue Date	The Issuer will issue the Notes in the Classes set out above on the Closing Date.
Stand alone/ programme issuance	Stand alone issuance.
Underlying Assets	The Issuer will make payments on the Notes from, <i>inter alia</i> , a portfolio comprising residential Buy-to-Let Loans originated by Bank of Scotland under the "Birmingham Midshires" brand and secured over properties located in England, Wales and Scotland which will be purchased by the Issuer on the Closing Date. See the section entitled " <i>The Mortgage Portfolio</i> " for more information.
Key Structural Features	<p><u>Credit Enhancement Features</u></p> <p>Excess Available Investor Revenue.</p> <p>General Reserve Fund in the amount of £37,232,900 on the Closing Date.</p> <p>Subordination of more junior ranking Notes.</p> <p>See the section entitled "<i>Key Structural Features</i>" for more information.</p> <p><u>Liquidity Support Features</u></p> <p>General Reserve Fund in the amount of £37,232,900 on the Closing Date.</p> <p>Principal applied to make up Revenue Shortfall.</p> <p>Liquidity Reserve Fund.</p> <p>Interest on the Class C Notes will not be supported by the General Reserve Fund, Available Investor Principal, Seller Principal or the Liquidity Reserve Fund.</p> <p>See the section entitled "<i>Key Structural Features</i>" for more information.</p> <p><u>Investor Principal Amount/Investor Percentage and Seller Principal Amount/Seller Percentage</u></p> <p>The Seller and the Noteholders will have an economic interest in the Mortgage Loans in the</p>

	<p>Portfolio. The interest of the Seller in the Mortgage Portfolio is called the Seller Principal Amount and the percentage of the Mortgage Portfolio which this represents is called the Seller Percentage and the Issuer will make Deferred Consideration payments to the Seller by reference thereto in accordance with the Payments Priorities, as described more fully in this Prospectus. The Seller Principal Amount as at the Closing Date represents the difference between the Current Balance of the Mortgage Portfolio and the Principal Amount Outstanding of the Notes as at the Closing Date. The interest of the Noteholders in the Mortgage Portfolio is called the Investor Principal Amount and the percentage of the Mortgage Portfolio which this represents is called the Investor Percentage. The Investor Principal Amount will be funded by the Noteholders and as at the Closing Date, matches the Principal Amount Outstanding of the Notes as at the Closing Date.</p> <p>The Seller Percentage and the Investor Percentage may fluctuate over the life of the transaction. In particular, the Seller Percentage and the Seller Principal Amount will reduce as a result of Set-Off Losses (if any), however, other losses in respect of the Mortgage Portfolio will be allocated to the Seller Principal Amount and the Investor Principal Amount on a pro rata basis. The Investor Principal Amount will reduce as the Notes are redeemed in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Seller Principal Amount will reduce as Principal Deferred Consideration is paid to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities. See "<i>Glossary of Defined Terms - "Investor Principal Amount" and "Seller Principal Amount"</i>" for further information.</p> <p>The terms Seller Percentage and Investor Percentage are used for the purpose of making allocations of revenue in accordance with the Pre Enforcement Seller Revenue Payments Priorities and the Pre Enforcement Investor Revenue Payments Priorities, respectively, on each Interest Payment Date and the terms Seller Principal Amount and Investor Principal Amount are used for the purposes of determining the maximum amount of principal which will be distributed in accordance with the Pre Enforcement Seller Principal Payments Priorities and the Pre Enforcement Investor Principal Payments Priorities, respectively, on each Interest Payment Date as described more fully in the section entitled "<i>Key Structural Features – Cashflows</i>" herein and do not denote proprietary interests or rights in rem in favour of the Seller or the Noteholders or other Secured Creditors in any of the Issuer's property.</p> <p>See the section entitled "<i>The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement</i>" for further information.</p>
<p>Redemption Provisions</p>	<p>For information on optional and mandatory redemption of the Notes, see the section entitled "<i>Transaction Overview – Overview of the Terms and Conditions of the Notes</i>" and Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>").</p> <p>When the Class A1 Notes and the Class A2 Notes have been redeemed in full, and provided that all of the other Seller Principal Diversion Conditions are satisfied on an Interest Payment Date, Principal Receipts will be applied as Seller Principal on such Interest Payment Date to pay, amongst other things, Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities until the Seller Principal Amount is equal to the Minimum Seller Principal Amount. If the Seller Principal Amount is equal to or less than the Minimum Seller Principal Amount or any of the other Seller Principal Diversion Conditions cease to be satisfied on an Interest Payment Date, Principal Receipts will cease to be applied as Seller Principal in accordance with the Pre Enforcement Seller Principal Payments Priorities and will be applied as Available Investor Principal, which will be applied in or towards redemption of the Class A3 Notes, the Class B Notes and the Class C Notes subject to and in accordance with the Pre Enforcement Investor Principal Payments Priorities.</p> <p>See the section entitled "<i>Key Structural Features – Cash flows and Cash Management – Application of Principal Receipts prior to service of an Enforcement Notice</i>" for further information.</p>
<p>Rating Agencies</p>	<p>Fitch and Moody's. Each of the rating agencies is authorised under the CRA Directive.</p>
<p>Ratings</p>	<p>Ratings will be assigned to the Notes by the Rating Agencies as set out above on or before the</p>

	<p>Closing Date.</p> <p>The ratings reflect the views of the Rating Agencies and are based on the Mortgage Loans, the Related Security and the structural features of the transaction, including, inter alia, the rating of the Basis Swap Provider.</p> <p>The ratings assigned by Fitch address the likelihood of full and timely payment to the Noteholders (i) of interest due on each Interest Payment Date and (ii) of principal on a date that is not later than the Final Maturity Date.</p> <p>The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Notes held by the Noteholder by the Final Maturity Date. In Moody's opinion, the structure allows for timely payment of interest and principal at par on the Final Maturity Date.</p> <p>For the avoidance of doubt, neither Fitch's nor Moody's ratings addresses the likelihood of full or timely payment to the Noteholders of the Unrated Additional Amount.</p> <p>The assignment of ratings to the Notes is not a recommendation to invest in the Notes and may be revised, suspended or withdrawn at any time.</p>
Listing	<p>This Prospectus has been approved by the FSA as a prospectus issued in compliance with the Prospectus Directive (and relevant implementing measures in the United Kingdom) for the purpose of giving information with regard to the issue of the Notes.</p> <p>Applications have been made for the Notes to be admitted to listing on the Official List and to trading on the Regulated Market of the London Stock Exchange. The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive"). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive").</p>
Obligations	<p>The Notes will be obligations of the Issuer alone and will not be the obligations of, or guaranteed by, or be the responsibility of, any other entity. In particular, the Notes will not be obligations, or guaranteed by, or be the responsibility of any Transaction Party, other than the Issuer.</p>
Definitions	<p>Please refer to the section entitled "<i>Glossary</i>" for definitions of defined terms.</p>

A "RISK FACTORS" SECTION CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE NOTES. PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARISED WITHIN THAT SECTION.

The date of this Prospectus is 25 August 2010

Arranger

 **Lloyds TSB** | Corporate Markets

Lead Manager

 **Lloyds TSB** | Corporate Markets

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 TRANSACTION PARTIES (OTHER THAN THE ISSUER) OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ANY OF THE TRANSACTION PARTIES (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 TRANSACTION PARTIES (OTHER THAN THE ISSUER), OR ANY COMPANY IN THE SAME GROUP OF COMPANIES AS THE TRANSACTION PARTIES (OTHER THAN THE ISSUER).

YOU SHOULD REVIEW AND CONSIDER THE DISCUSSION UNDER "**RISK FACTORS**" BEGINNING ON PAGE 30 IN THIS PROSPECTUS BEFORE YOU PURCHASE ANY NOTES.

The Notes of each sub-class will be represented on issue by a Global Note in registered form for each sub-class of Notes. The Notes of each sub-class may also be issued in definitive registered form under certain limited circumstances.

The Issuer will maintain a register, to be kept by the Registrar, in which it will register the Global Notes in the name of a nominee for the Common Depositary, as owner of the Global Note.

Transfers of all or any portion of the interests in the Global Note may be made only through the register maintained by the Issuer. Each of Euroclear and Clearstream, Luxembourg will record the beneficial interests in the Global Note ("**Book-Entry Interests**"). Book-Entry Interests in the Global Notes will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Euroclear or Clearstream, Luxembourg, and their respective participants.

THE DISTRIBUTION OF THIS PROSPECTUS AND THE OFFERING OF THE NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. NO REPRESENTATION IS MADE BY ANY OF THE TRANSACTION PARTIES 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 FSA, NO ACTION HAS BEEN OR WILL BE TAKEN BY ANY OF THE TRANSACTION PARTIES 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. PERSONS INTO WHOSE POSSESSION THIS PROSPECTUS COMES ARE REQUIRED BY THE ISSUER, THE ARRANGER 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 SECURITIES ACT, THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER RELEVANT JURISDICTION. THE NOTES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER THE GLOBAL NOTES.

THE NOTES WILL BEAR RESTRICTIVE LEGENDS AND WILL BE SUBJECT TO RESTRICTIONS ON TRANSFER AS DESCRIBED HEREIN. EACH OF BANK OF SCOTLAND AND EACH INITIAL PURCHASER AND SUBSEQUENT TRANSFEREE OF THE NOTES WILL BE DEEMED, BY ITS ACQUISITION OR HOLDING OF SUCH NOTES, TO HAVE MADE THE

REPRESENTATIONS SET FORTH IN SUCH NOTES AND THE TRUST DEED THAT ARE REQUIRED OF SUCH INITIAL PURCHASERS AND TRANSFEREES. ANY RESALE OR OTHER TRANSFER, OR ATTEMPTED RESALE OR OTHER ATTEMPTED TRANSFER, OF NOTES WHICH IS NOT MADE IN COMPLIANCE WITH THE APPLICABLE TRANSFER RESTRICTIONS WILL BE VOID.

NONE OF THE ISSUER OR THE ARRANGER OR THE LEAD MANAGER 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 AND DECLARES THAT, HAVING TAKEN ALL REASONABLE CARE TO ENSURE SUCH IS THE CASE, THE INFORMATION IN THIS PROSPECTUS, TO THE BEST OF ITS KNOWLEDGE, IS IN ACCORDANCE WITH THE FACTS AND CONTAINS NO OMISSION LIKELY TO AFFECT ITS IMPORT. ANY INFORMATION SOURCED FROM THIRD PARTIES CONTAINED IN THIS PROSPECTUS HAS BEEN ACCURATELY REPRODUCED (AND IS CLEARLY SOURCED WHERE IT APPEARS IN THIS PROSPECTUS) AND, AS FAR AS THE ISSUER IS AWARE AND IS ABLE TO ASCERTAIN FROM INFORMATION PUBLISHED BY THAT THIRD PARTY, NO FACTS HAVE BEEN OMITTED WHICH WOULD RENDER THE REPRODUCED INFORMATION INACCURATE OR MISLEADING.

NO PERSON IS AUTHORISED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFERING OR SALE OF THE NOTES OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY ANY OF THE TRANSACTION PARTIES OR ANY OF THEIR RESPECTIVE AFFILIATES OR ADVISERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE OR ALLOTMENT MADE IN CONNECTION WITH THE OFFERING OF THE NOTES SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION OR CONSTITUTE A REPRESENTATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE ISSUER OR THE SELLER OR IN THE OTHER INFORMATION CONTAINED HEREIN SINCE THE DATE HEREOF. THE INFORMATION CONTAINED IN THIS PROSPECTUS WAS OBTAINED FROM THE ISSUER AND THE OTHER SOURCES IDENTIFIED HEREIN, BUT NO ASSURANCE CAN BE GIVEN BY THE TRUSTEE, THE ARRANGER OR THE LEAD MANAGER AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGER, THE LEAD MANAGER OR THE TRUSTEE HAS SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE TRUSTEE, THE ARRANGER 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.

THE DELIVERY OF THIS PROSPECTUS AT ANY TIME DOES NOT IMPLY THAT THE INFORMATION HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO ITS DATE.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION BY OR ON BEHALF OF, THE ISSUER, THE SELLER, THE ARRANGER, 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.

THIS PROSPECTUS IS PERSONAL TO THE OFFEREE WHO RECEIVED IT FROM THE ARRANGER OR THE LEAD MANAGER AND DOES NOT CONSTITUTE AN OFFER TO ANY OTHER PERSON TO PURCHASE ANY NOTES.

THE NOTES ARE BEING OFFERED ONLY TO A LIMITED NUMBER OF INVESTORS THAT ARE WILLING AND ABLE TO CONDUCT AN INDEPENDENT INVESTIGATION OF THE CHARACTERISTICS OF THE NOTES AND THE RISKS OF OWNERSHIP OF THE NOTES. IT IS EXPECTED THAT PROSPECTIVE INVESTORS INTERESTED IN PARTICIPATING IN THIS OFFERING WILL CONDUCT AN INDEPENDENT INVESTIGATION OF THE RISKS POSED BY AN INVESTMENT IN THE NOTES. REPRESENTATIVES OF THE LEAD MANAGER WILL BE AVAILABLE TO ANSWER QUESTIONS CONCERNING THE ISSUER AND THE NOTES AND WILL, UPON REQUEST, MAKE AVAILABLE SUCH OTHER INFORMATION AS INVESTORS MAY REASONABLY REQUEST. PROSPECTIVE PURCHASERS OF THE NOTES MUST BE ABLE TO HOLD THEIR INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THIS PROSPECTUS IS NOT INTENDED TO FURNISH LEGAL, REGULATORY, TAX, ACCOUNTING, INVESTMENT OR OTHER ADVICE TO ANY PROSPECTIVE PURCHASER OF THE NOTES.

THIS PROSPECTUS SHOULD BE REVIEWED BY EACH PROSPECTIVE PURCHASER AND ITS LEGAL, REGULATORY, TAX, ACCOUNTING, INVESTMENT AND OTHER ADVISORS. PROSPECTIVE PURCHASERS WHOSE INVESTMENT AUTHORITY IS SUBJECT TO LEGAL RESTRICTIONS SHOULD CONSULT THEIR LEGAL ADVISORS TO DETERMINE WHETHER AND TO WHAT EXTENT THE NOTES CONSTITUTE LEGAL INVESTMENTS FOR THEM.

In this Prospectus all references to "**Member State**" are references to a Member State of the European Economic Area, references to "**Pounds**", "**Sterling**", "**GBP**" and "**£**" are references to the lawful currency for the time being of the UK.

Forward-Looking Statements

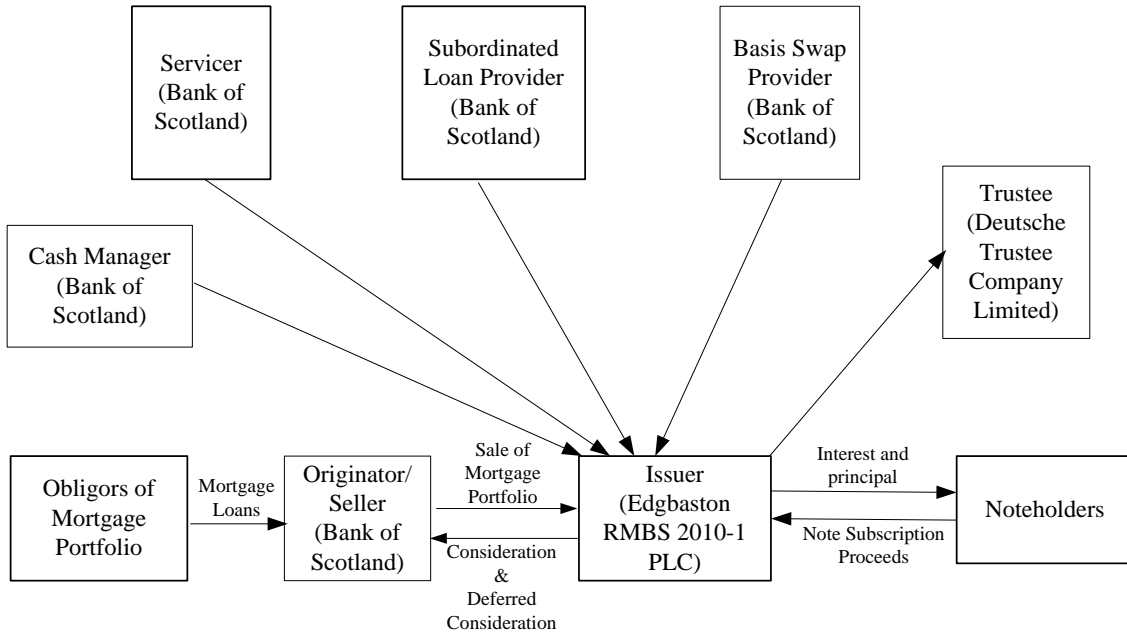
Some of the statements contained or incorporated by reference in this Prospectus consist of forward-looking statements relating to future economic performance or projections and other financial items. These statements can be identified by the use of forward-looking terminology, such as the words "believes", "expects", "may", "intends", "should" or "anticipates" or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the notes, Lloyds Banking Group, Bank of Scotland, the Birmingham Midshires brand or the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among others general economic and business conditions in the United Kingdom, currency exchange and interest rate fluctuations, government, statutory, regulatory or administrative initiatives affecting Lloyds Banking Group or Bank of Scotland or the business carried on by it under the Birmingham Midshires brand, changes in business strategy, lending practices or customer relationships and other factors that may be referred to in this Prospectus. Some of the most significant of these risks, uncertainties and other factors are discussed in the this Prospectus under the section entitled "*Risk factors*", and you are encouraged to carefully consider those factors prior to making an investment decision in relation to the Notes.

CONTENTS

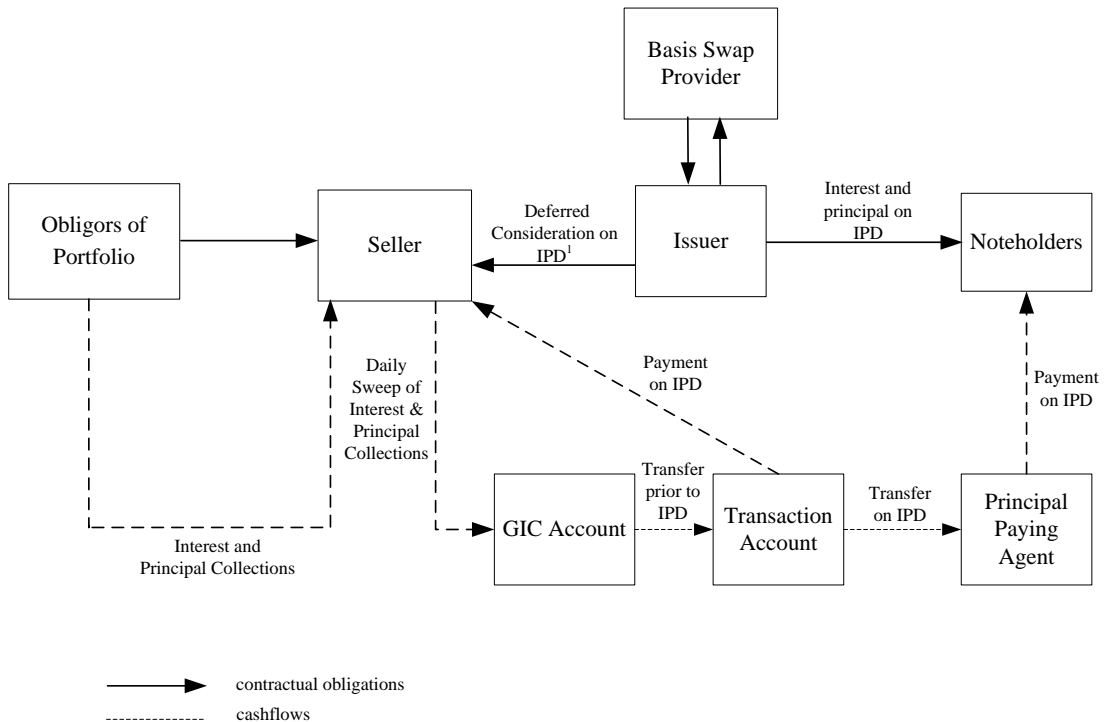
	Page
Diagrammatic Overview	1
Transaction Overview	3
Risk Factors	30
Weighted Average Life of the Notes	53
Use of Proceeds	55
Issuer	56
Holdings	58
Bank of Scotland	60
The Mortgage Portfolio	64
The Servicer	86
Key Structural Features	93
Description of the Notes in Global Form	114
Terms and Conditions of the Notes	119
Tax Treatment on the Notes	153
Subscription and Sale	155
Listing and General Information	157
Glossary of Defined Terms	159
Index of Defined Terms.....	183

DIAGRAMMATIC OVERVIEW

DIAGRAMMATIC OVERVIEW OF THE TRANSACTION

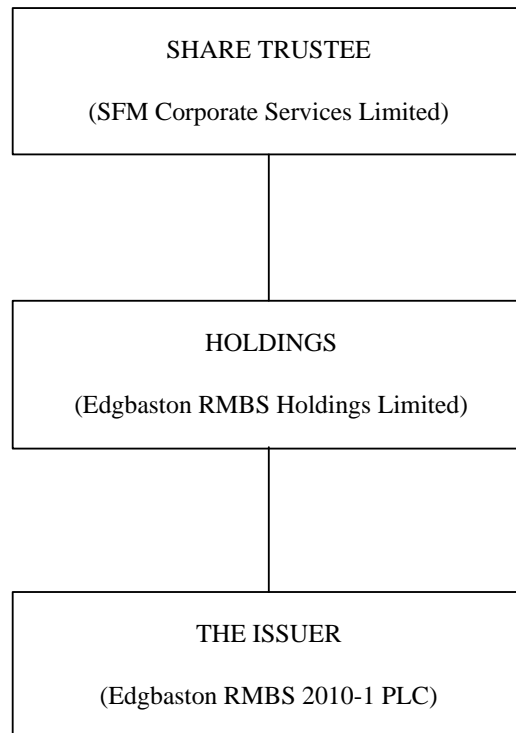


DIAGRAMMATIC OVERVIEW OF ON-GOING CASH FLOW



¹ Revenue Deferred Consideration and if Seller Principal Diversion Conditions are satisfied or the Investor Principal Amount is zero, Principal Deferred Consideration

OWNERSHIP STRUCTURE DIAGRAM



The entire issued share capital of the Issuer is beneficially owned 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.

TRANSACTION OVERVIEW

The information set out below is an overview of various aspects of the transaction. This overview is a summary of the main aspects of the transaction and should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this Prospectus.

TRANSACTION PARTIES ON THE CLOSING DATE

<u>Party</u>	<u>Name</u>	<u>Address</u>	<u>Document under which appointed/Further information</u>
Issuer	Edgbaston RMBS 2010-1 plc	35 Great St Helen's, London EC3A 6AP	N/A
Seller	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	N/A
Servicer	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Servicing Agreement by the Issuer and the Seller. See the section entitled " <i>The Servicer – Servicing of the Mortgages</i> " for further information.
Cash Manager	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Cash Management Agreement by the Issuer and the Trustee. See the section entitled " <i>Key Structural Features</i> " for further information.
Subordinated Loan Provider	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Subordinated Loan Agreement by the Issuer. See the section entitled " <i>Key Structural Features</i> " for further information.
Basis Swap Provider	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Basis Swap Agreement by the Issuer. See the section entitled " <i>Key Structural Features – Credit Enhancement and Liquidity Support – The Basis Swap Agreement</i> " for further information.
Account Bank	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ	Account Bank Agreement by the Issuer.
Trustee	Deutsche Trustee Company Limited	Winchester House, 1 Great Winchester Street, London EC2N 2DB	Trust Deed and Deed of Charge by the Issuer. See the Conditions for further information.
Principal Paying Agent	Deutsche Bank AG, London Branch	Winchester House, 1 Great Winchester Street, London EC2N 2DB	Agency Agreement by the Issuer.
Agent Bank	Deutsche Bank AG, London Branch	Winchester House, 1 Great Winchester Street, London EC2N 2DB	Agency Agreement by the Issuer.

<u>Party</u>	<u>Name</u>	<u>Address</u>	<u>Document under which appointed/Further information</u>
Registrar	Deutsche Bank Luxembourg S.A.	2 boulevard Konrad Adenauer, L-1115 Luxembourg, Luxembourg	Agency Agreement by the Issuer.
Corporate Services Provider	Structured Finance Management Limited	35 Great St Helen's, London EC3A 6AP	Corporate Services Agreement by the Issuer and Holdings. See the section entitled " <i>Issuer</i> " and " <i>Holdings</i> " for further information.
Collection Account Bank	Barclays Bank plc	Queen's Square, Wolverhampton, WV1 1DS	N/A
Arranger	Lloyds TSB Bank plc	25 Gresham Street, London EC2V 7HN	N/A
Lead Manager	Lloyds TSB Bank plc	25 Gresham Street, London EC2V 7HN	N/A

FULL CAPITAL STRUCTURE OF THE NOTES

	Class A1	Class A2	Class A3	Class B	Class C
Currency	£	£	£	£	£
Initial Principal Amount	603,170,000	603,170,000	1,809,520,000	558,480,000	148,950,000
Credit Enhancement Features	Excess Available Investor Revenue, General Reserve Fund, Subordination of the Class B Notes and the Class C Notes	Excess Available Investor Revenue, General Reserve Fund, Subordination of the Class B Notes and the Class C Notes	Excess Available Investor Revenue, General Reserve Fund, Subordination of the Class B Notes and the Class C Notes	Excess Available Investor Revenue, General Reserve Fund, Subordination of the Class C Notes	Excess Available Investor Revenue
Liquidity Support Features	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall and Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall and Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall and Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall and Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall and Liquidity Reserve Fund in respect of interest on the Class C Notes only
Issue Price	100%	100%	100%	100%	100%
Interest Rate	One Month Sterling LIBOR + Margin (interpolation of one Month Sterling LIBOR and two month Sterling LIBOR in respect of the First Interest Payment Date)	One Month Sterling LIBOR + Margin (interpolation of one Month Sterling LIBOR and two month Sterling LIBOR in respect of the First Interest Payment Date)	One Month Sterling LIBOR + Margin (interpolation of one Month Sterling LIBOR and two month Sterling LIBOR in respect of the First Interest Payment Date)	0.01% per annum	0.01% per annum
Margin	1.65% per annum	1.70% per annum	2.00% per annum	N/A	N/A
Unrated Additional	0.15% per annum from	0.15% per annum from	0.15% per annum from	0% per annum from and	0% per annum from and

Amount Rate	and including the First Call Option Date, plus 0% per annum from and including the Final Call Option Date, up to and excluding the Final Maturity Date	and including the First Call Option Date, plus 0% per annum from and including the Final Call Option Date, up to and excluding the Final Maturity Date	and including the First Call Option Date, plus 0% per annum from and including the Final Call Option Date, up to and excluding the Final Maturity Date	including the First Call Option Date, plus 0% per annum from and including the Final Call Option Date, up to and excluding the Final Maturity Date	including the First Call Option Date, plus 0% per annum from and including the Final Call Option Date, up to and excluding the Final Maturity Date
Interest Accrual Method	ACT/365				
Interest Determination Date	Interest Determination Date means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date				
Interest Payment Dates	Interest will be payable monthly in arrears on the Interest Payment Date falling on or around the 18th of each month, commencing on the First Interest Payment Date				
Business Day Convention	Following				
First Interest Payment Date	18 October 2010				
First Interest Period	The period from the Closing Date to 18 October 2010				
First Call Option Date / Final Call Option Date	18 August 2017 / 18 August 2022				
Pre Enforcement redemption profile (assuming Call Option exercised)	Pass through redemption on each Interest Payment Date to the extent of Available Investor Principal subject to and in accordance with the relevant Payments Priorities. If the Call Option is exercised on the First Call Option Date, the Notes will be redeemed in full on such date. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>)				
Pre Enforcement redemption profile (assuming Call Option not exercised)	Pass through redemption on each Interest Payment Date to the extent of Available Investor Principal subject to and in accordance with the relevant Payments Priorities. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>)				
Post Enforcement Redemption Profile	Pass through redemption in accordance with the Post Enforcement Investor Payments Priorities Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>)				
Other Early	tax/clean up call. Please refer to Condition 9 (<i>Final Redemption, Mandatory</i>				

Redemption in Full Events

Redemption in part, Optional Redemption and Cancellation)

Final Maturity Date

December 2051

Form of the Notes

Registered Notes

Application for Listing

London

ISIN

XS0533534011 XS0533535331 XS0533535505 XS0533535844 XS0533537030

Common Code

053353401 053353533 053353550 053353584 053353703

Clearance/ Settlement

Euroclear/ Clearstream, Luxembourg

Minimum Denomination

£100,000

Regulation

Reg S

Commission

nil

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

See the section entitled "*Terms and Conditions of the Notes*" for further information in respect of the terms of the Notes.

Ranking of Payments of Interest:

Payments of interest on the Class A Notes, the Class B Notes and the Class C Notes will be made in Sequential Order. Payments of interest on the Class C Notes rank behind payments made to the General Reserve Fund and the Liquidity Reserve Fund.

The Notes within each Class will rank *pro rata* and *pari passu* among themselves at all times in respect of payments of interest.

Ranking of Payments of Principal:

Payments of principal on the Class A Notes, the Class B Notes and the Class C Notes will be made in Sequential Order.

Payments of principal on the Class A Notes, amongst themselves, will be made in Sequential Order, other than following the occurrence of a Principal Payments Trigger Event, whereupon payments of principal on the Class A Notes, amongst themselves, will be made *pro rata* and *pari passu*.

To the extent that the Class A1 Notes and the Class A2 Notes have been redeemed in full, and all of the Seller Principal Diversion Conditions are satisfied on any Interest Payment Date, Principal Receipts will be applied as Seller Principal on such date in paying Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities until the Seller Principal Amount is equal to the Minimum Seller Principal Amount. If any of the Seller Principal Diversion Conditions ceases to be satisfied on any Interest Payment Date, Principal Receipts will cease to be applied as Seller Principal, but will instead be applied as Available Investor Principal in or towards redemption of the Class A3 Notes, the Class B Notes and the Class C Notes subject to and in accordance with the Pre Enforcement Investor Principal Payments Priorities. When the Investor Principal Amount is zero, all Principal Receipts will be applied as Seller Principal in paying Principal Deferred Consideration to the Seller until the Seller Principal Amount is zero.

For a more detailed overview of the Payments Priorities, see the sections entitled "*Transaction Overview - Overview of Credit Structure and Cashflow - Overview of Payments Priorities*" or "*Key Structural Features*".

Security:

The Notes are secured and share the same Security together with other Secured Amounts of the Issuer in accordance with the Deed of Charge as described in further detail in Condition 6 (*Security*). The security granted by the Issuer includes:

- (a) a first fixed charge over the benefit of the Issuer in the Mortgage Loans;
- (b) charges at law over indebtedness comprising an obligation or liability to pay money secured by each registered charge of which it is registered as proprietor at the Land Registry;
- (c) a first fixed charge over the benefit of each Authorised Investment;
- (d) an assignation in security of the Issuer's interest in the Scottish Loans and their Related Security (comprising the

Issuer's beneficial interest under the trust declared by the Seller pursuant to the Scottish Declaration of Trust);

- (e) assignment by way of security of all right, title, interest and benefit of the Issuer in the Buildings Policies;
- (f) absolute assignment of the benefit under each relevant Transaction Document; and
- (g) a floating charge with full title guarantee over the Issuer's whole undertaking and all of its property, assets and rights whatsoever other than those subject to a fixed charge or assignment (but excepting from the foregoing exclusion all of the Issuer's undertaking, property, assets and rights situated in Scotland or the rights to which are governed by Scots law, all of which are charged by way of floating charge).

Some of the other Secured Amounts rank senior to the Issuer's obligations under the Notes in respect of the allocation of proceeds as set out in the Post Enforcement Payments Priorities.

Interest payable on the Notes: The interest rate applicable to each Class of Notes is described in the sections entitled "*Transaction Overview – Full Capital Structure of the Notes*" and Condition 8 (*Interest*). The Class A Notes will be floating rate notes. The Class B Notes and the Class C Notes will be fixed rate notes.

Unrated Additional Amount:

From and including the First Call Option Date up to and excluding the Final Maturity Date, an additional amount, such amount being the Unrated Additional Amount may be paid to the Noteholders for each class. From and including the Final Call Option Date, the Unrated Additional Amount Rate will increase. See the sections entitled "*Transaction Overview - Full Capital Structure of the Notes*" and Condition 8 (*Interest*).

Interest Deferral: Interest due and payable on each Class of Notes (including, for the avoidance of doubt, the Class A Notes and the Unrated Additional Amount) may be deferred in accordance with Condition 8.11 (*Interest Accrual*) ("**Deferred Interest**").

Additional Interest: Deferred Interest will also accrue interest in accordance with Condition 8.11 (*Interest Accrual*) and such additional interest may also be deferred under Condition 8.11(c).

Withholding Tax: None of the Issuer, the Trustee or any Agent will be obliged to gross-up the Noteholders if there is any withholding or deduction for or on account of taxes from any payments made to the Noteholders.

Redemption: The Notes are subject to the following optional or mandatory redemption events:

- (a) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 9.1 (*Final Redemption*);
- (b) mandatory redemption in part on any Interest Payment Date prior to the delivery of an Enforcement Notice subject to availability of Available Investor Principal, as fully set out in Condition 9.2 (*Mandatory Redemption in part*);

- (c) optional redemption exercisable by the Issuer in whole where the Principal Amount Outstanding of all the Notes is less than 20 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date, as fully set out in Condition 9.3(a) (*Optional Redemption in whole*);
- (d) optional redemption exercisable by the Issuer in whole on the First Call Option Date and any Interest Payment Date thereafter up to, and including, the Final Call Option Date, as fully set out in Condition 9.3(b) (*Optional Redemption in whole*); and
- (e) optional redemption exercisable by the Issuer in whole for tax reasons, as fully set out in Condition 9.4 (*Optional Redemption in whole for taxation reasons*).

Subject to the Issuer having sufficient funds available for this purpose, each Note redeemed will be redeemed in an amount equal to the Principal Amount Outstanding of the relevant Note together with accrued (and unpaid) interest on the Principal Amount Outstanding of the relevant Note and any accrued (and unpaid) Unrated Additional Amount up to (but excluding) the date of redemption.

Event of Default:

As fully set out in Condition 13 (*Events of Default*), which broadly includes:

- non-payment by the Issuer of principal in respect of the Notes within 5 days following the due date or non-payment by the Issuer of interest in respect of the Notes within 10 days following the due date (provided that, for the avoidance of doubt, a deferral of interest in accordance with the Conditions shall not constitute a default in the payment of such interest);
- breach of contractual obligations by the Issuer under the Transaction Documents which is materially prejudicial to the interests of the holders of the Most Senior Class of Notes;
- Insolvency Event of the Issuer; or
- it is unlawful for the Issuer to perform or comply with its obligations.

Limited Recourse:

All the Notes are ultimately limited recourse obligations of the Issuer and, if the Issuer has insufficient funds to pay amounts in full, amounts outstanding will cease to be due and payable as described in more detail in Condition 10 (*Limited Recourse*).

Governing Law:

English law.

OVERVIEW OF RIGHTS OF NOTEHOLDERS

See the section entitled "*Terms and Conditions of the Notes*" for further detail in respect of the rights of Noteholders, conditions for exercising such rights and relationship with other Secured Creditors.

Prior to an Event of Default: Noteholders holding not less than 10% of the aggregate Principal Amount Outstanding of the Notes then outstanding of the relevant Class are entitled to request the Trustee to hold a Meeting, subject to the Trustee being indemnified to its satisfaction. Noteholders of each Class are also entitled to participate in a Meeting convened by the Issuer or Trustee to consider any matter affecting their interests.

However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any action, either directly or through the Trustee, without consent of the Issuer and, if applicable, certain other transaction parties, unless the Issuer has an obligation to take such action under the relevant Transaction Documents.

Following an Event of Default: If an Event of Default occurs and is continuing, the holders of the Most Senior Class of the Notes may, if they hold at least 25% of the Principal Amount Outstanding of the Most Senior Class of the Notes then outstanding or if they pass an Extraordinary Resolution, direct the Trustee to give an Enforcement Notice to the Issuer pursuant to which each Class of the Notes shall become immediately due and repayable at their respective Principal Amount Outstanding together with any accrued interest, subject to the Trustee being indemnified and/or secured to its satisfaction.

Noteholders Meeting provisions:	Notice period:	21 clear days for the initial meeting	10 clear days for the adjourned meeting
	Quorum for Extraordinary Resolution:	One or more persons holding or representing a majority of the Principal Amount Outstanding of the relevant class or classes of Notes for the initial meeting, (other than Reserved Matter (which must be proposed separately to each class of Noteholders), which requires one or more persons holding or representing in the aggregate not less than 75% of the Principal Amount Outstanding of the relevant class or classes of Notes)	At an adjourned meeting one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount of the Notes then outstanding held or represented by them (other than Reserved Matter, which requires one or more persons holding or representing not less than in aggregate 33 ¹ / ₃ per cent. of the Principal Amount Outstanding of the relevant Class or Classes).
	Required majority for Extraordinary Resolution:	Not less than 75% of votes cast	

Written Resolution Not less than 90% of the Principal Amount Outstanding of the relevant Class of Notes. A Written Resolution has the same effect as an Extraordinary Resolution

Reserved Matters:

Broadly speaking, the following matters are Reserved Matters:

- changes to payments (timing, method of calculation, reduction in amounts due and currency), to effect the exchange, conversion or substitution of the Notes, changes to Payments Priorities and changes to quorum and majority requirements and amendments to the definition of Reserved Matters.

Relationship between Classes of Noteholders:

Subject to the provisions in respect of Reserved Matter, an Extraordinary Resolution of Noteholders of the Most Senior Class of Notes shall be binding on all other Classes and would override any resolutions to the contrary of the Classes ranking behind such Class.

A Reserved Matter requires an Extraordinary Resolution of each class of Notes then outstanding.

Bank of Scotland as Noteholder:

For so long as any Notes are held by Bank of Scotland, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights).

Relationship between Noteholders and other Secured Creditors:

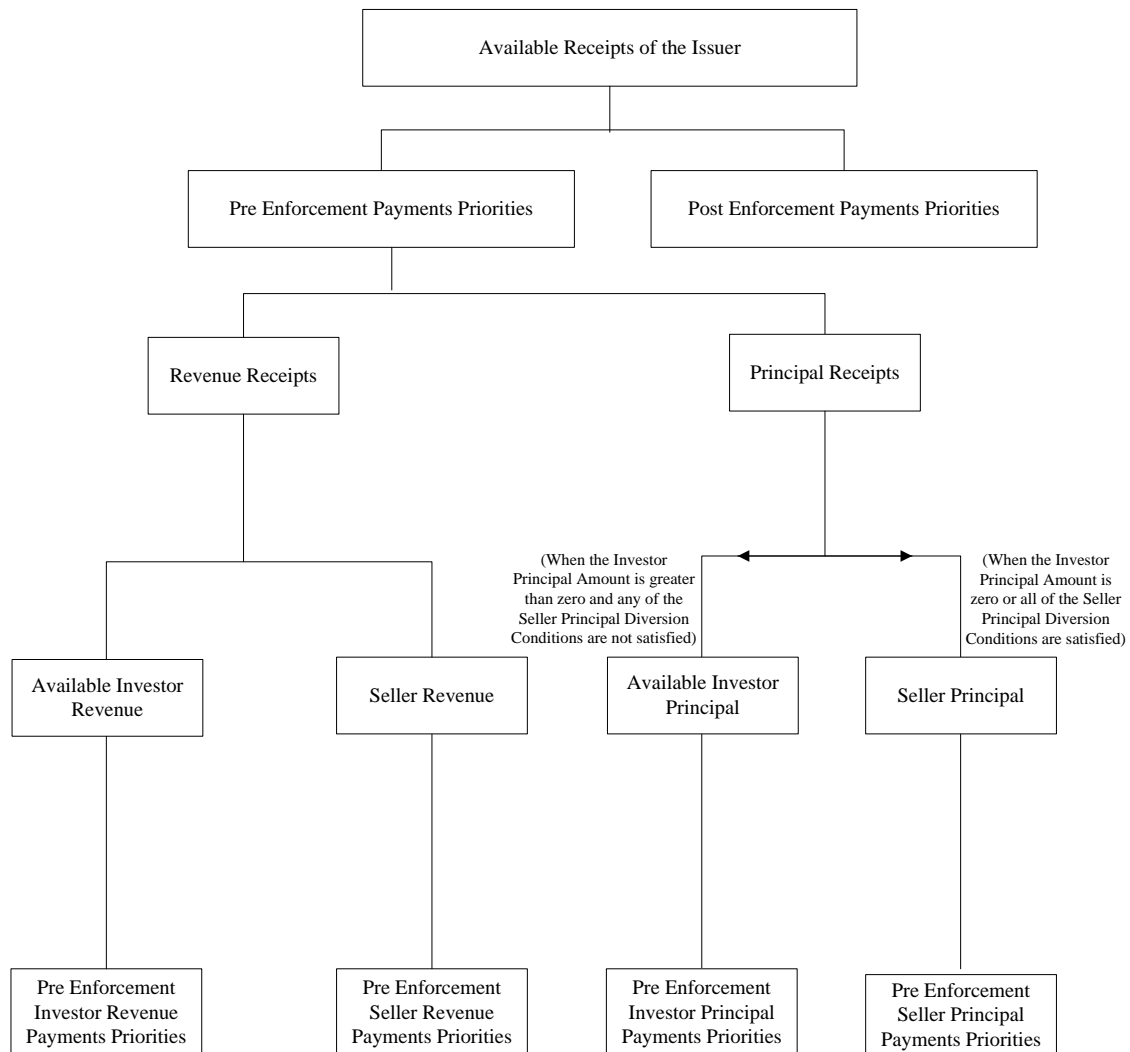
So long as any Notes are outstanding, the Trustee will have regard to the interests of both the Noteholders and the other Secured Creditors, but if in the Trustee's sole opinion there is a conflict between their interests, it will have regard solely to the interests of the Noteholders.

Provision of Information to the Noteholders:

Information in respect of the underlying Mortgage Portfolio will be provided to the investors on a monthly basis.

OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

See the sections entitled "Key Structural Features" for further information in respect of the credit structure and cash flow of the transaction



Investor Percentage and Investor Principal Amount/Seller Percentage and Seller Principal Amount

On the Closing Date, the Investor Principal Amount will be £3,723,290,000, the Investor Percentage will be 98.50%, the Seller Principal Amount will be £56,710,000, the Seller Percentage will be 1.50%, the Minimum Seller Principal Amount will be £19,361,108 and the Minimum Seller Percentage as at the Closing Date will be 0.52%. The Seller Principal Amount (as described more fully in the "Glossary of Defined Terms") is the Seller Percentage of the Current Balance of the Mortgage Portfolio and will represent the over-collateralisation of the transaction. The Investor Principal Amount (as described more fully in the "Glossary of Defined Terms") is the Investor Percentage of the Current Balance of the Mortgage Portfolio and, on the Closing Date, is an amount equal to the Principal Amount Outstanding of the Notes.

The Seller Percentage will increase (and the Investor Percentage will decrease) as Principal Receipts are applied by the Issuer as Available Investor Principal in or towards redemption of the Notes

on any Interest Payment Date.

The Seller Percentage will decrease (and the Investor Percentage will increase accordingly):

- (a) to reflect Set-Off Losses, if any; and
- (b) as Principal Receipts are applied by the Issuer to pay Principal Deferred Consideration to the Seller on any Interest Payment Date whilst any Notes remain outstanding.

The terms "Investor Principal Amount", "Investor Percentage", "Seller Principal Amount" and "Seller Percentage" are used for the purpose of making certain allocations and calculations with respect to Revenue Receipts, Principal Receipts and Principal Losses, as described more fully in the section entitled "*Key Structural Features - Cashflows*" and should not be construed as creating or purporting to create any proprietary interest of the Seller or any Noteholder in any of the Mortgage Loans.

Deferred Consideration:

Deferred Consideration in respect of the Seller's economic interest in the Mortgage Portfolio will be due and payable by the Issuer to the Seller from the Closing Date and prior to the service of an Enforcement Notice on each Interest Payment Date, out of:

- (a) Seller Principal (after application of Seller Principal in or towards items ranking in priority to Principal Deferred Consideration in accordance with the Pre Enforcement Seller Principal Payments Priorities) if the Investor Principal Amount is zero or if all of the Seller Principal Diversion Conditions are satisfied, in respect of Principal Deferred Consideration; and
- (b) excess Seller Revenue (after application of Seller Revenue in or towards items ranking in priority to Revenue Deferred Consideration in accordance with the Pre Enforcement Seller Revenue Payments Priorities), in respect of Revenue Deferred Consideration.

Deferred Consideration will be due and payable by the Issuer to the Seller following the service of an Enforcement Notice in accordance with the Post Enforcement Investor Payments Priorities.

Available Receipts of the Issuer:

The Issuer will have Available Investor Revenue and Available Investor Principal for the purposes of making interest payments and principal payments in respect of the Notes and paying the Investor Percentage of amounts due and payable to other parties under the Transaction Documents in accordance with the relevant Payments Priorities. The Issuer will have Seller Revenue for the purposes of paying the Seller Percentage of amounts due and payable to third parties under the Transaction Documents and making payments of Unrated Additional Amount to each Class of Notes from and including the First Call Option Date. The Issuer may also use Seller Principal to fund Available Investor Revenue and the Liquidity Reserve Fund and to pay Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities.

Available Investor Revenue will, broadly speaking, include the following:

- (a) an amount equal to Investor Revenue received by the Issuer during the immediately preceding Calculation Period;
- (b) interest payable to the Issuer on the Issuer Accounts and income from any Authorised Investments;
- (c) amounts received by the Issuer under the Basis Swap Agreement (subject to certain exceptions as set out in full in the section entitled "*Key Structural Features*" below);
- (d) any other net income of the Issuer received during the immediately preceding Calculation Period of a revenue nature (other than Principal Receipts, Seller Revenue, Early Repayments Charges and Third Party Amounts);
- (e) any amounts applied from the General Reserve Fund to make up a Revenue Shortfall;
- (f) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;
- (g) any Available Investor Principal or Seller Principal applied to make up a Revenue Shortfall (provided that such amounts shall not be used to (i) reduce any debit balance on any sub-ledger of the Principal Deficiency Ledger or (ii) pay interest on a Class of Rated Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Rated Notes is 50% or more than the Principal Amount Outstanding of that Class of Rated Notes);
- (h) any amounts applied from the Liquidity Reserve Fund to make up a Revenue Shortfall (provided that such amounts shall not be used to (i) reduce any debit balance on any sub-ledger of the Principal Deficiency Ledger or (ii) pay interest on a Class of Rated Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Rated Notes is 50% or more than the Principal Amount Outstanding of that Class of Rated Notes); and
- (i) any amounts available pursuant to item (h) (prior to a Principal Payments Trigger Event) or (f) (after a Principal Payments Trigger Event) of the Pre Enforcement Investor Principal Payments Priorities.

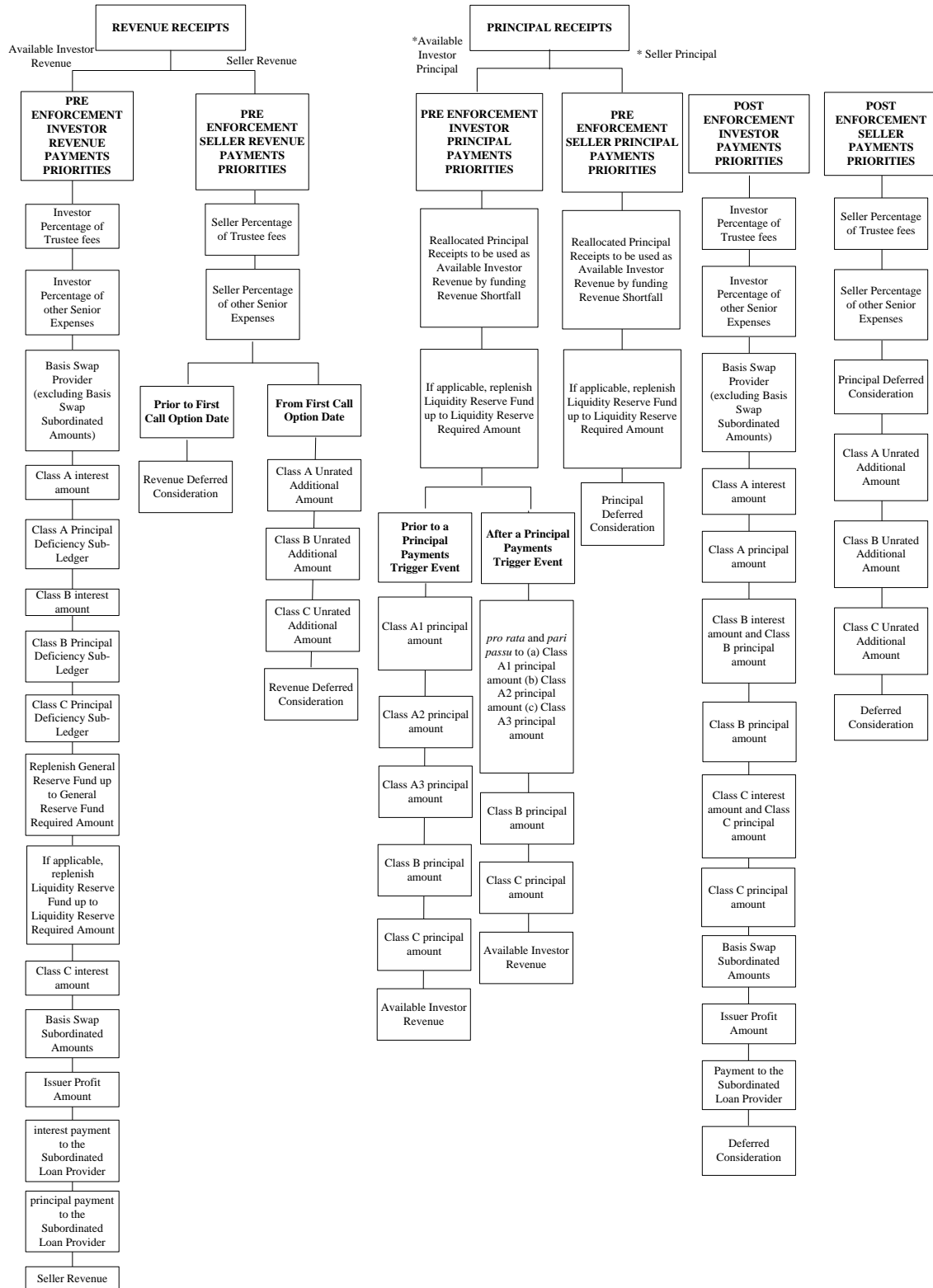
Available Investor Principal will, broadly speaking, include:

- (a) the Principal Receipts received by the Issuer whilst the Seller Principal Diversion Conditions are not satisfied provided that the Investor Principal Amount is greater than zero during the immediately preceding Calculation Period (including consideration paid by the Seller in respect of the re-purchase of the Mortgage Loans and their Related Security and recoveries received by the Issuer in relation to the enforcement of the relevant Mortgage Loan);
- (b) any amounts released from the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is

reduced; and

- (c) any Available Investor Revenue to be applied in reducing the debit balance on the Principal Deficiency Ledger.

OVERVIEW OF PAYMENTS PRIORITIES



* Principal Receipts will be applied as part of Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities on each Interest Payment Date, unless (i) all of the Seller Principal Diversion Conditions are satisfied; or (ii) the Investor Principal Amount is zero, in which case, Principal Receipts will be applied as Seller Principal to be applied in paying, *inter alia*, Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities.

Key Structural Features

The credit enhancement and liquidity support features of the

transaction include, broadly speaking, the following:

- availability of the General Reserve Fund, initially funded by the Subordinated Loan Provider on the Closing Date up to the General Reserve Fund Required Amount and replenished on each Interest Payment Date up to the General Reserve Fund Required Amount from Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities. The General Reserve Fund may be used by the Issuer to cover any Revenue Shortfall;
- availability of Available Investor Principal or Seller Principal to make up any Revenue Shortfall after the application of amounts credited to the General Reserve Fund. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of the Available Investor Principal and Seller Principal;
- availability of the Liquidity Reserve Fund which will be funded, on each Interest Payment Date while a Liquidity Trigger Event is continuing, from (i) Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities or Seller Principal in accordance with the Pre Enforcement Seller Principal Payments Priorities (as the case may be) or (ii) (if insufficient funds are available therefrom) from Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities up to the Liquidity Reserve Fund Required Amount. The Liquidity Reserve Fund may be used by the Issuer to make up any Revenue Shortfall after the application of amounts *firstly*, credited to the General Reserve Fund and *secondly*, the Available Investor Principal or Seller Principal (as applicable) using, *firstly*, funds in the Liquidity Reserve Revenue Sub-Ledger and *secondly*, funds in the Liquidity Reserve Principal Sub-Ledger. See the section entitled "*Revenue Shortfall*" below for limitations on availability of the use of the Liquidity Reserve Fund;
- availability of investment income provided by the Account Bank in respect of collections deposited in the GIC Account;
- availability of a Basis Swap provided by the Basis Swap Provider to hedge against the possible variance between the interest rates payable in respect of the Mortgage Loans and the LIBOR based interest payable in respect of the Notes;

and

- during the life of the Notes, the Available Investor Revenue is expected to be sufficient to pay the interest amounts payable in respect of all the Classes of Notes (excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to any Unrated Additional Amount) and senior costs and expenses of the structure and retain the Issuer Profit Amount. Any excess Available Investor Revenue will be applied on each Interest Payment Date as Seller Revenue.

However, the Issuer will have limited resources available to it, see the section entitled "*Risk Factors*".

See the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support*" for further information.

Revenue Shortfall

Where there is a Revenue Shortfall, the Issuer shall, subject to the following paragraph, pay or provide for that Revenue Shortfall by the application of (i) *firstly*, amounts in the General Reserve Fund; (ii) *secondly*, Available Investor Principal or Seller Principal (as applicable); and (iii) *thirdly*, amounts in the Liquidity Reserve Fund. None of the Available Investor Principal or Seller Principal (as applicable) or the Liquidity Reserve Fund will be applied to (i) reduce any debit balance on the Principal Deficiency Ledger or (ii) pay interest on a Class of Rated Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Rated Notes is 50% or more than the Principal Amount Outstanding of that Class of Rated Notes. For the avoidance of doubt, interest on the Class C Notes will not be supported by the General Reserve Fund, Available Investor Principal, Seller Principal or the Liquidity Reserve Fund.

Principal Deficiency Ledgers

The Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger and the Class C Principal Deficiency Sub-Ledger will be established to record as a debit any Principal Losses allocable to the Notes (being the Investor Percentage of Principal Losses for the relevant Calculation Period) and/or the use of (i) any Available Investor Principal or Seller Principal (as applicable) or (ii) the Liquidity Reserve Fund as Available Investor Revenue.

Available Investor Revenue will be credited to the sub-ledgers of the Principal Deficiency Ledger on each Interest Payment Date to reduce the debit balance of the Principal Deficiency Ledger in accordance with the relevant Payments Priorities.

The Investor Percentage of Principal Losses and/or the amount of Available Investor Principal or Seller Principal (as applicable) or Liquidity Reserve Fund used to fund a Revenue Shortfall will be allocated to the Notes and recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) *firstly*, to the Class C Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class C Notes;
- (b) *secondly*, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class B Notes; and
- (c) *thirdly*, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes.

Issuer Accounts and Cash Management

Revenue Receipts and Principal Receipts in respect of the Mortgage Loans are received by the Seller in the Collection Account. Interest payments and principal repayments are collected from the Borrowers throughout each month. The Servicer is responsible for collecting payments by Borrowers into the Collection Account and ensuring the same are transferred into the GIC Account on a regular basis but, in any event, in the case of payments by direct debits, no later than the next Business Day after they are deposited in the Collection Account. On or prior to each Interest Payment Date, amounts will be transferred by the Cash Manager from the GIC Account to the Transaction Account to be applied in accordance with the relevant Payments Priorities.

On or about the Closing Date, the Seller will declare a trust (the "**Collection Account Declaration of Trust**") in favour of the Issuer over amounts credited to the Collection Account to the extent that such amounts relate to the Mortgage Loans in the Mortgage Portfolio.

THE MORTGAGE PORTFOLIO

See the sections entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*", "*The Mortgage Portfolio – Statistical Information on the Mortgage Portfolio*" and "*The Servicer – Servicing of the Mortgage Loans*" for further information in respect of the sale of the Mortgage Portfolio.

Sale of Mortgage Portfolio:

The Mortgage Portfolio will consist of the Mortgage Loans, the Related Security and all monies derived therefrom from time to time, which will be sold to the Issuer on the Closing Date.

Each of the English Loans and their Related Security will be governed by English law and each of the Scottish Loans and their Related Security will be governed by Scots Law.

There will be no substitution of the Mortgage Loans in the Mortgage Portfolio as existing Mortgage Loans repay or are repurchased in accordance with the terms of the Mortgage Sale Agreement. See the section entitled "*The Mortgage Portfolio*" for more information.

Features of Mortgage Loans

The following is a summary of certain features of the Mortgage Loans as at the 13 July 2010 (the "**Reference Date**") and investors should refer to, and carefully consider, further details in respect of the Mortgage Loans set out in "*The Mortgage Portfolio – Statistical Information on the Mortgage Portfolio*".

The Mortgage Loans are all secured by first priority charges over freehold and leasehold properties in England, Wales and Scotland or, as the case may be, first ranking standard securities over heritable or long lease properties in Scotland:

Type of Borrower	100% Buy-to-Let
Type of Mortgage	Repayment Loans or Interest-only Loans or a combination of both
Self-Certified Loans	N/A
Fast-track Loans	N/A
Number of Mortgage Loans	41,404

	<u>Weighted Average</u>	<u>Minimum</u>	<u>Maximum</u>
Outstanding Current Balance (£)	£93,698.98 (Average only)	£1,062.23	£498,566.85
LTV Ratio at origination (%)	70.84%	1.07%	84.99%
LTV Ratio at Current Balance	73.36%	0.62%	130.12%

(%)			
Seasoning (months)	17.72	4.50	89.92
Remaining Term (years)	17.98	0.08	39.42

See the section entitled "*The Mortgage Portfolio – Statistical Information on the Mortgage Portfolio*" for further information and for an explanation of the terms and figures used in the tables above.

Consideration:

The consideration payable by the Issuer to the Seller in respect of the sale of the Mortgage Portfolio shall be equal to the aggregate of:

- (a) the Initial Consideration equal to the Investor Percentage of the Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Closing Date and all Arrears of Interest and Accrued Interest relating thereto; and
- (b) Deferred Consideration (comprising Principal Deferred Consideration and Revenue Deferred Consideration) payable in accordance with the Mortgage Sale Agreement.

If the Investor Principal Amount is zero or all of the Seller Principal Diversion Conditions are satisfied on an Interest Payment Date, Principal Deferred Consideration will be payable out of Principal Receipts being applied as Seller Principal on such Interest Payment Date in accordance with the Pre Enforcement Seller Principal Payments Priorities.

See the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*" for further information.

Representations and Warranties:

The Seller will make the relevant Seller Asset Warranties to the Issuer and the Trustee on the Closing Date, in respect of the Mortgages in the Mortgage Portfolio on the Closing Date.

Seller Asset Warranties include the following warranties in respect of each Mortgage Loan:

- First ranking security in respect of properties located in England, Wales or Scotland;
- Maximum outstanding principal amount of £500,000;
- At least two monthly payments having been made;
- Each Mortgage Loan made no earlier than 1 January 2003 and no later than 28 February 2010;
- Final maturity date of each Mortgage Loan no later than December 2049;
- No Flexible Loans;
- No account has an amount of arrears of interest or principal

greater than the amount of a Monthly Payment.

See the section entitled "*The Mortgage Portfolio – The Mortgage Loans and their Related Security – Representations and Warranties*" for further information.

Re-purchase of the Mortgage Loans:

The Seller shall re-purchase the relevant Mortgage Loans and their Related Security in the following circumstances:

- upon breach of Seller Asset Warranties (which are either not capable of remedy by the Seller or if the Seller failed to remedy the relevant breach within 20 days of the Cash Manager being notified (or, if earlier, within 20 days of the Cash Manager becoming aware of the breach)); and
- upon making Further Advances and/or Product Switches, within 20 days of the Cash Manager being notified (or, if earlier, within 20 days of the Cash Manager becoming aware of the Further Advance and/or Product Switch).

The Seller may re-purchase the relevant Mortgage Loans and their Related Security in the following circumstances:

- if the Issuer exercises its clean up call option where the Principal Amount Outstanding of all the Notes is less than 20 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date (see the section entitled "*Transaction Overview – Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*)); or
- if the Issuer exercises a general call option (see the section entitled "*Transaction Overview - Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*)).

Consideration for repurchase:

Consideration payable by the Seller in respect of the repurchase of the Mortgage Loans shall be equal to the Current Balance of the Mortgage Loans to be repurchased as at the date of the completion of the repurchase and all Arrears of Interest and Accrued Interest relating thereto.

Perfection Events:

See "*Perfection Events*" in the section entitled "*Transaction Overview – Triggers Table – Non-Rating Triggers Table*".

Legal title to the Mortgage Loans will not be vested in the Issuer on the Closing Date until certain perfection events occur under the terms of the Mortgage Sale Agreement. Prior to the completion of the transfer of the legal title to the Mortgage Loans, the Issuer will be subject to certain risks as set out in the section entitled "*Risk Factors - The Mortgages – Seller to Initially Retain Legal Title to the Mortgage Loan and Risks relating to Set-Off*".

Delegation by Servicer:

The Servicer may, in some circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Servicing Agreement. However, the Servicer remains liable at all times for servicing the Mortgage Loans and for the acts or omissions of any delegate or sub-contractor. See the section entitled "*The Servicer – The Servicing Agreement - Right of delegation by the Servicer*" for

further information.

TRIGGERS TABLES

Rating Triggers Table

Transaction Party	Required Ratings	Contractual requirements if the ratings triggers are breached include the following:
Basis Swap Provider	(i) Short-term issuer default ratings of at least F1 by Fitch and short-term, unsecured, unguaranteed and unsubordinated debt obligations rated at least P-1 by Moody's; and (ii) long-term issuer default ratings of at least A by Fitch and long-term, unsecured and unsubordinated debt or counterparty obligations rated at least A1 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes.	The consequences of breach under the Basis Swap Agreement include collateral posting, replacement of the Basis Swap Provider or guarantee of the Basis Swap Provider's obligations.
Account Bank	(i) Short-term issuer default ratings of at least F1 by Fitch and short-term, unsecured, unguaranteed and unsubordinated debt obligations rated at least P-1 by Moody's; and (ii) long-term issuer default ratings of at least A by Fitch, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes.	The consequences of breach under the Account Bank Agreement include replacement of Account Bank and guarantee of Account Bank's obligations.
Seller	Long-term issuer default rating by Fitch of at least BBB- or a long-term unsecured, unguaranteed and unsubordinated debt obligations rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes Also see " <i>Liquidity Trigger Events</i> " below.	Under the Mortgage Sale Agreement, the Seller shall be obliged to prepare the documentation required to perfect legal title to the Mortgage Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Mortgage Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Mortgage Loans or the Related Security to the Issuer. See the section entitled " <i>Mortgage Sale Agreement – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement</i> ". Also see " <i>Liquidity Trigger Events</i> " below.
Servicer	Long-term issuer default ratings of at least BBB- by Fitch and long-	Under the Servicing Agreement, the consequences of breach include the

	<p>term unsecured, unguaranteed and unsubordinated debt obligations rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes.</p> <p>Also see "<i>Seller Principal Diversion Conditions</i>" below.</p>	<p>appointment of a Back-Up Servicer, as set out in more detail in "<i>The Servicing Agreement – Back-Up Servicer</i>"</p>
<p>Liquidity Trigger Event</p> <p>See the section entitled "<i>Key Structural Features – Cashflows and Cash Management – Application of Liquidity Reserve Fund to fund Revenue Shortfall</i>" for further information.</p>	<p>Seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's or such other rating that is consistent with the then published criteria of the relevant Rating Agency as being the minimum rating that is required to support the then rating of the Most Senior Class of Notes.</p>	<p>Liquidity Reserve Fund will be funded initially from (i) Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities or Seller Principal in accordance with the Pre Enforcement Seller Principal Payments Priorities or (ii) (if insufficient funds are available therefrom) from Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities up to the Liquidity Reserve Fund Required Amount.</p>

Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Contractual requirements upon the occurrence of the following triggers
<p>Principal Payments Trigger Event</p>	<p>The occurrence of any of the following:</p> <p>(a) the First Call Option Date;</p> <p>(b) there is a debit balance on the Class B Principal Deficiency Sub-Ledger; or</p> <p>(c) delivery of an Enforcement Notice.</p>	<p>Payments of principal on the Class A Notes, amongst themselves, will be made <i>pro rata</i> and <i>pari passu</i>.</p>
<p>Seller Principal Diversion Conditions</p> <p>See the section entitled "<i>Key Structural Features – Cash flows and Cash Management – Application of Principal Receipts prior to service of an Enforcement Notice</i>" for further information.</p>	<p>Means the following:</p> <p>(a) the Class A1 Notes and the Class A2 Notes have been redeemed in full;</p> <p>(b) there is no debit balance on the Class B Principal Deficiency Sub-Ledger;</p> <p>(c) the First Call Option Date has not occurred;</p> <p>(d) no Insolvency Event in relation</p>	<p>If all of the Seller Principal Diversion Conditions are satisfied on an Interest Payment Date, Principal Receipts will be applied as Seller Principal which will be applied in accordance with the Pre Enforcement Seller Principal Payments Priorities to pay, amongst other things, Principal Deferred Consideration to the Seller until the Seller Principal Amount is equal to the Minimum Seller Principal Amount. If any of the Seller Principal Diversion Conditions cease to be satisfied on an</p>

	<p>to the Seller has occurred;</p> <p>(e) the Seller Principal Amount is more than the Minimum Seller Principal Amount; and</p> <p>(f) either the Servicer's long term issuer default rating is rated at least BBB- by Fitch or a Back-Up Servicer has been appointed.</p>	<p>Interest Payment Date, Principal Receipts will cease to be applied as Seller Principal, but will be applied as Available Investor Principal in or towards redemption of the Class A3 Notes, the Class B Notes and the Class C Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities.</p>
<p>Perfection Events</p> <p>See the section entitled "<i>The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Perfection Events</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <p>(a) perfection is required by an order of a court or regulatory authority; or</p> <p>(b) it being rendered necessary by law to take action to perfect legal title to the Mortgages; or</p> <p>(c) the Security being in jeopardy; or</p> <p>(d) the Seller requesting perfection; or</p> <p>(e) Insolvency Event of the Seller.</p>	<p>Borrower will be notified of the sale to the Issuer and legal title to the Mortgage Portfolio will be transferred to the Issuer.</p>
<p>Cash Manager Events</p>	<p>The occurrence of any of the following:</p> <p>(a) Default in payment of amount due and unremedied for 5 Business Days after the earlier of the Cash Manager becoming aware of such default and the receipt of written notice from the Issuer or the Trustee requiring the default to be remedied; or</p> <p>(b) material non-compliance with other covenants or obligations and unremedied for 20 Business Days after the earlier of the Cash Manager becoming aware of such default and the receipt of written notice from the Issuer or the Trustee requiring the default to be remedied; or</p> <p>(c) Insolvency Event of the Cash Manager.</p>	<p>Substitute Cash Manager to be appointed, subject to approval by the Trustee.</p>
<p>Servicer Termination Events</p> <p>See the section entitled "<i>The Servicer – The</i></p>	<p>The occurrence of any of the following:</p> <p>(a) Insolvency Event of the</p>	<p>Substitute servicer to be appointed, subject to approval by the Trustee</p>

<p><i>Servicing Agreement</i>" for further information.</p>	<p>Servicer; or</p> <p>(b) Default in payment of amount due and unremedied for 5 Business Days after the earlier of the Servicer becoming aware of such default and the receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied; or</p> <p>(c) Material non-compliance with other covenants or obligations and unremedied for 20 Business Days after the earlier of the Servicer becoming aware of such default and the receipt of written notice from the Issuer, the Seller and/or the Trustee requiring the default to be remedied; or</p> <p>(d) Issuer of the opinion that the appointment of the Servicer should be terminated.</p>	
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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	0.05 per cent. each year (inclusive of VAT, if any) of the aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio.	Ahead of all outstanding Notes	Monthly in arrears on each Interest Payment Date
Cash Manager fees	0.025 per cent. each year (inclusive of VAT, if any) on the Principal Amount Outstanding of the Notes	Ahead of all outstanding Notes	Monthly in arrears on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £900,000 in total (exclusive of VAT)	Ahead of all outstanding Notes	Monthly in arrears on each Interest Payment Date
Expenses related to the admission to trading of the Notes	£10,605 (exclusive of any applicable VAT)	N/A	On or about the Closing Date

VAT is currently chargeable at 17.5% and will be increased to 20% with effect from 4 January 2011.

RISK FACTORS

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

Credit Structure

Notes obligations of Issuer only

The Notes will be obligations solely of the Issuer and will not be the responsibility of, or guaranteed by, any of the Transaction Parties (other than the Issuer) and no person other than the Issuer will accept any liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Notes.

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 solely on receipts from the Mortgage Loans in the Mortgage Portfolio which are designated as Available Investor Revenue and Available Investor Principal, interest earned on the Issuer Accounts, amounts standing to the credit of the Reserve Funds, and the receipts under the Basis Swap Agreement and, with respect to the Unrated Additional Amounts and certain operating and administrative expenses, interest receipts from the Mortgage Loans which are designated as Seller Revenue. Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable Payments Priorities. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Secured Creditors, subject to the applicable Payments Priorities. The Issuer will have no recourse to the Seller, save as provided in the Mortgage Sale Agreement (see further the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*").

Limited recourse

The Notes will be limited recourse obligations of the Issuer. Other than the receipts from the Mortgage Loans in the Mortgage Portfolio which are available to be applied in or towards making payments on the Notes and amounts ranking *pari passu* or in priority thereto in accordance with the Payments Priorities, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes. 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 an Enforcement Notice; and
- (b) Realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Payments Priorities,

the proceeds of such Realisation are insufficient, after the same have been allocated as Available Investor Principal, Seller Principal, Available Investor Revenue or Seller Revenue (as applicable) or as Post Enforcement Investor Amounts or Post Enforcement Seller Amounts (as applicable) and payment of all claims ranking in priority to the Notes in accordance with the applicable Payments Priorities (including for the avoidance of doubt, amounts due and payable to the Seller as Deferred Consideration pursuant to the Post Enforcement Seller Payments Priorities), 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 (b) 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 (b) above, cease to be due and payable by the Issuer. "**Realisation**" is defined in Condition 10 (*Limited Recourse*). For the avoidance of doubt, the Seller has an economic interest in the Mortgage Portfolio and is entitled to payments of Deferred Consideration out of Revenue Receipts and Principal Receipts and such amounts

may therefore not be available to the Issuer to make payments to the Noteholders as described more fully in the section entitled "*Key Structural Features - Cashflows and Cash Management*".

Deferral of interest payments on the Notes

If, on any Interest Payment Date the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of any Class of Notes, (including, for the avoidance of doubt, the Class A Notes and any Unrated Additional Amount), after having paid or provided for items of higher priority in the Pre Enforcement Payments Priorities, then that amount shall not be due and payable and the Issuer will be entitled under Condition 8.11 (*Interest Accrual*) 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 such Class of Notes or the Unrated Additional Amount becomes immediately due and repayable in accordance with the Conditions and it shall not constitute an Event of Default. To the extent that there are insufficient funds on the following Interest Payment Date or such earlier date as interest in respect of such Class of Notes or the Unrated Additional Amount is scheduled to be paid in accordance with the Conditions, the deferral of interest or the Unrated Additional Amount, as the case may be, shall continue until the Final Maturity Date or such earlier date as the Notes are redeemed in full or the date on which amounts cease to be payable by the Issuer following application of the Post Enforcement Investor Payments Priorities.

Credit risk

The Issuer is subject to the risk of default in payment by the Borrowers and the failure by the Servicer, on behalf of the Issuer, to realise or recover sufficient funds under the arrears and default procedures in respect of the relevant Mortgage Loan and Related Security in order to discharge all amounts due and owing by the relevant Borrowers under the relevant Mortgage Loans. This risk may affect the Issuer's ability to make payments on the Notes but is mitigated to some extent by certain credit enhancement features which are described in the section entitled "*Key Structural Features - Credit Enhancement and Liquidity Support*".

Liquidity risk

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of payments being made late by Borrowers after the end of the relevant Calculation Period. This risk may adversely affect the Issuer's ability to make payments on the Notes but is mitigated to some extent by the provision of liquidity from alternative sources as described in the section entitled "*Key Structural Features - Credit Enhancement and Liquidity Support*".

Subordination of the Class B Notes and the Class C Notes

The Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes; the Class C Notes are subordinated in right of payment of interest and principal to the Class A Notes and the Class B Notes as set out in "*Key Structural Features*". Further, Available Investor Revenue will be applied to credit the Class C Principal Deficiency Sub-Ledger to eliminate any debit thereon and to credit the General Reserve Fund and the Liquidity Reserve Fund prior to payment of interest on the Class C Notes. There is no assurance that these subordination provisions will protect the holders of Class A Notes and the Class B Notes from all risk of loss.

Time subordination of the Class A Notes

Payments of principal on the Class A Notes, amongst themselves, will be made in Sequential Order, until the occurrence of a Principal Payments Trigger Event, whereupon payments of principal on the Class A Notes, amongst themselves, will be made *pro rata* and *pari passu*.

When the Class A1 Notes and the Class A2 Notes have been redeemed in full, and provided that the other Seller Principal Diversion Conditions are satisfied, Principal Receipts will be applied as Seller Principal on an Interest Payment Date in paying Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities until the Seller Principal Amount is equal to the Minimum Seller Principal Amount. Available Investor Principal will not be applied in or towards redemption of the Class A3 Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities until either the Seller Principal Amount is equal to or less than the Minimum Seller Principal

Amount or any of the other Seller Principal Diversion Conditions cease to be satisfied on an Interest Payment Date.

Unrated Additional Amount

The ability of the Issuer to pay any Unrated Additional Amount to Noteholders from and including the First Call Option Date in accordance with the Pre Enforcement Seller Revenue Payments Priorities depends on the availability of Seller Revenue. In addition to the Seller Percentage of Net Revenue collected by the Issuer, excess spread from the Pre Enforcement Investor Revenue Payments Priorities will be applied as Seller Revenue. The amount of Seller Revenue will decrease if the Seller Percentage reduces as a result of Set-Off Losses or if Seller Principal is applied by the Issuer to pay Principal Deferred Consideration to the Seller on any Interest Payment Date whilst any Notes remaining outstanding. If there is insufficient Seller Revenue, the Noteholders will not be paid any Unrated Additional Amount (or any Deferred Interest or any Additional Interest relating to any Unrated Additional Amount due and payable) in accordance with the Pre Enforcement Seller Revenue Payments Priorities.

Basis risk

The Issuer is subject to:

- the risk of the contractual interest rates on the Mortgage Loans (including Mortgage Loans with variable rates of interest linked to the Bank of England base rate) being lower than that required by the Issuer in order to meet its commitments under the Notes and its other obligations, which risk is mitigated but not obviated by the Basis Swap; and
- the risk that any cash held by or on behalf of the Issuer may earn a rate of return below the rate of interest payable on the Notes which risk is mitigated by (i) the GIC Account which pays a guaranteed rate of interest on funds standing to the credit thereof, (ii) the General Reserve Fund and the Liquidity Reserve Fund and (iii) (for so long as the Mortgage Loans are fully performing) the availability of excess Available Investor Revenue, each of which are available to meet payments of interest due under the Notes and the other expenses of the Issuer.

Basis swap termination payments

If the Basis Swap Agreement terminates, the Issuer may be obliged to pay a termination payment to the Basis Swap Provider. The amount of such termination payment will be based on the market value of the Basis Swap Agreement as determined by market quotations for transactions equivalent to those entered into under the Basis Swap Agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the Basis Swap Agreement or that the Issuer will have sufficient funds to make subsequent payments to the Noteholders in respect of the relevant class of Notes.

Except where the Basis Swap Provider has caused the Basis Swap Agreement to terminate by its own default (pursuant to which a Basis Swap Subordinated Amount is due), any termination payment in respect of the Basis Swap Agreement due by the Issuer to the Basis Swap Provider will rank in priority to payments due on the Class A Notes. Therefore, if the Issuer is obliged to make a termination payment to the Basis Swap Provider or to pay any other additional amount as a result of the termination of the Basis Swap Agreement, this will reduce the amount of funds which the Issuer has available to make payments on the Notes of any class.

If the Basis Swap Agreement terminates, no assurance can be given as to the ability of the Issuer to enter into one or more replacement transactions. If no replacement transaction is entered into, the Issuer will be exposed to the basis risk differential between contractual interest rates on the Mortgage Loans and the interest rates payable under the Notes

Payments Priorities

The Revenue Receipts and Principal Receipts received by the Issuer shall be applied by the Cash Manager (on behalf of the Issuer) in accordance with the relevant Payments Priorities which sets out the priority in which Secured Creditors will be paid if the Issuer has insufficient funds available to it to meet its payment obligations and as such, to the extent there are funds available, certain fees, costs and

expenses and other liabilities of the Issuer will rank ahead of payments to the Noteholders in accordance with the relevant Payments Priorities.

The validity of contractual payments priorities such as those contemplated in this transaction has been challenged recently in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap provider) and have considered whether such payments priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Court of Appeal in *Perpetual Trustee Co Ltd v BNY Corporate Trustee Services Ltd* [2009] EWCA Civ 1160, dismissed this argument and upheld the validity of the relevant payments priorities, stating that the anti-deprivation principle was not breached by such provisions. However, the insolvent party has been granted leave to appeal the decision to the Supreme Court and the question of the validity of the payments priorities will therefore be considered again. Judge Peck of the U.S. Bankruptcy Court for the Southern District of New York has granted Lehman Brothers Special Finance Inc.'s ("LBSF") motion for summary judgement to the effect that the provisions do infringe the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this has resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". BNY Corporate Trustee Services Ltd. has filed a motion for leave to appeal with the U.S. Bankruptcy Court. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies. In the case of an unfavourable decision, this may adversely affect the Issuer's ability to make payments on the Notes.

Yield and prepayment considerations

The yield to maturity of the Notes of each class will depend on, among other things, the amount and timing of payment of principal and interest (including prepayments, sale proceeds arising on enforcement of a Mortgage Loan and repurchases due to breaches of representations and warranties or due to making Further Advances or Product Switches) on the Mortgage Loans and the price paid by the holders of the Notes of each Class. Such yield may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Mortgage Loans.

The rate of prepayment of Mortgage Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions, homeowner mobility, the condition of the private residential rental market in England, Wales and Scotland and in particular, the condition of the private rental market within the various regional areas in England and Wales and Scotland where the relevant Properties are located. Subject to the terms and conditions of the Mortgage Loans (which may require in some cases notification to the Seller and in other cases the consent of the Seller), a Borrower may "overpay" or prepay principal on any day in specified circumstances. No assurance can be given as to the level of prepayments that the Mortgage Portfolio will experience. See also the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*".

On any Interest Payment Date from and including the First Call Option Date up to and including the Final Call Option Date or Interest Payment Date on which the aggregate Principal Amount Outstanding of all the Notes is less than 20 per cent. of the aggregate Principal Amount Outstanding of all such Notes on the Closing Date, the Issuer may, subject to certain conditions, redeem all of the Notes. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer or the Basis Swap Provider being required to make a Tax Deduction in respect of any payment in respect of the Notes or the Basis Swap Agreement, respectively or the Issuer would be subject to UK corporation in an accounting period on an amount which materially exceeds the Issuer Profit Amount retained during that accounting period. See Condition 9.4 (*Option Redemption in whole for taxation purposes*) for further information.

Ratings of the Notes

A rating is not a recommendation to buy, sell or hold securities and there is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by any one or more of the Rating Agencies as a result of changes in or unavailability of information or if, in the judgement of the Rating Agencies, circumstances so warrant. At any time, a Rating Agency may revise its relevant rating methodology, with the result that any rating assigned to any

class of the Rated Notes may be lowered. A qualification, downgrade or withdrawal of any of the ratings mentioned above may adversely impact upon the value of the Notes.

Agencies other than the Rating Agencies could seek to rate the Notes and if such "unsolicited ratings" are lower than the comparable ratings assigned to the Notes by the Rating Agencies, those unsolicited ratings could have an adverse effect on the value of the Notes. For the avoidance of doubt and unless the context otherwise requires, any reference to "**ratings**" or "**rating**" in this Prospectus is to the ratings assigned by the specified Rating Agencies only.

Ratings confirmation in relation to the Notes in respect of certain actions

The terms of certain Transaction Documents require the Rating Agencies to confirm that any action proposed to be taken by the Issuer and the Trustee will not have an adverse effect on the then current rating of the Notes (a "**Ratings Confirmation**").

A Ratings Confirmation that any action proposed to be taken by the Issuer or the Trustee will not have an adverse effect on the then current rating of the Notes does not, for example, confirm that such action (i) is permitted by the terms of the Transaction Documents or (ii) is in the best interests of, or not prejudicial to, the Noteholders. While the Issuer or the Trustee (as applicable) are entitled to have regard to the fact that the Rating Agencies have confirmed that the then current rating of the relevant class (or sub-class) of Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person whether by way of contract or otherwise.

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

Certain Rating Agencies have indicated that they will no longer provide Rating Confirmations as a matter of policy. To the extent that a Rating Confirmation cannot be obtained, whether or not a proposed action will ultimately take place will be determined in accordance with the provisions of the relevant Transaction Documents and specifically the relevant modification and waiver provisions.

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

No assurance is provided that there is an active and liquid secondary market for the Notes, and no assurance is provided that a secondary market for the Notes will develop or, if it does develop, that it will provide Noteholders with liquidity of investment for the life of the Notes. Any investor in the Notes must be prepared to hold their Notes for an indefinite period of time or until their Final Maturity Date or alternatively such investor may only be able to sell the Notes at a discount to the original purchase price of those Notes.

Moreover, at the date of this Prospectus, the secondary market for mortgage-backed securities in general is experiencing disruptions resulting from reduced investor demand for such securities. At times this has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities similar to the Notes experiencing limited liquidity. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008 and the European Central Bank liquidity scheme provide an important source

of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future under such facilities are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities.

Rights of Noteholders and Secured Creditors

Conflict between Noteholders

The Trust Deed contains provisions requiring the Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Trustee (except where expressly provided otherwise).

If, in the Trustee's opinion, there is a conflict between the interests of (a) (i) the Class A Noteholders and (ii) the Class B Noteholders and/or the Class C Noteholders, the Trustee shall give priority to the interests of the Class A Noteholders whose interests shall prevail; and (b) (i) the Class B Noteholders; and (ii) the Class C Noteholders, the Trustee shall (subject to (a) or if there are no Class A Notes outstanding) give priority to the interests of the Class B Noteholders whose interests shall prevail.

Conflict Between Noteholders and other Secured Creditors

So long as any of the Notes are outstanding, the Trustee will have regard to the interests of both the Noteholders and the other Secured Creditors, but if in the Trustee's sole opinion there is a conflict between their interests, it will have regard solely to the interest of the Noteholders and shall not have regard to the interests of the other Secured Creditors, subject to the provisions of the Trust Deed and Condition 14.2 (*Directions to the Trustee*).

Bank of Scotland as Noteholder

Bank of Scotland will be the initial purchaser of the Notes and may dispose of or retain in its discretion the whole or the majority of the Notes. For so long as any Notes are held by Bank of Scotland, it will be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights). Bank of Scotland's interests, with respect to the holding of such Notes, may be different from that of other Noteholders to the extent there are other Noteholders. So long as Bank of Scotland continues to hold any Notes, in the exercise of the rights to which it is entitled under the Notes, it will be in its interests to minimise any adverse impact or potential adverse impact on itself and its Affiliates. Such interests of Bank of Scotland may conflict with the interests of other Noteholders.

The Mortgages

Seller to initially retain legal title to the Mortgage Loans and risks relating to set-off

The sale by the Seller to the Issuer of the English Loans and their Related Security (until legal title is conveyed) takes effect in equity only. The sale by the Seller to the Issuer of the Scottish Loans and their Related Security will be given effect by a Scottish Declaration of Trust by the Seller in favour of the Issuer by which the beneficial interest in such Scottish Loans and their Related Security will be transferred to the Issuer. In each case, this means that the Issuer will not acquire legal title and, in the case of registered land in England or Wales, will not be registered as proprietor and legal owner of the Mortgage at the Land Registry, or in the case of land in Scotland, will not be registered or recorded as heritable creditor at Registers of Scotland, until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*The Mortgage Portfolio — Sale of the Mortgages and their Related Security*", below).

The Issuer has not and will not (prior to the occurrence of the trigger events referred to above) apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English Mortgages and their Related Security or take any steps to complete or perfect its title to the Scottish Mortgages and their Related Security.

There are certain consequences under English and Scots law of the Issuer not obtaining legal title to the Mortgage Loans and their Related Security or the Properties secured thereby:

- (a) a *bona fide* purchaser from the Seller for value of any of such Mortgage Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. If this occurred, then the Issuer would not have good title to the affected Mortgage Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Mortgage Loan. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents;
- (b) although as between the Seller and the Issuer, under the Servicing Agreement, the Seller has agreed that it will not vary any of the terms of the Mortgage Loans or their Related Security except that it may in its capacity as Servicer vary certain terms in certain circumstances as set out in the Servicing Agreement, as between any Borrower and the Issuer, if the Seller were to modify the terms of the Mortgage Loans and their Related Security the revised terms would apply and the Issuer would only have recourse against the Seller for breach of contract or breach of trust;
- (c) prior to the insolvency of the Seller, unless notice of the assignment or assignation (as appropriate) was given to a Borrower who is a creditor of the Seller in the context of the Mortgage Loans and their Related Security, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the relevant Mortgage Loan. These rights may result in the Issuer receiving reduced payments on the Mortgage Loans. The transfer of the benefit of any Mortgage Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment or assignation (as appropriate) is given to the Borrower, however, some rights of set-off may not arise after the date notice is given;
- (d) once notice has been given to the Borrowers of the assignment or assignation (as appropriate) of the Mortgage Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Mortgage Loan) will not be affected by that notice and will continue to exist; and
- (e) until notice of the assignment or assignation (as appropriate) is given to Borrowers, the Issuer would not be able to enforce any Borrower's obligations under a Mortgage Loan or Related Security itself but would have to join the Seller as a party to any legal proceedings. Borrowers will also have the right to redeem their Mortgages by repaying the relevant Mortgage Loan directly to the Seller. However, the Seller will undertake, pursuant to the Mortgage Sale Agreement, to hold any money repaid to it in respect of relevant Mortgage Loans to the order of the Issuer. However, for so long as the Issuer does not have legal title, the Seller will undertake for the benefit of the Issuer that it will lend its name to, and take such other steps as may reasonably be required by the Issuer in relation to, any legal proceedings in respect of the relevant Mortgage Loans and their Related Security.

If any of the risks described above were to occur then the realisable value of the Mortgage Portfolio or any part thereof and payments under the Notes may be adversely affected. Under the Mortgage Sale Agreement, the Seller will grant to the Issuer and the Trustee a power of attorney to give them the power to do all further things and take all necessary action to perfect the transfer of legal title to the Mortgage Loans and their Related Security on the giving of an Enforcement Notice in respect of the Notes and in certain other limited circumstances.

Principal Deferred Consideration/Seller Percentage

The Seller's entitlement to payment of Principal Deferred Consideration from Principal Receipts is not intended to provide credit enhancement for the Notes and Principal Losses are allocated to the Seller Principal Amount and the Investor Principal Amount on a pro rata basis. If the Investor Principal Amount is zero or all of the Seller Principal Diversion Conditions are satisfied, Principal Receipts will be applied as Seller Principal in paying, amongst other things, Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities which will reduce the Seller

Percentage and the Seller Principal Amount. If any of the Seller Principal Diversion Conditions cease to be satisfied, Principal Receipts will be applied as Available Investor Principal, which will be applied in or towards redemption of the Class A3 Note, the Class B Notes and the Class C Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities. Until the Investor Percentage is zero, the Seller Percentage and the Seller Principal Amount can only be reduced below the Minimum Seller Percentage and the Minimum Seller Principal Amount by allocation of Set-Off Losses and a *pro rata* share of Principal Losses to the Seller. If and for so long as the Seller Percentage is zero (and correspondingly the Seller Principal Amount is zero), any Principal Losses and Set-Off Losses occurring prior to any subsequent increase in the Seller Percentage will be applied entirely in reduction of the Investor Percentage and the Investor Principal Amount. In this situation, there is a risk that the Issuer will have insufficient funds to make payments of all amounts due on the Notes.

There is no obligation on the Seller to maintain the Seller Percentage or the Seller Principal Amount at or above the Minimum Seller Percentage or the Minimum Seller Principal Amount, respectively.

Servicing and Third Party Risk

Issuer reliance on other third parties and third party credit risk

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 Basis Swap Provider has agreed to provide hedging to the Issuer, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer, the Account Bank has agreed to provide the GIC Account and the Transaction Account to the Issuer, the Servicer has agreed to service the Mortgage Portfolio, the Cash Manager has agreed to provide cash management services and the Paying Agents, the Registrar, and the Agent Bank have all agreed to provide services with respect to the Notes. 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 (including as a result of insolvency of such third party), payments on the Notes may be adversely affected.

The Servicer

Bank of Scotland has been appointed by the Issuer as Servicer to service the Mortgage Loans. If the Servicer's long term issuer default rating cease to be rated at least BBB- by Fitch or its long-term unsecured, unguaranteed and unsubordinated debt obligations ceases to be at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes, the Issuer and/or the Seller will use its reasonable endeavours to appoint a back-up servicer with at least the same ratings by Fitch and Moody's within 30 Business Days of the default.

If the Servicer breaches the terms of the Servicing Agreement or if the appointment of the Servicer terminates in circumstances where a back-up servicer has not been appointed, then (prior to the delivery of an Enforcement Notice and with the prior written consent of the Trustee) the Issuer or (after delivery of an Enforcement Notice) the Trustee will be entitled to terminate the appointment of the Servicer in accordance with the terms of the Servicing Agreement and the Issuer and the Seller (or the Trustee, upon failure of the Issuer to do so) shall use their reasonable endeavours to appoint a new servicer in its place whose appointment is approved by the Trustee.

There can be no assurance that a back-up servicer or substitute servicer with sufficient experience of servicing the Mortgage Loans would be found who would be willing, able and authorised to service the Mortgage Loans on the terms of the Servicing Agreement, which could delay collection of payments on the Mortgage Loans and ultimately could adversely affect payments on the Notes. 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 Mortgage Loans and hence the Issuer's ability to make payments when due on the Notes.

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

The Trustee is not obliged to act in certain circumstances

The Trustee may, at any time, at its discretion and without notice, take such proceedings, actions or steps against the Issuer or any other party to any of the Transaction Documents as it may think fit to exercise or to enforce the provisions of the Notes or the Trust Documents (including the Conditions) or of the other Transaction Documents to which it is a party and at any time after the service of a Enforcement Notice, the Trustee may, at its discretion and without notice, take such steps as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings or steps (including, but not limited to, the giving of a Enforcement Notice in accordance with Condition 13 (*Events of Default*)) unless it shall have been directed to do so by an Extraordinary Resolution of the Most Senior Class of Noteholders or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the Most Senior Class of Notes then outstanding and it shall have been indemnified and/or secured to its satisfaction.

Change of counterparties

The parties to the Transaction Documents who receive and hold monies or provide support to the transaction pursuant to the terms of such documents (such as the Account Bank and the Basis Swap Provider) are required to satisfy certain criteria in order that they can continue to be a counterparty to the Issuer.

These criteria include requirements imposed by the FSA under the FSMA and requirements in relation to the short-term and long-term unguaranteed and unsecured ratings ascribed to such party by Fitch and Moody's. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the Issuer) may be required to be transferred to another entity which does satisfy the applicable criteria. No assurance can be given that a replacement entity satisfying the applicable criteria would be appointed in such circumstances. Further, in these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document and the cost to the Issuer may therefore increase. This may reduce amounts available to the Issuer to make payments of interest on the Notes

In addition, should the applicable criteria cease to be satisfied, then the parties to the relevant Transaction Document may agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Noteholders may not be required in relation to such amendments and/or waivers.

The Mortgage Portfolio

Default by Borrowers in paying amounts due on their Mortgage Loans

Borrowers may default on their obligations under the Mortgage Loans. Defaults may occur for a variety of reasons. The Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies and the condition of the private residential rental market in England and Wales and Scotland and in particular, the condition of the private rental market within the various regional areas in England and Wales and Scotland where the relevant Properties are located.

As the Mortgages are secured over Buy-to Let properties which are required to be let by relevant Borrowers, the condition of the rental market will influence the ability of the Borrowers to find tenants and the amount of rental income which may be achieved by the relevant Borrower in any letting.

There can be no guarantee that each such Property will be the subject of an existing tenancy when the relevant Mortgage is acquired by the Issuer or that each property will be tenanted throughout the life of the Mortgage, that the rental income achievable from the tenancies of the relevant Property will be sufficient to provide the Borrower with sufficient income to meet the Borrower's obligations in respect of the Mortgage during the life of the Mortgage, that the tenancies will be on market terms, that a tenant will always be able to pay their rent, and that a Borrower will always respect the terms of such tenancy

relating to the maintenance of the relevant Property. However, the obligations of a Borrower to make payments under a Mortgage is without regard to whether the relevant Property is let and without regard to the amount of rent received from the relevant tenant.

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

If a Borrower fails to repay its Mortgage Loan and the related Mortgaged Property is repossessed, the likelihood of there being a net loss on disposal of the Mortgaged Property is increased by a higher loan to value ratio.

In order to enforce a power of sale in respect of a Mortgaged Property, the relevant mortgagee or (in Scotland) heritable creditor (which may be the Seller or the Issuer upon perfection of the transfer of the title to the Mortgage Loans) must first obtain possession of the relevant property. Possession is usually obtained by way of a court order or decree although this can be a lengthy and costly process and will involve the mortgagee or heritable creditor assuming certain risks. If obtaining possession of properties in such circumstances is lengthy or costly, the Issuer's ability to make payments on the Notes may be reduced. The Issuer's ability to make such payment may be reduced further if the mortgagee's method for obtaining possession of properties permitted by law is restricted in the future. See the section entitled "*Risk Factors – Certain regulatory considerations - Consultation Paper on the power of sale and residential property and Home Owner and Debtor Protection (Scotland) Act 2010* " below.

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

Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Mortgage Loans. Borrowers with a mortgage loan subject to a variable rate of interest or with a mortgage loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, will be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a mortgage loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in borrowers' monthly payments, which (in the case of a mortgage loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, may result in higher delinquency rates and losses in the future.

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

These events, alone or in combination, may contribute to higher delinquency rates and losses on the Mortgage Portfolio, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Notes.

Declining property values

The value of the Related Security in respect of the Mortgage Loans may be affected by, among other things, a decline in the residential property values in Great Britain. If the residential property market in Great Britain should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the Related Security being significantly reduced and, in the event that the Related Security is required to be enforced, may result in losses on the Notes.

Mortgage Loans in the Mortgage Portfolio may also be subject to geographic concentration risks. To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions in the United Kingdom, a concentration of the Mortgage Loans in such a region may be expected to exacerbate the risks relating to the Mortgage Loans described in this section. These circumstances could affect receipts on the Mortgage Loans and ultimately result in losses on the Notes. For an overview of the geographical

distribution of the Mortgage Loans as at the Reference Date, see the section entitled "*Description of the Mortgage Portfolio — Geographical Spread Distribution*".

Recently, the UK recorded negative GDP growth during the course of 2009. During the second half of 2008 and continuing in 2009, the UK property market began a period of correction as a consequence of housing demand being constrained by a combination of subdued earnings growth, greater pressure on housing finances, rising unemployment, a decline in the availability of mortgage finance and the continued effect of global market volatility. House prices stabilised towards the end of 2009, however, should residential property values decline further, Borrowers may have insufficient equity to refinance their Mortgage Loans with lenders other than the Seller and may have insufficient resources to pay amounts in respect of their loans as and when they fall due. A higher percentage of Buy-to-Let Loans tend to be Interest Only Loans with the sale of the investment property being the main repayment vehicle for the Borrower. This could lead to higher delinquency rates and losses which in turn may adversely affect payments on the Notes.

Interest Only Loans

Each Mortgage Loan in the Mortgage Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination capital repayment/interest payment basis (see the section entitled "*The Mortgage Portfolio – The Mortgage Loans — Characteristics of the Mortgage Loans - Repayment Terms*"). Where the Borrower is only required to pay interest during the term of the Mortgage Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term.

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

Buildings insurance

The practice of the Seller in relation to buildings insurance are described under the section entitled "*The Mortgage Portfolio — The Mortgage Loans - Insurance Policies*" below. No assurance can be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts or that the amounts received in respect of a successful claim will be sufficient to reinstate the affected Mortgaged Property. This could adversely affect the Issuer's ability to redeem the Notes.

Redemption of Scottish Mortgages

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender and expenses incurred by the lender in relation to that standard security and interest.

No independent investigations; reliance on warranties in relation to the Mortgage Loans

The Seller will give certain warranties to each of the Issuer and the Trustee regarding the Mortgage Loans and their Related Security sold to the Issuer on the Closing Date. See the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Loans their Related Security – Representations and Warranties*" below for a summary of these.

Neither the Trustee, the Arranger, the Lead Manager nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Mortgage Loan or its Related Security in the Mortgage Portfolio and each relies instead on the warranties given in the

Mortgage Sale Agreement by the Seller. The primary remedy of the Issuer against the Seller if any of the Seller Asset Warranties made by the Seller is materially breached or proves to be materially untrue as at the Closing Date shall be to require the Seller to repurchase any relevant Mortgage Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Mortgage Loans and their Related Security in the Mortgage Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

Certain Regulatory Considerations

Mortgages Regulated under FSMA

In the United Kingdom, regulation of residential mortgage business by the FSA under the Financial Services and Markets Act 2000 ("**FSMA**") came into force on 31 October 2004 (the "**Mortgage Regulation Date**"). Subject to certain exemptions, entering into, arranging or advising in respect of or administering Regulated Mortgage Contracts (or agreeing to do any of these things) are regulated activities under FSMA requiring authorisation and permission from the FSA.

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

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. This noted, it is not expected that any of the Mortgage Loans will be Regulated Mortgage Contracts for the purposes of FSMA. The Seller will give the Seller Asset Warranties to the Issuer in the Mortgage Sale Agreement that, among other things, the land secured under any Mortgage Loan was not and was not intended to be occupied by the Borrower or any of his or her relatives at the time that the Mortgage Loan is entered into.

The Issuer is not and does not propose to be an authorised person under FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The Issuer does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to administration agreement by an entity having the required FSA authorisation and permission. If such an administration agreement terminates, however, the Issuer will have a period of not more than one month in which to arrange for mortgage administration to be carried out by a replacement administrator having the required FSA authorisation and permission.

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

In the event that, notwithstanding the Seller Asset Warranties, a Mortgage Loan is a Regulated Mortgage Contract and the requirements as to authorisation and permission of lenders and brokers or as to issue and approval of financial promotions are not complied with, the Mortgage Loan will be unenforceable against the borrower except with the approval of a court. In addition, a borrower who is a private person may be entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such set-off may adversely affect the Issuer's ability to make payments on the Notes. An unauthorised person who administers a Regulated Mortgage Contract entered into on or after the Mortgage Regulation Date may commit a criminal offence, but this will not render the contract unenforceable against the borrower.

So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA. Certain regulations made in 2005 and 2008 under FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after the Mortgage Regulation

Date. Credit agreements made before the Mortgage Regulation Date but subsequently changed such that a new contract is entered into on or after the Mortgage Regulation Date and constitutes a separate Regulated Mortgage Contract.

The Seller will give the Seller Asset Warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each relevant Mortgage Loan and its Related Security is enforceable (subject to certain exceptions). The Mortgage Sale Agreement provides that in respect of a material breach of a Seller Asset Warranty (which, if capable of remedy, is not remedied within the specified time) each of the Issuer, the Trustee may require the Seller to repurchase the relevant Mortgage Loan in exchange for payment of the Repurchase Price.

Credit agreements that were entered into before the Mortgage Regulation Date, but are subsequently changed such that a new contract is entered into on or after the Mortgage Regulation Date, are regulated under FSMA where they fall within the definition of "Regulated Mortgage Contract".

Proposed changes to UK mortgage regulation

Regulation of the mortgage market in the UK is subject to periodic review and, with this in mind, there remains a risk that there could be regulatory changes during the life of the Notes which could, depending upon the nature and scope of any regulation, adversely impact on the Issuer's ability to make payments in full when due on the Notes.

In particular, in March 2010, the UK Treasury announced its intention to expand the scope of mortgage regulation under MCOB to include regulation of buy-to-let mortgages and, amongst other things, protect borrowers when lenders sell on mortgage books to third parties. In its initial consultation, the Treasury proposed introducing a new regulated activity of "managing mortgage contracts", which would apply to any person having the power to exercise or to control the exercise of any of the rights of a lender of a regulated mortgage contract.

In its follow-up paper "Mortgage regulation: summary of responses", the Treasury clarified that it is not the Government's intention to require SPVs used in the wholesale mortgage markets to be FSA regulated if they are not responsible for decisions that may have a material impact on borrowers. However, it is possible that any resultant legislation (if drawn broadly) could result in a requirement for the Trustee to become regulated by the FSA under FSMA, which could, in turn, potentially impact on the Issuer's ability to make payments in full when due on the Notes.

The CCA Regime

Provided that the Seller Asset Warranties are accurate, then none of the Mortgage Loans should be regulated credit agreements within the meaning of the Consumer Credit Act 1974 (the "CCA"). The Seller will give the Seller Asset Warranties to the Issuer in the Mortgage Sale Agreement that, among other things, the land secured under any Mortgage Loan was not and was not intended to be occupied by the Borrower or any of his or her relatives at the time that the Mortgage Loan is entered into.

There remains a risk that any amount borrowed back under the Mortgage Loans constitutes a separate credit agreement, and in some circumstances it is possible that some of those credit agreements are regulated under the CCA. As the procedures for regulated credit agreements under the CCA will not have been followed in respect of those credit agreements, there is a risk that they are enforceable only by order of the OFT or a court (depending on the breach).

The Issuer does not intend to obtain a CCA licence. If any Mortgage Loan is in fact regulated under the CCA and the Issuer does not have a CCA licence, such Mortgage Loan would be unenforceable against the relevant Borrower without a validation order from the OFT if a Perfection Event has occurred and the Issuer has obtained legal title to such Mortgage Loan.

Proposed Mortgage Credit Directive

Whilst loans secured by a mortgage on land have been excluded from the Consumer Credit Directive, the European Commission has published a series of separate papers and commissioned a number of studies on mortgage credit over the past five years. Most recently, the Commission announced an intention to propose EU measures on responsible lending and borrowing, although no fixed deadline was published

for any proposals. No assurance can be given that any such initiatives will not adversely affect the ability of the Issuer to make payments under the Notes.

Consultation Paper on the power of sale and residential property and Home Owner and Debtor Protection (Scotland) Act 2010

On 29 December 2009, the Ministry of Justice of the United Kingdom published a consultation paper (entitled '*Mortgages: power of sale and residential property*' (CP55/09)) which contains proposals to amend the law to prevent mortgagees from selling residential properties in England and Wales without a court order or the consent of the borrower. It is not known if, and to what extent, these proposals will be enacted in the future as a matter of law. If the proposals are enacted, the ability of the mortgagee to exercise its power of sale in relation to the English Mortgages may be restricted and this may affect the Issuer's ability to make payments on the Notes.

The Scottish Parliament has recently passed the Home Owner and Debtor Protection (Scotland) Act 2010 (the "**2010 Act**"), Part 1 of which contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property in Scotland. The 2010 Act amends the sections of the Conveyancing and Feudal Reform (Scotland) Act 1970 which at present permit a heritable creditor to proceed to sell the secured property where the formal notice calling up the standard security has expired without challenge (or where a challenge has been made, for example, under the Mortgage Rights (Scotland) Act 2001, but not upheld). In terms of the 2010 Act, the heritable creditor will require to obtain a court order to exercise its power of sale, unless the borrower has surrendered the property voluntarily. The 2010 Act received Royal Assent on 18 March 2010 and is expected to come into force on 30 September 2010. If this occurs the ability of the Seller as heritable creditor of the Scottish Mortgages to exercise its power of sale may be restricted and this may affect the Issuer's ability to make payments on the Notes.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

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

The UTCCR provide that a consumer (which would include a borrower under all or almost all of the Mortgage Loans) 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).

The UTCCR will not affect 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 terms which define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. If any term of the Mortgage Loans is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the Issuer to make payments to Noteholders on the Notes.

Under concordats agreed between the FSA and the OFT, most recently in November 2009, the division of responsibility for the enforcement of the UTCCR in mortgage loan agreements was agreed to be allocated by them, generally, to the FSA in relation to Regulated Mortgage Contracts under FSMA originated by lenders authorised by the FSA and to the OFT in relation to other mortgages. In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in borrowers, a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's

Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

Pre-action Protocol for mortgage possession cases

A new protocol for mortgage possession cases in England and Wales came into force on 19 November, 2008 and sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three months after a borrower, who is an owner-occupier, is in arrears. The application of such a moratorium is subject to the wishes of the relevant borrower and may not apply in cases of fraud. The protocol is addressed to residential mortgage lenders and may have adverse effects in markets experiencing above average levels of possession claims.

The FSA has made changes to MCOB which effectively convert previous guidance on the policies and procedures to be applied by authorised firms (such as the Seller) with respect to forbearance in the context of Regulated Mortgage Contracts into formal mandatory rules. Under the new rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FSA has indicated that it does not expect each forbearance option referred to in the new rules to be explored at every stage of interaction with the borrower, it is clear that the new rules impose mandatory obligations on firms without regard to any relevant contractual obligations or restrictions. As a result, the new rules may operate in certain circumstances to require the Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the asset servicing arrangements contemplated by such Transaction Documents) in respect of one or more Mortgage Loans. No assurance can be made that any such actions will not impact adversely on the Issuer's ability to make payments in full when due on the Notes, although the impact of this will depend on the number of Mortgage Loans which involve a borrower who experiences payment difficulties.

Consumer Protection from Unfair Trading Regulations 2008

On 11 May, 2005, the European Parliament and Council adopted a directive on unfair business-to-consumer commercial practices (the "**Unfair Practices Directive**"). The Unfair Practices Directive was implemented into United Kingdom law through the Consumer Protection from Unfair Trading Regulations 2008 ("**CPUTRs**"). The CPUTRs came into effect on 26 May, 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. Although the CPUTRs are not concerned solely with financial services, they do apply to the residential mortgage market. The OFT and FSA agreed a concordat most recently in November, 2009 to co-ordinate enforcement action and co-operate regarding the delivery of consumer protection in relation to the CPUTRs.

Under the CPUTRs a commercial practice is to be regarded as unfair and prohibited if it is:

- (a) contrary to the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or general principles of good faith in the trader's field of activity; and
- (b) materially distorts or is likely to materially distort the economic behaviour of the average consumer (who is reasonably well-informed and reasonably observant and circumspect, and taking into account social, cultural and linguistic factors) who the practice reaches or to whom it is addressed (or where a practice is directed at or is of a type which may affect a particular group of consumers, the average consumer of that group).

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the Mortgage Loans, the Seller or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do

so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPUTRs would initiate intervention by a regulator.

No assurance can be given that the CPUTRs will not adversely affect the ability of the Issuer to make payments to Noteholders.

Potential effects of any additional regulatory changes

No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of the mortgage market in the United Kingdom generally, the Seller's particular sector in that market or specifically in relation to the Seller. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the Seller, the Issuer and/or the Servicer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full when due on the Notes.

For example, in July, 2010, the FSA published a Consultation Paper entitled "Mortgage Market Review: Responsible Lending" (CP 10/16) which, amongst other things, proposed more stringent requirements on firms to ensure the affordability of mortgages made to customers and refinement of the FSA's approach to the regulation and enforcement of arrears charging practices. Whilst none of the proposals set out in the consultation paper are likely to have a direct impact on any Mortgage Loans originated prior to any implementation of the proposals, it is possible that the paper could indicate a more stringent approach by the FSA to enforcement of its existing standards on treating customers fairly under FSA Principle 6.

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. 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.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and assigned by way of security to the Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent.

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).

Fixed charges may take effect under English law as floating charges

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only, if, for example, it is determined that the Trustee does not exert sufficient control over the Charged Property (although it should be noted that there is no equivalent concept of recharacterisation of fixed security as floating charges under Scots law). If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets.

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 abolishes Crown Preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but Section 176A of the Insolvency Act 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.

Liquidation expenses

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

Risks relating to the Banking Act 2009

Under the Banking Act 2009 (the "**Banking Act**"), substantial powers have been granted to HM Treasury, the Bank of England and the UK Financial Services Authority (the "**FSA**" and, together with HM Treasury and the Bank of England, (the "**Authorities**") as part of the special resolution regime (the "**SRR**"). These powers enable the Authorities to deal with and stabilise UK-incorporated institutions with permission to accept deposits pursuant to Part IV of the FSMA (such as the Account Bank, the Basis Swap Provider, the Cash Manager, the Servicer, the Seller and the Subordinated Loan Provider) (each a "**relevant entity**") that are failing or are likely to fail to satisfy the threshold conditions (within the meaning of section 41 of the FSMA). The SRR consists of three stabilisation options: (i) transfer of all or part of the business of the relevant entity or the shares of the relevant entity to a private sector purchaser; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" wholly-owned by the Bank of England; and (iii) temporary public ownership of the relevant entity. HM Treasury may also take a parent company of a relevant entity into temporary public ownership where certain conditions are met. The Banking Act also provides for two new insolvency and administration procedures for relevant entities. Certain ancillary powers include the power to modify certain contractual arrangements in certain circumstances. It is possible that one of the stabilisation options could be exercised prior to the point at which any application for an insolvency or administration order with respect to the relevant entity could be made.

In general, the Banking Act requires the Authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial system of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. The Authorities are also empowered by order to amend the law for the purpose of enabling the powers under the SRR to be used effectively. An order may make provision which has retrospective effect. In general, there is considerable uncertainty about the scope of the powers afforded to Authorities under the Banking Act and how the Authorities may choose to exercise them.

If an instrument or order were to be made under the Banking Act in respect of a relevant entity, such instrument or order may (amongst other things) affect the ability of such entity to satisfy its obligations under the transaction documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the transaction documents in respect of the relevant entity, including termination and acceleration events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Mortgage Loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the notes. While

there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that noteholders would recover compensation promptly and equal to any loss actually incurred.

At present, the Authorities have not made an instrument or order under the Banking Act in respect of the relevant entities referred to above and there has been no indication that it will make any such instrument or order, but there can be no assurance that this will not change and/or that noteholders will not be adversely affected by any such instrument or order if made.

Legal considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

Securitisation Company Tax Regime

The Taxation of Securitisation Companies Regulations 2006 (the "**TSC Regulations**") were made under section 84 of the Finance Act 2005 on 11 December 2006 (and now take effect under Chapter 4, Part 13 of the Corporation Tax Act 2010). The TSC Regulations deal with the corporation tax position of securitisation companies such as the Issuer with effect for periods of account beginning on or after 1 January 2007. The TSC Regulations have been amended by, in particular, the Taxation of Securitisation Companies (Amendment) Regulations 2007, which came into force on 27 December 2007 (and have effect for periods beginning on or after 1 January 2007).

If the TSC 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 expects to be taxed under the special tax regime for which provision is made by the TSC Regulations.

Investors should note, however, that the TSC 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 TSC Regulations including whether any particular company falls within the new regime.

Prospective Noteholders should note that if the Issuer did not fall to be taxed under the new regime provided for by TSC Regulations 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 affect on its ability to make payments to the Noteholders.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or 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. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

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. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

European Monetary Union

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 (i) all amounts payable in respect of the Notes may become payable in Euro; (ii) law may allow or require the Notes to be redenominated into Euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Mortgage Loan as well as adversely affect investors in the Notes.

Book-Entry Interests

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

A nominee for the Common Depositary will be considered the registered holder of the Notes as shown in the records of Euroclear or Clearstream, Luxembourg and will be the sole legal Noteholder of the Global Note under the Trust Deed while the Notes are represented by the Global Note. 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.

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

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the 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.

The lack of Notes in physical form could also make it difficult for a Noteholder to pledge such Notes if Notes in physical form are required by the party demanding the pledge and hinder the ability of the Noteholder to recall such Notes because some investors may be unwilling to buy Notes that are not in physical form.

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

Meetings of Noteholders, modification and waiver

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 Trust Deed provides that, without the consent or sanction of the Noteholders or any of the other Secured Creditors, the Trustee may:

- (a) concur with the Issuer and/or any other person, in making any modification to the Conditions or the Transaction Documents:
 - (i) which, in the opinion of the Trustee, is of a formal, minor or technical nature, or is to correct a manifest error or is necessary or desirable to reflect the then current rating criteria of any Rating Agency; or
 - (ii) (other than a Reserved Matter) which, in the opinion of the Trustee, will not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding,
- (b) authorise or waive, on such terms and conditions (if any) as it may decide, any proposed breach or breach of any Transaction Document, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby, and
- (c) determine that any Event of Default or Potential Event of Default shall not be treated as such, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby,

provided always that the Trustee shall not exercise any powers under paragraphs (b) or (c) in contravention of any express direction given by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding (but no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made; or (b) shall authorise or waiver any proposed breach or breach relating to a Reserved Matter unless each Class of Notes, has by Extraordinary Resolution, so authorised its exercise).

The Trustee may also, without the consent of any of the Noteholders or other Secured Creditors, concur with the Issuer in substituting in place of the Issuer a Substituted Obligor as the principal debtor in respect of the Transaction Documents provided that certain conditions as set out in the Trust Deed are satisfied.

The Trust Deed provides that the Trustee shall, as regards to powers, trusts, authorities, duties and discretions vested in it by the Transaction Documents, except where expressly provided otherwise, have regard to the interests of both the Noteholders and other Secured Creditors, provided that, if in the Trustee's sole opinion, there is a conflict between their interests, it will only have regard solely to the interests of the Noteholders. In addition, the Trustee shall have regard for so long as there are any Class A Notes outstanding, only to the interests of the Class A Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and the Class C Noteholders and, if there are no Class A Notes outstanding, for so long as there are any Class B Notes outstanding, only to the interests of the Class B Noteholders if, in the Trustee's opinion, there is or may be a conflict between the interests of the Class B Noteholders and the interests of the Class C Noteholders. See also the section entitled "*Transaction Overview - Overview of Rights of Noteholders*".

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 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 Mortgage 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.

Lloyds Banking Group and Bank of Scotland Group's businesses are subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on Lloyds Banking Group and Bank of Scotland Group's operating results, financial condition and prospects.

Lloyds Banking Group and Bank of Scotland Group conduct their businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector, which both the Lloyds Banking Group and Bank of Scotland Group expect to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of Lloyds Banking Group and Bank of Scotland Group and could materially adversely affect the Lloyds Banking Group and Bank of Scotland Group's businesses. In addition HM Treasury currently holds approximately 40.6 per cent of the Lloyds Banking Group's ordinary share capital. UK Financial Investments Limited ("UKFI") as manager of HM Treasury's shareholding continues to operate in line with the framework document between UKFI and HM Treasury managing the investment in the Lloyds Banking Group on a commercial basis without interference in day-to-day management decisions.

Areas where changes could have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which the Lloyds Banking Group and Bank of Scotland Group operate, may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- changes to prudential regulatory rules relating to capital adequacy and liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to those applied by the Lloyds Banking Group or Bank of Scotland Group historically;
- changes in competition and pricing environments;
- further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership;
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for the Lloyds Banking Group or Bank of Scotland Group's products and services; and
- changes in Government priorities which could result in the framework agreement in place being replaced leading to interference in the operations of the Lloyds Banking Group, although there have been no indications that the Government intends to change the existing operating arrangements.

In the United Kingdom and elsewhere, there is increased political and regulatory scrutiny of the banking industry and, in particular, retail banking. The UK Government, the FSA and other regulators in the United Kingdom or overseas may intervene further in relation to areas of industry risk already identified, or in new areas, which could adversely affect the Lloyds Banking Group.

The Competition Commission, the Financial Services Authority ("FSA") and the Office of Fair Trading ("OFT") have recently carried out, or are currently conducting, a number of industry wide inquiries. Also in the UK and overseas Lloyds Banking Group is subject to legal and regulatory proceedings, challenges and investigations (which may include class action lawsuits) and other complaints (including to the

Financial Ombudsman Service). The outcome of any inquiry, investigation, proceeding or complaint is inherently uncertain.

In addition, the Lloyds Banking Group faces increased political and regulatory scrutiny as a result of the Lloyds Banking Group's perceived size and systemic importance following the acquisition of HBOS Group. Such scrutiny may focus on, or include review of, the historical operations of the HBOS Group as well as the characteristics of the enlarged Lloyds Banking Group. In clearing the acquisition of HBOS Group without a reference to the UK Competition Commission, the Secretary of State noted that there were some competition concerns identified by the OFT in the markets for personal current accounts and mortgages in Great Britain and the market for SME banking in Scotland. The OFT has also reiterated that it will consider whether to refer any banking markets to the Competition Commission if it identifies any prevention, restriction or distortion of competition.

Compliance with any changes in regulation or with any regulatory intervention resulting from political or regulatory scrutiny may significantly increase the Lloyds Banking Group and Bank of Scotland Group's costs, impede the efficiency of their internal business processes, limit their ability to pursue business opportunities, or diminish their reputation. Any of these consequences could have a material adverse effect on the Lloyds Banking Group and Bank of Scotland Group's operating results, financial condition and prospects.

In the United Kingdom, firms within the Lloyds Banking Group and Bank of Scotland Group are responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers

In the United Kingdom, the Financial Services Compensation Scheme (the "FSCS") was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. The FSCS is funded by levies on firms authorised by the FSA, including firms within the Lloyds Banking Group and the Bank of Scotland Group. The Lloyds Banking Group (including the Bank of Scotland Group) continues to provide for its share of the management expenses levy and the estimated interest cost on the FSCS borrowings. Going forward, further provisions in respect of these costs are likely to be necessary until the borrowings are repaid. The ultimate cost to the industry, which will also include the cost of any compensation payments made by the FSCS and, if necessary, the cost of meeting any shortfall after recoveries on the borrowings entered into by the FSCS, remains uncertain although it may be significant and the associated costs to the Lloyds Banking Group and Bank of Scotland Group may have a material adverse effect on their results of operations and financial condition.

The FSA requires that UK deposit-taking institutions develop systems by 31 December 2010 to produce a Single Customer View ("SCV"), providing an aggregated view of each customer's eligibility for compensation in the event of a failure. In the event that the Lloyds Banking Group or Bank of Scotland Group fail to deliver such a project to the regulator's standards or timetables, there is the risk of public sanction, financial penalty and/or the deployment by the FSA of such other regulatory tools as it deems appropriate to the circumstances. Other potential changes to the FSCS arrangements with the potential to require the Lloyds Banking Group or Bank of Scotland Group to incur additional costs or expose the Lloyds Banking Group or Bank of Scotland Group to risks may arise from ongoing discussions at the national and European Union levels around the future design of deposit protection schemes, including but not limited to potentially increasing the level of protection which is accorded to deposits and/or moving to pre-funding of compensation schemes. The FSA intends to carry out a consultation exercise in the fourth quarter of 2010 before introducing any further proposals relating to the FSCS.

Both the Lloyds Banking Group and Bank of Scotland Group are exposed to various forms of legal and regulatory risk, including the risk of mis-selling financial products, acting in breach of legal or regulatory principles or requirements and giving negligent advice, any of which could have a material adverse effect on its results or its relations with its customers

Both the Lloyds Banking Group and Bank of Scotland Group are exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- (a) certain aspects of the Lloyds Banking Group's and/or Bank of Scotland Group's business may be determined by the authorities, the FOS or the courts as not being conducted in accordance with

applicable laws or regulations, or, in the case of the FOS, with what is fair and reasonable in the ombudsman's opinion;

- (b) the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of Lloyds Banking Group or Bank of Scotland Group, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers; all of which may require additional provisions;
- (c) contractual obligations may either not be enforceable as intended or may be enforced against Lloyds Banking Group and/or Bank of Scotland Group in an adverse way;
- (d) the Lloyds Banking Group and Bank of Scotland Group hold accounts for a number of customers that might be or are subject to interest from various regulators and authorities including the Serious Fraud Office, those in the U.S. and others. Neither the Lloyds Banking Group nor Bank of Scotland Group is aware of any current investigation into the Lloyds Banking Group or Bank of Scotland Group as a result of any such enquiries but cannot exclude the possibility of the Lloyds Banking Group or Bank of Scotland Group's conduct being reviewed as part of any such investigations;
- (e) the intellectual property of Lloyds Banking Group and/or Bank of Scotland Group (such as trade names) may not be adequately protected; and
- (f) Lloyds Banking Group and/or Bank of Scotland Group may be liable for damages to third parties harmed by the conduct of its business.

Failure to manage these risks adequately could impact Lloyds Banking Group and/or Bank of Scotland Group adversely, both financially and reputationally, through an adverse impact on the Lloyds Banking Group and/or Bank of Scotland Group's brands.

WEIGHTED AVERAGE LIFE OF THE NOTES

The average lives of the Notes cannot be stated, as the actual rate of repayment of the Mortgage Loans and a number of other relevant factors are unknown. However, calculations of the possible average lives of the Notes can be made based on certain assumptions. The assumptions used to calculate the possible average lives of the Notes in the following table include that:

- (a) the Issuer exercises the Call Option on the First Call Option Date, in the first scenario, or the Issuer does not exercise the Call Option on or after the First Call Option Date, in the second scenario;
- (b) no Security has been enforced;
- (c) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (d) the Mortgage Loans are assumed to amortise in accordance with the assumed repayment rate of between 0% and 40% per annum (inclusive of scheduled and unscheduled payments) indicated in the table below;
- (e) there is no debit balance on the Class B Principal Deficiency Sub-Ledger;
- (f) the assets of the Issuer are not sold by the Trustee except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes where it exercises the Call Option;
- (g) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (h) no Borrowers are offered and accept different mortgage products or Further Advances by the Seller or any of its subsidiaries and the Seller is not required to purchase any Mortgage Loans (including any Further Advances thereon since the Closing Date) in accordance with the Mortgage Sale Agreement;
- (i) the Mortgages continue to be fully performing; and
- (j) the Notes are issued on or about 27 August 2010.

Estimated weighted average life of the Notes

	<u>Assuming the Issuer exercises the Call Option on the First Call Option Date</u>					<u>Assuming the Issuer does not exercise the Call Option on the First Call Option Date</u>				
	Possible Average Life of Class A1 Notes (years)	Possible Average Life of Class A2 Notes (years)	Possible Average Life of Class A3 Notes (years)	Possible Average Life of Class B Notes (years)	Possible Average Life of Class C Notes (years)	Possible Average Life of Class A1 Notes (years)	Possible Average Life of Class A2 Notes (years)	Possible Average Life of Class A3 Notes (years)	Possible Average Life of Class B Notes (years)	Possible Average Life of Class C Notes (years)
0%	6.98	6.98	6.98	6.98	6.98	N/A	N/A	N/A	N/A	N/A
5%	1.67	5.36	6.98	6.98	6.98	1.67	6.41	16.67	N/A	N/A
10%	0.82	2.63	6.32	6.98	6.98	0.82	2.63	8.57	21.13	37.28
20%	0.41	1.25	4.05	6.98	6.98	0.41	1.25	4.06	9.99	17.61
30%	0.27	0.79	2.55	6.03	6.98	0.27	0.79	2.55	6.25	11.02
40%	0.21	0.57	1.77	4.34	6.79	0.21	0.57	1.77	4.34	7.52

Assumptions (a) – (i) relate to circumstances which are not predictable. No assurance can be given that the Issuer will be in a position to redeem the Notes on the First Call Option Date. If the Issuer does not so exercise its Call Option to redeem, then the average lives of then outstanding Notes would be extended.

The average life of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates above will prove in any way to be realistic. They must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of the average lives estimated above, see the section entitled "*Risk Factors – Credit Structure – Yield and prepayment considerations*".

USE OF PROCEEDS

The gross proceeds from the issue of the Notes are expected to amount to £3,723,290,000.

The Issuer will use the gross proceeds of the Notes principally to pay the Initial Consideration payable by the Issuer for the Mortgage Portfolio to be acquired from the Seller on the Closing Date and to fund initial expenses of the Issuer in connection with the issue of the Notes on the Closing Date.

ISSUER

The Issuer was incorporated in England and Wales on 9 November 2009 (registered number 7070646) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at 35 Great St Helen's, London EC3A 6AP, United Kingdom. The telephone number of the Issuer's registered office is +44 (0)20 7398 6300.

The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,998 shares of which are partly paid to £0.25 each and 2 of which are fully paid and all of which are beneficially owned by Holdings (see the section entitled "**Holdings**" below).

The Issuer was established as a special purpose vehicle for the purposes of issuing the Notes. The Issuer has no subsidiaries. The Seller does not own directly or indirectly any of the share capital of Holdings or the Issuer.

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the proposed issues of the Notes and the authorisation of the other Transaction Documents referred to in this Prospectus to which it is or will be a party and other matters which are incidental or ancillary to the foregoing. The Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. The Issuer has no employees.

As at the date of this Prospectus, 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 2010.

Under the Corporate Services Agreement, the Corporate Services Provider will provide to the Issuer certain directors and other corporate services for the Issuer in consideration for the payment of an annual fee to the Corporate Services Provider.

Directors and secretary

The following table sets out the directors of the Issuer and their respective business addresses and occupations.

<u>Name</u>	<u>Business address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No.2 Limited)	35 Great St Helen's, London EC3A 6AP	Corporate Director
Ian Stewart	1 Lovell Park Road, Leeds LS1 1NS	Chartered Accountant

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

<u>Name</u>	<u>Business address</u>	<u>Principal activities/business occupation</u>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director

Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Company Secretary
Abu Kapadia	35 Great St Helen's, London EC3A 6AP	Company Secretary

The business address of each of the directors of Structured Finance Management Limited, the Corporate Services Provider, is 35 Great St Helen's, London EC3A 6AP, United Kingdom.

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

HOLDINGS

Holdings was incorporated in England and Wales on 25 June 2010 (registered number 7296094) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is 35 Great St Helen's, London EC3A 6AP. The telephone number of Holdings' registered office is +44 (0)20 7398 6300.

The issued share capital of Holdings comprises one ordinary share of £1

The entire beneficial interest in the share of Holdings is beneficially owned by SFM Corporate Services Limited (the "**Share Trustee**") on a discretionary trust for charitable purposes.

Holdings holds the entire beneficial interest in the issued share capital of the Issuer.

The Seller does not own directly or indirectly any of the share capital of Holdings and neither the Seller nor any company connected with the Seller can direct the Share Trustee and none of such companies has any control, direct or indirect, over Holdings or the Issuer.

The principal objects of Holdings are set out in its memorandum of association and are, among other things, to acquire and hold, by way of investments or otherwise, and deal in or exploit, in such manner as may from time to time be considered expedient, all or any part of any securities or other interests of or in the Issuer.

Holdings has not engaged in any other activities since its incorporation other than those incidental to the authorising of the transaction documents to which it is or will be a party and other matters which are incidental to those activities. Holdings has no employees.

Directors

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

<u>Name</u>	<u>Business address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No.2 Limited)	35 Great St Helen's, London EC3A 6AP	Corporate Director
Ian Stewart	1 Lovell Park Road, Leeds LS1 1NS	Chartered Accountant

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

<u>Name</u>	<u>Business address</u>	<u>Principal activities/business occupation</u>
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Paivi Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Company Secretary

Abu Kapadia

35 Great St Helen's, London EC3A 6AP

Company Secretary

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.

BANK OF SCOTLAND

Overview

Bank of Scotland plc ("**Bank of Scotland**" and, together with its subsidiary undertakings from time to time, "**Bank of Scotland Group**") (incorporated in Scotland with limited liability, registration number SC327000) is a leading UK based financial services group providing a wide range of banking and financial services, primarily in the UK, to personal and corporate customers. The registered office of Bank of Scotland is located at The Mound, Edinburgh EH1 1YZ, Scotland and its telephone number is +44 (0) 870 600 5000.

Its main business activities are retail, commercial and corporate banking. It provides a broad range of financial services products including current and savings accounts, personal loans, credit cards and mortgages within the retail market; loans and capital markets products to commercial, corporate and asset finance customers; and private banking.

History and development 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 "**Reorganisation Act**"), The Governor and Company of the Bank of Scotland registered as a public limited company under the Companies Act 1985 and changed its name to Bank of Scotland plc. On the same day, under the Reorganisation 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 is a United Kingdom clearing bank with its headquarters in Edinburgh and an "authorised person" under the Financial Services and Markets Act 2000. It is a member of the British Bankers' Association and the Committee of Scottish Clearing Bankers. Part 6 of the Banking Act 2009 confirmed Bank of Scotland's right to issue bank notes in Scotland.

Following the acquisition of HBOS plc by Lloyds Banking Group plc (formerly Lloyds TSB Group plc) on 16 January 2009 (the "**Acquisition**"), and the subsequent transfer of 100 per cent. of the ordinary share capital of HBOS plc to Lloyds TSB Bank plc by Lloyds Banking Group plc on 1 January 2010, Bank of Scotland is now a directly owned and controlled subsidiary of HBOS plc which in turn is directly owned and controlled by Lloyds TSB Bank plc and is indirectly owned and controlled by Lloyds Banking Group plc.

Pursuant to two placing and open offers which were completed by Lloyds Banking Group plc in January and June 2009 and a rights issue completed in December 2009, the UK Government acquired 43.4 per cent. of the issued ordinary share capital of Lloyds Banking Group plc. Following further issues of ordinary shares, the UK Government's holding has been reduced to approximately 40.6 per cent.

Lloyds Banking Group Capital Restructuring

On 3 November 2009 Lloyds Banking Group plc (together with its subsidiary undertakings from time to time, "**Lloyds Banking Group**") announced proposals intended to meet its current and long-term capital requirements including a rights issue (the "**Rights Issue**") and two separate exchange offers (the "**Exchange Offers**", and together with the Rights Issue, the "**Proposals**"). The Proposals, which were fully underwritten, were approved by shareholders on 26 November 2009. The Rights Issue, which raised £13.5 billion (£13 billion net of the expenses of the Proposals) was completed on 14 December 2009 with 95.3 per cent. of shares placed with shareholders. The remaining 4.7 per cent. rump was placed with investors and settled on 17 December 2009. The Exchange Offers were substantially completed during December 2009 and generated approximately £7.5 billion in nominal value of contingent core tier 1 capital at that time.

State Funding and State Aid

The Lloyds Banking Group has made a number of undertakings to HM Treasury arising from the capital and funding support, including the provision of additional lending to certain mortgage and business sectors, and other matters relating to corporate governance and staff remuneration. However the

commitments in respect of lending are subject to normal prudent commercial lending criteria and pricing, the availability of funding to support such lending and sufficient demand from customers and potential customers.

As part of the European Commission's decision approving state aid to the Lloyds Banking Group, Lloyds Banking Group was required to work with HM Treasury to submit a restructuring plan to the European Commission in the context of a state aid review. The plan was required to contain measures to limit any competition distortions resulting from the state aid received by Lloyds Banking Group. The College of Commissioners announced its formal approval of Lloyds Banking Group's restructuring plan on 18 November 2009.

The restructuring plan consists of the following principal elements: (i) the disposal of a retail banking business with at least 600 branches, a 4.6 per cent. share of the personal current accounts market in the UK and approximately 19 per cent. of Lloyds Banking Group's mortgage assets; (ii) an asset reduction programme to achieve £181 billion reduction in a specified pool of assets by 31 December 2014; and (iii) behavioural commitments, including commitments not to make certain acquisitions for approximately three to four years and not to make discretionary payments of coupons or to exercise voluntary call options on hybrid securities from 31 January 2010 until 31 January 2012, which will prevent Lloyds Banking Group from paying dividends on its ordinary shares for the same duration.

The business referred to in (i) above will need to be disposed of before the end of November 2013 and consists of the TSB brand, the branches, savings accounts and branch-based mortgages of Cheltenham & Gloucester, the branches and branch-based customers of Lloyds TSB Scotland and a related banking licence, additional Lloyds TSB branches in England and Wales, with branch-based customers and Intelligent Finance. The Lloyds Banking Group is working closely with the EU Commission, HM Treasury and the Monitoring Trustee appointed by the EU Commission.

Legal proceedings

Unarranged overdraft charges

In April 2007, the OFT commenced an investigation into the fairness of personal current accounts and unarranged overdraft charges. At the same time, it commenced a market study into wider questions about competition and price transparency in the provision of personal current accounts.

The Supreme Court of the United Kingdom published its judgment in respect of the fairness of unarranged overdraft charges on personal current accounts on 25 November 2009, finding in favour of the litigant banks. On 22 December 2009, the OFT announced that it will not continue its investigation into the fairness of these charges. Bank of Scotland Group is working with the regulators to ensure that outstanding customer complaints are concluded as quickly as possible and anticipate that most cases in the county courts will be discontinued. Bank of Scotland Group expects that some customers will argue that despite the test case ruling they are entitled to a refund of unarranged overdraft charges on the basis of other legal arguments or challenges. Bank of Scotland Group is robustly defending any such complaints or claims and does not expect any such complaints or claims to have a material effect on Bank of Scotland Group.

The OFT, however, continued to discuss its concerns in relation to the personal current account market with the banks, consumer groups and other organisations under the auspices of its Market Study into personal current accounts. In October 2009, the OFT published voluntary initiatives agreed with the industry and consumer groups to improve transparency of the costs and benefits of personal current accounts and improvements to the switching process. On 16 March 2010 the OFT published a further update announcing several further voluntary industry wide initiatives to improve a customer's ability to control whether they used an unarranged overdraft and to assist those in financial difficulty. However, in light of the progress it noted in the unarranged overdraft market since July 2007 and the progress it expects to see over the next two years, it has decided to take no further action at this time and will review the unarranged overdraft market again in 2012.

Interchange fees

The European Commission has adopted a formal decision finding that an infringement of European Commission competition laws has arisen from arrangements whereby MasterCard issuers charged a

uniform fallback interchange fee in respect of cross border transactions in relation to the use of a MasterCard or Maestro branded payment card. The European Commission has required that the fee be reduced to zero for relevant cross-border transactions within the European Economic Area. This decision has been appealed to the General Court of the European Union (the General Court). Bank of Scotland (along with certain other MasterCard issuers) have successfully applied to intervene in the appeal in support of MasterCard's position that the arrangements for the charging of a uniform fallback interchange fee are compatible with European Commission competition laws. MasterCard has announced that it has reached an understanding with the European Commission on a new methodology for calculating intra European Economic Area multi-lateral interchange fees on an interim basis pending the outcome of the appeal. Meanwhile, the European Commission and the OFT are pursuing investigations with a view to deciding whether arrangements adopted by other payment card schemes for the levying of uniform fallback interchange fees in respect of domestic and/or cross-border payment transactions also infringe European Commission and/or UK competition laws. As part of this initiative the OFT will also intervene in the General Court appeal supporting the European Commission position and Visa reached an agreement with the European Commission to reduce the level of interchange for cross-border debit card transactions to the interim level agreed by MasterCard. The ultimate impact of the investigations on the Bank of Scotland Group can only be known at the conclusion of these investigations and any relevant appeal proceedings.

Payment Protection Insurance

In January 2009, the UK Competition Commission (the "**Competition Commission**") completed its formal investigation into the supply of Payment Protection Insurance (**PPI**) services (except store card PPI) to non-business customers in the UK and published its final report setting out its remedies, including a prohibition on the active sale of PPI by a distributor to a customer within 7 days of the distributor's sale of credit to that customer. Prior to this the Lloyds Banking Group had made the commercial decision to sell only regular monthly premium PPI to its personal loan customers. Recently the Lloyds Banking Group ceased to offer PPI products to customers, although some existing applications will be honoured for a limited period.

On 16 October 2009, the Competition Appeal Tribunal referred the proposed prohibition back to the Competition Commission. On 14 May 2010 the Competition Commission published its provisional decision retaining in almost all material respects the proposed point of sale prohibition. A final decision is expected in due course and Lloyds Banking Group continues to liaise with the Competition Commission on this issue.

On 1 July 2008, the Financial Ombudsman Service referred concerns regarding the handling of PPI complaints to the FSA as an issue of wider implication. Bank of Scotland Group has been working with other industry members and trade associations in preparing an industry response to address regulatory concerns regarding the handling of PPI complaints.

On 29 September 2009, the FSA issued a consultation paper on PPI complaints handling. The FSA has escalated its regulatory activity in relation to past PPI sales generally and proposed new guidance on the fair assessment of a complaint and the calculation of redress and a new rule requiring firms to reassess historically rejected complaints. On 9 March 2010, the FSA issued a further consultation paper on this area, the consultation period for which closed on 22 April 2010 (Bank of Scotland Group has responded to this consultation). The FSA's proposals are materially the same, although it has placed the new rule requiring firms to reassess historically rejected claims on hold for the present. The FSA published its policy statement on this issue on 10 August 2010, setting out its final provisions. Whilst there have been some minor changes to the FSA's proposals, they are materially the same as those set out in the March 2010 consultation paper. Although the ultimate impact on the Bank of Scotland Group of the FSA's complaints handling proposals could be material, the precise effect will only be known once the FSA's requirements have been implemented by the Group and plans for any remedial action (if necessary) finalised.

The statement on 29 September 2009 also announced that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. Bank of Scotland Group has agreed in principle that it will undertake a review in relation to sales of single premium loan protection insurance made through its branch network since 1 July 2007. The precise details of the review are still being discussed with the FSA and the ultimate impact on the Bank of Scotland Group of any review can only be known at the conclusion of these discussions.

Other Legal Actions

In the ordinary course of its business, the Bank of Scotland Group is engaged in discussions with the FSA in relation to a range of conduct of business matters, especially in relation to retail products including packaged bank accounts, mortgages, structured products and pensions. The Bank of Scotland Group is keen to ensure that any regulatory concerns regarding product governance or contract terms are understood and addressed. The ultimate impact on the Bank of Scotland Group of these discussions can only be known at the conclusion of such discussions.

In addition, during the ordinary course of business the Bank of Scotland Group is subject to other threatened and actual legal proceedings, regulatory investigations, regulatory challenges and enforcement actions both in the UK and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisers where appropriate, to determine the likelihood of the Bank of Scotland Group incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required to settle the obligation at the relevant balance sheet date. In some cases, it will not be possible to form a view, either because the facts are unclear or because further time is needed properly to assess the merits of the matter and no provisions are held against such matters. However the Bank of Scotland Group does not currently expect the final outcome of any such case to have a material adverse effect on its financial position.

Affiliations and certain relationships and related transactions of transaction parties

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

- Account Bank;
- Basis Swap Provider;
- Cash Manager;
- Seller;
- Servicer; and
- Subordinated Loan Provider.

In addition, Lloyds TSB Bank plc ("**LTSB**") will serve as Arranger and Lead Manager in respect of the issuance of the Notes.

Except as described in the preceding paragraph, there are no other affiliations or relationships or related transactions under the issuance of the Notes.

THE MORTGAGE PORTFOLIO

THE MORTGAGE LOANS

Introduction

The following is a description of some of the characteristics of the Mortgage Loans in the Mortgage Portfolio originated by the Seller including details of loan types, the underwriting process, lending criteria and selected statistical information.

The Seller will select the Mortgage Loans for transfer into the Mortgage Portfolio using an internally developed system containing defined data on each of the qualifying loans in the Seller's overall portfolio of loans available for selection. This system allows the setting of exclusion criteria among others corresponding to relevant Seller Asset Warranties that the Seller makes in the Mortgage Sale Agreement in relation to the Mortgage Loans (see the section entitled "*Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Representations and Warranties*" below). Once the criteria have been determined, the system identifies all loans owned by the Seller that are consistent with the criteria. From this subset, the loans have been selected at random until the target balance for the Mortgage Loans has been reached or the subset has been exhausted. The selected pool of Mortgage Loans are monitored so that they continue to comply with the relevant criteria on the Closing Date.

No Mortgage Loan will be delinquent or non-performing at the time it is sold to the Issuer.

Characteristics of the Mortgage Loans

Repayment terms

Mortgage Loans are typically repayable on one of the following bases:

- a "**Repayment Loan**": where the Borrower makes monthly payments of both interest and principal so that, when the Mortgage Loan matures, the full amount of the principal of the Mortgage Loan will have been repaid;
- an "**Interest-only Loan**": where the Borrower makes monthly payments of interest but not of principal so that, when the Mortgage Loan matures, the entire principal amount of the Mortgage Loan is still outstanding and is payable in one lump sum; or
- a combination of both these options.

In the case of either Repayment Loans or Interest-only Loans, the required monthly payment may alter from month to month for various reasons, including changes in interest rates.

For Interest-only Loans, because the principal is repaid in a lump sum at the maturity of the Mortgage Loan, the Borrower is advised to have some repayment mechanism (such as an investment plan) which is intended to provide sufficient funds to repay the principal at the end of the term. Alternatively the Borrower may also sell the property to repay the principal at the end of the term.

Principal prepayments may be made in whole or in part at any time during the term of a Mortgage Loan, subject to the payment of any Early Repayment Charges (as described in the section entitled "*The Mortgage Portfolio – The Mortgage Loans - Characteristics of the Mortgage Loans - Early Repayment Charges*" below). Any prepayment of the entire outstanding balance of all loans under a mortgage account discharges the mortgage. Any prepayment in full must be made together with all Accrued Interest, any Arrears of Interest, any unpaid expenses (such as insurance premiums and fees) and any applicable repayment charge(s).

Payment methods

All payments on the loans must be made in sterling and the majority of the payments on the loans are made by a direct debit (DDR) instruction through the UK direct debit system from another bank or building society account. A valid DDR instruction must be in place prior to completion.

Product Range

The Mortgage Portfolio will consist of Mortgage Loans categorised by the Seller as being Buy-to-Let Loans (loans, backed by first ranking security, for the purchase or re-mortgage of property for letting purposes).

Some Mortgage Loans are portable, meaning that the Borrower has a right, subject to meeting the Seller's lending policy at the time, to retain the terms of the mortgage when the Borrower sells one property and purchase another (although this does not apply to the interest rate charged, which may vary). The relevant policy is that of the Seller rather than its successors and assigns to the Mortgage. When a Mortgage Loan is ported, the original Mortgage Loan is repaid and terms of the Mortgage Loan are carried over to a new account set up in the name of the Borrower and the Mortgage Loan will be treated as a redemption within the Mortgage Portfolio

Interest payments and interest rate setting

The Seller currently offers the following Mortgage Loans and is able to combine these to suit the requirements of the Borrower:

- "**Fixed Rate Loans**", which are subject to a fixed rate of interest; and
- "**Tracker Rate Loans**", which are subject to a variable interest rate which will be set at a fixed margin above, below or the same as the base rate set by the Bank of England (each a "**Lifetime Tracker Rate**") or a variable margin above, below or the same as the base rate set by the Bank of England (the "**Initial Tracker Rate**").

The rates in respect of the Fixed Rate Loans and the Initial Tracker Rate in respect of the Tracker Rate Loans is offered for a predetermined period, usually between one and five years, at the commencement of the Mortgage Loan (the "**Product Period**"). At the end of the Product Period the rate of interest charged will either (a) move to some other interest rate type for a predetermined period; or (b) revert to a Lifetime Tracker Rate. In certain instances, Early Repayment Charges are payable by the Borrower if the Mortgage Loan is redeemed within the Product Period. See the section entitled "*The Mortgage Portfolio – The Mortgage Loans - Characteristics of the Mortgage Loans - Early Repayment Charges*" below.

Mortgage Loans may combine one or more of the features listed in this section. Other customer incentives may be offered with the product including, free valuations and payment of legal fees. The ability to make Overpayments are also available to most Borrowers. Payment Holidays will be available to Borrowers under limited circumstances. See the sections entitled "*The Mortgage Portfolio – the Mortgage Loans – Overpayments*" and "*The Servicer – Servicing of the Mortgage Loans – Arrears and default procedures – Underpayments and Payment Holidays*" below.

Interest is calculated on the Mortgage Loans on a daily basis. Any payment by the Borrower will reduce the Borrower's balance on which interest will be calculated the following day.

Early Repayment Charges

Principal prepayments may be made in whole or in part at any time during the term of a Loan unless the offer letter states otherwise. A prepayment of the whole of the outstanding balance of all Loans under a Mortgage Account discharges the Mortgage in question but must be made together with all outstanding charges, arrears of interest and accrued interest thereon.

Currently, any lump sum capital prepayment made in respect of a Mortgage Account is credited after repayment of any outstanding charges, arrears of interest and accrued interest thereon to reduce the outstanding balance of the relevant Mortgage Account. Unless otherwise specified in the Mortgage Conditions, Borrowers are encouraged to make lump sum prepayments in a minimum amount of £1,000 but partial prepayments will be processed by the Seller regardless of amount. Once a lump sum capital prepayment is made, a new monthly interest payment/repayment will be calculated based on the reduced outstanding balance.

Subject as follows, Early Repayment Charges will be charged to a Borrower making a lump sum prepayment. The Seller also retains the discretion not to charge such fees in other circumstances, for example, where the Borrower is refinancing the existing Loan shortly before the end of the Product

Period with a New Loan originated by the Seller. Where a Borrower moves to a new property and takes out a new Mortgage with the Seller in the same names as the original Borrowers and for the same amount within 6 months of repayment of the existing Loan, the Seller will refund such charges and fees in full.

The Seller currently permits Borrowers to repay up to 10 per cent. of the amount outstanding on a mortgage in addition to scheduled repayments in any twelve month rolling period without having to pay an Early Repayment Charge, though the Seller may withdraw this concession at its discretion.

The Issuer has agreed to pay back to the Seller any Early Repayment Charges received on the Mortgage Loan, so any sums received will be for the Seller's account and not for the account of the Issuer and therefore will not form part of Available Revenue Receipts.

Some mortgage products do not include any provisions for the payment of an Early Repayment Charge by the Borrower.

Overpayments

Borrowers may either increase their regular Monthly Payments above the normal Monthly Payment then applicable or make lump sum payments at any time.

Any Overpayments will be treated as prepayments of principal on the Mortgage Loans. If Borrowers make an Overpayment, the balance on their mortgage account will be reduced. The Seller will charge interest on the reduced balance, which reduces the amount of interest the Borrower must pay.

Further advances

All Further Advances will be funded solely by the Seller.

If a Mortgage Loan is subject to a Further Advance after being sold to the Issuer, the Seller will be required to repurchase the Mortgage Loan and its Related Security from the Issuer in accordance with the Mortgage Sale Agreement.

Product switches

From time to time, Borrowers may request or the Servicer may send an offer of a variation in the financial terms and conditions applicable to the Borrower's loan. If such variation constitutes a Product Switch, then the Seller will be required to repurchase the Mortgage Loan and its Related Security from the Issuer in accordance with the Mortgage Sale Agreement.

Origination channels

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

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

Underwriting

The Seller uses an automated system whereby the majority of mortgages are underwritten at the point of sale and do not make use of the traditional system of full evaluation by an underwriter. Those mortgages qualifying for point-of-sale underwriting remain subject to the Seller's underwriting policies, lending criteria and internal procedures for compliance with government regulations, such as those concerning money laundering.

Mortgages which do not qualify under point-of-sale underwriting are referred to a mortgage underwriting team to carry out a further independent review of such applications. These underwriters are experienced specialists in this area and use their knowledge to make decisions on such loan applications based on the lending mandates they hold and the risk to the seller.

All mortgage underwriting decisions, whether completed at the point of sale or in a servicing centre, are subject to internal monitoring by the Seller in order to ensure the Seller's procedures and policies regarding underwriting are being followed by staff.

Lending criteria

Each Mortgage Loan in the Mortgage Portfolio was originated according to the Seller's Lending Criteria for Buy-to-Let Loans applicable at the time the Mortgage Loan was offered, which included some or all of the criteria set out in this section. Some of the factors currently used in making a lending decision are as follows.

(a) Type of property

Properties may be either freehold or the Scottish equivalent or leasehold. In the case of leasehold properties, the Seller will normally require the lease to have an unexpired term of a minimum of 70 years from the date of the mortgage term, although this can be reduced to 10 years at the end of the mortgage term under certain circumstances. The property must be used solely for residential purposes (with extremely limited case-by-case exceptions) and must be in sound structural condition and repair or be capable of being put into such state. House boats, mobile homes and any property on which buildings insurance cannot be arranged are not acceptable. All persons who are to be legal owners of the property on completion must be borrowers under the mortgage.

All properties have been valued by a valuer approved by the Seller or, where appropriate, according to a methodology which would meet the standards of a Reasonable, Prudent Mortgage Lender (as referred to under the section entitled "*The Servicing Agreement – Undertakings by the Servicer*" below) and which has been approved by the Seller. The valuations are made as at the date of origination of the loan and if a Further Advance is made, an additional valuation will be obtained as at the date of the Further Advance.

The minimum acceptable property value or purchase price (whichever is the lower) is currently £40,000 (£75,000 in London postal districts). Buy-to-let loans are available to UK residents only.

All lettings must be on assured shorthold tenancies (or, in Scotland, short assured tenancies) or to a company on a corporate let and certain types of properties are not considered. The maximum term of the applicable assured shorthold tenancy, short assured tenancy or corporate let is 12 months. This can be renewed without the consent of the Seller. Multiple lets are not acceptable, with a maximum of five tenants being allowed. For the avoidance of doubt, children are not included in the maximum number of tenants. All tenants must be party to the same tenancy agreement. Student lets, holiday lets and tenants who are asylum seekers, have the benefit of diplomatic immunity or are claiming housing benefit, rent rebate or rent allowance are not acceptable. If the property is in Scotland, the landlord must (save in certain circumstances) register with the relevant local authority.

(b) Valuation

A physical valuation is obtained by a MRICS or FRICS qualified surveyor chosen from the panel of the Seller's approved valuation firms. A valuation report must be no more than 6 months old at the time of completion. Buy-to-Let Loans are not suitable for an Automated Valuation Model valuation.

Confirmation of anticipated rental income will be provided by the valuer as part of the valuation.

(c) Term of loan

The longest remaining term of a loan in the Mortgage Portfolio is December 2049.

The current maximum term is 40 years and the minimum term is 5 years for all loans. A repayment period for a new further advance that would extend beyond the term of the original advance may also be accepted at the Seller's discretion, subject to the following:

- the consent of any subsequent lender or guarantor to the Further Advance;
- the Seller may in its discretion extend the period of the original advance, provided that, in the case of all leasehold properties, not less than 30 years (or 10 years in certain circumstances) of the lease must be left unexpired at the end of the term of the mortgage;

and

- the approval of the valuers is required where the valuer has previously recommended a term which is shorter than the maximum loan terms referred to above.

If the customer requests to increase the term of the existing loan, the total term from the start date of the account must not exceed 40 years.

(d) Age of applicant

All Borrowers must be aged 18 or over with a maximum age of 75 years at the end of the mortgage term. However, if the term of the mortgage extends into retirement, the Seller will attempt to ascertain the Borrower's anticipated income in retirement. If the Seller determines the Borrower will not be able to afford the mortgage into retirement, the application will be declined. If the Borrower is already retired, the Seller will consider the Borrower's ability to support the mortgage loan.

(e) Loan-to-value (or LTV) ratio

The maximum original LTV ratio of loans in the Mortgage Portfolio is 85 per cent.

Currently, all lending for Buy-to-Let Loans is based on a maximum of 75 per cent. of the lower of purchase price or valuation. In the case of mortgage loans secured against new build properties, lending is based on a maximum of 60 per cent. of value provided that this does not exceed 100 per cent. of the purchase price. Historically, the Seller has lent up to a maximum of 85 per cent. of the value.

(f) Status of applicant(s)

The maximum aggregate loan amount under a mortgage account is determined by the rental income requirements such that the monthly rental income can be greater than or equal to 125% (the interest cover percentage) of the monthly mortgage payment, calculated on an interest only basis using the Bank of England base rate plus 0.5% (or, for selected products, the actual product rate). Confirmation of the expected rental income will be provided by the valuer as part of the standard valuation at the time of the application. Historically, the Seller has advanced loans using an interest coverage percentage of 100 per cent. However, for loans to be eligible for the Mortgage Portfolio, the minimum interest cover percentage is 125 per cent. A borrower can borrow up to £1 million for an individual buy-to-let property. However, for loans to be eligible for the Mortgage Portfolio, the maximum loan amount is £500,000 for an individual buy-to-let property. A limit of £3 million applies to all buy-to-let borrowing across the Retail Division of Lloyds Banking Group across a maximum of 9 buy-to-let properties. These limits have varied historically, however, 90 per cent of Birmingham Midshires buy-to-let borrowers have a maximum of two buy- to-let loans. If the applicant is a first time buyer or the property will not be immediately let, then the maximum loan will be based on earned income. The credit score also influences the decision of how much to lend using the principle that high credit scores infer a demonstrated ability to manage financial affairs.

Positive proof of the Borrower's identity and address must be established. In exceptional circumstances this requirement can be waived (provided money laundering regulations are complied with), but the reasons for doing so must be fully documented.

The Seller may exercise discretion within its Lending Criteria in applying those factors that are used to determine the maximum amount of the mortgage loan(s). Accordingly, these parameters may vary for some mortgage loans. The Seller may take the following into account when exercising discretion: credit score result, existing customer relationship, percentage of LTV and quality of security (such as type of property, repairs, location or saleability).

(g) Credit history

(i) Credit search

A credit search is carried out in respect of all applicants. Applications may be declined where an adverse credit history (for example, county court judgment, Scottish court decree for payment, default or bankruptcy notice) is revealed or the score does not meet the required risk/reward trade-off.

(ii) Bank statements

The applicant may be required to provide bank statements in support of his or her application.

(h) Scorecard

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

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

Changes to the underwriting policies and the lending criteria

The Seller's underwriting policies and Lending Criteria are subject to change within the Seller's sole discretion.

Insurance policies

Insurance on the property

A Borrower is required to insure the Mortgaged Property with buildings insurance. The insurance may be purchased through the Seller or, alternatively, the Borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. In either case, the Borrower must ensure that the buildings insurance payments are kept up to date.

If the Borrower does not insure the property, or insures but not in accordance with the Mortgage Conditions, the Seller may, upon becoming aware of the same, insure the property itself, in which case the Seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. The Borrower will be responsible for the payment of insurance premiums. The Seller retains the right to settle all insurance claims on reasonable terms without the Borrower's consent. The Seller's current policy is that in most cases where it becomes aware that a property is not insured, it will not arrange insurance cover except where the property is in possession. See the section entitled "*The Mortgage Portfolio – The Mortgage Loans – Insurance Policies - Properties in possession cover*" below.

Properties in possession cover

When a Mortgaged Property is taken into possession by the Seller and buildings insurance has been arranged through the Seller, Legal and General Insurance Limited takes the necessary actions to ensure that the appropriate insurance cover is provided on the Mortgaged Property. The Seller may claim under this policy for any damage occurring to the Mortgaged Property while in the Seller's possession.

When a Mortgaged Property is taken into possession by the Seller and the Borrower had arranged their own insurance, Legal and General Insurance Limited will take the necessary actions (within current risk appetite) to ensure that the appropriate insurance is provided.

To the extent that any proceeds are received by the Servicer under such policy in respect of Mortgage Loans in the Mortgage Portfolio, the Servicer has agreed to pay these to the Issuer. The Seller, acting in its capacity as Servicer, will make claims in accordance with the Seller's policy and transfer proceeds relating to the Mortgage Loans to the Issuer.

In the Mortgage Sale Agreement, the Seller has agreed to make and enforce claims under the relevant policies and to hold the proceeds of claims on trust for the Issuer or as the Issuer or Trustee may direct.

Title insurance

There will be no Mortgage Loans in the Mortgage Portfolio for which the underlying mortgages have the benefit of a title insurance policy.

Governing law

Each of the English Loans is governed by English law and each of the Scottish loans is governed by Scots law.

SALE OF THE MORTGAGE PORTFOLIO UNDER THE MORTGAGE SALE AGREEMENT

The following section contains a summary of the material terms of the Mortgage Sale Agreement and is subject to the provisions of the Mortgage Sale Agreement.

The Mortgage Portfolio

Under the Mortgage Sale Agreement, the Issuer will pay the Purchase Price to the Seller in respect of the sale of the Mortgage Portfolio, which shall be equal to the aggregate of:

- (a) the "**Initial Consideration**" (which will be payable on the Closing Date), being an amount equal to the Investor Percentage of the Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Closing Date and all Arrears of Interest and Accrued Interest relating thereto; and
- (b) an obligation of the Issuer to pay, after the Closing Date and in accordance with the Payments Priorities, the Deferred Consideration in respect of the sale of the Mortgage Portfolio.

Deferred Consideration

Deferred Consideration will be due and payable by the Issuer to the Seller following the Closing Date and prior to the service of an Enforcement Notice, as follows:

- (a) Principal Receipts will be applied as Seller Principal, to be applied in paying Principal Deferred Consideration in accordance with the Pre Enforcement Seller Principal Payments Priorities on each Interest Payment Date as follows:
 - (i) if the Investor Principal Amount is zero, all Principal Receipts will be applied in paying Principal Deferred Consideration; or
 - (ii) while all of the Seller Principal Diversion Conditions are satisfied, Principal Receipts will be applied as Seller Principal in paying Principal Deferred Consideration in accordance with the Pre Enforcement Seller Principal Payments Priorities until the Seller Principal Amount is equal to the Minimum Seller Principal Amount;and other than as specified in (i) and (ii) above, Principal Receipts will not be applied as Seller Principal but instead, will be applied as Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities; and
- (b) an amount equal to Seller Revenue will be applied as Revenue Deferred Consideration on each Interest Payment Date after application of an amount equal to Seller Revenue in or towards items ranking in priority thereto in accordance with the Pre Enforcement Seller Revenue Payments Priorities.

Deferred Consideration will be due and payable by the Issuer to the Seller following the service of an Enforcement Notice in accordance with the Post Enforcement Seller Payments Priorities.

As at the Closing Date, the maximum amount of Principal Deferred Consideration due and payable to the Seller out of Principal Receipts is expected to be equal to the Seller Principal Amount on the Closing Date. The maximum amount of Principal Deferred Consideration due and payable to the Seller out of Principal Receipts will reduce over the life of the transaction to reflect any reduction in the Seller Percentage and the Seller Principal Amount, as described below.

"**Seller Principal Diversion Conditions**" means an event where

- (a) the Class A1 Notes and the Class A2 Notes have been redeemed in full;
- (b) there is no debit balance on the Class B Principal Deficiency Sub-Ledger;
- (c) a Principal Payments Trigger Event has not occurred;
- (d) an Insolvency Event of the Seller has not occurred;

- (e) the Seller Principal Amount is more than the Minimum Seller Principal Amount; and
- (f) either the Servicer's long term issuer default rating is rated at least BBB- by Fitch or a Back-Up Servicer has been appointed.

From time to time, the Seller may, but is not obliged to, increase the Seller Percentage by repurchasing Mortgage Loans on a random basis for reasons which may include, but is not limited to, the risk of Set-Off Losses in the Mortgage Portfolio.

The terms "**sale**", "**sell**" and "**sold**" when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Mortgage Loans and their Related Security are construed to include: (i) an equitable assignment of the English Loans and Related Security to the Issuer; and (ii) in relation to the Scottish Loans, the creation of a trust over the Scottish Loans and Related Security by the Seller in favour of the Issuer pursuant to the Scottish Declaration of Trust.

The terms "**repurchase**" and "**repurchased**" when used in the Mortgage Sale Agreement and the other Transaction Documents in connection with the Mortgage Loans and their Related Security are construed to include the repurchase of the beneficial interest of the Issuer in respect of such Mortgage Loan and Related Security.

The Seller Percentage, the Seller Principal Amount, the Investor Percentage and the Investor Principal Amount

At the Closing Date, the Seller Percentage and the Seller Principal Amount are expected to be 1.50% and £56,710,000, respectively and the Investor Percentage and the Investor Principal Amount are expected to be 98.50% and £3,723,290,000, respectively. The Cash Manager will recalculate these percentages and amounts on each Calculation Date and the percentages and amounts so calculated will be used for the purposes of making allocations of monies and payments in accordance with the Payments Priorities on the Interest Payment Date falling in the immediately succeeding Calculation Period.

Pursuant to the Cash Management Agreement, the Seller Percentage and the Investor Percentage will be applied by the Cash Manager in determining, amongst other things, the following:

- (a) the amount of Revenue Receipts which the Issuer shall apply on each Interest Payment Date (i) as an amount equal to Seller Revenue, in accordance with the Pre Enforcement Seller Revenue Payments Priorities and (ii) as an amount equal to Available Investor Revenue, in accordance with the Pre Enforcement Investor Revenue Payments Priorities, and
- (b) the amount of Principal Losses to be applied in reducing the Investor Principal Amount (which shall result in a corresponding debit entry in the Principal Deficiency Ledger of the Notes) and the amount of Principal Losses to be applied in reducing the Seller Principal Amount (which shall reduce the maximum amount of Principal Deferred Consideration payable to the Seller from Principal Receipts),

and should not be construed as creating or purporting to create any proprietary interest of the Seller or any Noteholder in any of the Mortgage Loans.

The Issuer shall not apply Principal Receipts (i) as Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities if the Investor Principal Amount is zero or to the extent that it would be zero if it were so applied or (ii) as Seller Principal in payment of Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities if the Seller Principal Amount is zero or to the extent that it would be zero if it were so applied.

The Seller Percentage and the Investor Percentage will fluctuate over time by reference to:

- (a) Principal Receipts applied by the Issuer as Available Investor Principal in and towards redemption of the Notes (which will increase the Seller Percentage and decrease the Investor Percentage);
- (b) Principal Receipts applied as Seller Principal in payment of Principal Deferred Consideration, in accordance with the Pre Enforcement Seller Principal Payments Priorities, to the Seller on any

Interest Payment Date (which will decrease the Seller Percentage and increase the Investor Percentage); and

- (c) Set-Off Losses in respect to Mortgage Loans in the Mortgage Portfolio (which will decrease the Seller Percentage and increase the Investor Percentage).

The Minimum Seller Percentage and the Minimum Seller Principal Amount

At the Closing Date, the Minimum Seller Percentage and the Minimum Seller Principal Amount are expected to be 0.52% and £19,361,108 respectively. On each Calculation Date on and from the First Call Option Date (but not before such date), the Cash Manager will recalculate the Minimum Seller Percentage and the Minimum Seller Principal Amount.

Until the Investor Percentage is zero, the Seller Percentage may only be reduced below the Minimum Seller Percentage by the allocation of Set-Off Losses and the Seller Percentage of Principal Losses and not by payment of Principal Deferred Consideration to the Seller.

Title to the Mortgages, registration and notifications

The English Loans in the Mortgage Portfolio will be sold to the Issuer by way of equitable assignment on the Closing Date. The Scottish Loans in the Mortgage Portfolio will be sold to the Issuer by way of declaration of trust under which the beneficial interest in such Scottish Loans will be transferred to the Issuer on the Closing Date. Legal title to the Mortgage Loans and Related Security remains with the Seller until legal assignments or assignations (as appropriate) are delivered by the Seller to the Issuer and registered or recorded in the relevant property register and notice of the sale is given by the Seller to the Borrowers. Legal assignment or assignation (as appropriate) of the Mortgage Loans and the Related Security (including, where appropriate, their registration or recording in the relevant property register) to the Issuer will be deferred and will only take place in the limited circumstances described under "Perfection Events" below. See the section entitled "Risk Factors - The Mortgages – Seller to Initially Retain Legal Title to the Mortgage Loan and Risks relating to Set-Off" above.

Perfection Events

Legal assignment or assignation (as applicable) of the Mortgage Loans and their Related Security to the Issuer (including, where applicable, their registration or recording in the relevant property register) will be completed on the 20th Business Day after the earliest to occur of any of, amongst other things:

- (a) the Seller being required to perfect the Issuer's legal title to the Mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority to which the Seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller to comply;
- (b) the Trustee certifying that, in its opinion, the Charged Property or any material part thereof is/are in jeopardy and the Trustee deciding to take action to reduce materially that jeopardy;
- (c) the Seller requesting perfection by serving notice in writing on the Issuer and the Trustee;
- (d) the occurrence of an Insolvency Event of the Seller; or
- (e) it being rendered necessary by law to take action to perfect legal title to the Mortgages.

(each of the events set out in paragraphs (a) to (e) inclusive being a "**Perfection Event**").

Pending completion of the transfer, the right of the Issuer to exercise the powers of the legal owner of the Mortgages will be secured by an irrevocable power of attorney granted by the Seller in favour of the Issuer and the Trustee.

To the extent not held at the relevant land registry electronically, the title deeds and customer files relating to the Mortgage Loans are currently held by or to the order of the Seller or by solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the Seller in connection with the creation of the Mortgage Loans and their Related Security. The Seller has undertaken that all the title deeds and

customer files relating to the Mortgage Loans which are at any time in its possession or under its control or held to its order will be held to the order of the Issuer or as the Issuer directs.

If the Seller ceases to have a long-term issuer default rating by Fitch of at least BBB- or a long-term unsecured, unguaranteed and unsubordinated debt obligations rating of at least Baa3 by, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes, the Seller shall be obliged to prepare the documentation required to perfect legal title to the Mortgage Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Mortgage Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Mortgage Loans or the Related Security to the Issuer.

Representations and Warranties

Neither the Issuer nor the Trustee has made or has caused to be made on its behalf any enquiries, searches or investigations in respect of the Mortgage Loans and their Related Security. Instead, each is relying entirely on the Seller Asset Warranties contained in the Mortgage Sale Agreement in relation to each Mortgage Loan and given by the Seller on the Closing Date. The Seller Asset Warranties include the following representations and warranties:

- (a) each Mortgage Loan was originated by the Seller in pounds sterling;
- (b) each Mortgage Loan in the Mortgage Portfolio was made no earlier than 1 January 2003 and no later than 28 February 2010;
- (c) the final maturity date of each Mortgage Loan is no later than December 2049;
- (d) no Mortgage Loan has or will have an outstanding principal balance of more than £500,000;
- (e) each Mortgage Loan had a maximum LTV Ratio of 85 per cent. at the point of application;
- (f) prior to the making of each advance under a Mortgage Loan, the Lending Criteria and all preconditions to the making of any Mortgage Loan were satisfied in all material respects subject only to exceptions made on a case by case basis as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- (g) other than with respect to monthly payments, no Borrower is or has, since the date of the relevant Mortgage, been in material breach of any obligation owed in respect of the relevant Mortgage Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any related security;
- (h) the total amount of arrears of interest or principal, together with any fees, commissions and premiums payable at the same time as that of an interest payment or principal repayment on any Mortgage Loan has not been during the 12 months immediately preceding the Closing Date, more than the amount of the monthly payment then due;
- (i) all of the Borrowers are individuals and were aged 18 years or older at the date of execution of the Mortgage;
- (j) no Mortgage Loan is a Flexible Loan;
- (k) no account has an amount of arrears of interest or principal greater than the amount of the Monthly Payment;
- (l) no Mortgage Loan is subject to any retention drawings;
- (m) no Mortgage Loan has been made to a Borrower who is an employee of the Seller;
- (n) at least two monthly payments have been made in respect of each Mortgage Loan;
- (o) the whole of the outstanding principal balance on each Mortgage Loan and any arrears of interest and all accrued interest is secured by a mortgage;
- (p) each mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) standard security over the relevant property, and subject only in certain appropriate cases to applications for registrations at the Land Registry or Registers of Scotland which were required to have been made and are pending and (in relation to such cases) the Seller is not aware of any notice or any other matter that would prevent such registration;
- (q) each Mortgage Loan and Related Security was executed substantially on the terms of the Standard Documentation without any material variation thereto;
- (r) all of the properties are in England, Wales or Scotland;

- (s) not more than 12 months (or a longer period (including in the case of an intra-group remortgage) as may be acceptable to a Reasonable, Prudent Mortgage Lender) prior to the grant of each Mortgage, the Seller received a Valuation Report on the relevant property (or another form of report concerning the valuation of the relevant property as would be acceptable to a Reasonable, Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Reasonable, Prudent Mortgage Lender;
- (t) the benefit of all Valuation Reports, any other Valuation Report referred to in this section (if any) and certificates of title which were provided to the Seller not more than two years prior to the date of the Mortgage Sale Agreement can be validly assigned to the Issuer without obtaining the consent of the relevant valuer, solicitor, licensed conveyancer or (in Scotland) qualified conveyancer;
- (u) prior to the taking of each mortgage (other than a remortgage), the Seller (a) instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or qualified conveyancer as are set out in the case of English Loans in the CML's Lenders' Handbook for England & Wales and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Reasonable, Prudent Mortgage Lender and (b) received a certificate of title from such solicitor, licensed conveyancer or qualified conveyancer relating to such property, the contents of which would have been acceptable to a Reasonable, Prudent Mortgage Lender at that time;
- (v) insurance cover for each property is available under either a policy arranged by the Borrower or a seller-introduced insurance policy or a policy arranged by the relevant landlord or the properties in possession cover;
- (w) the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the Issuer under the Mortgage Sale Agreement;
- (x) no bankruptcy order or (in Scotland) award of sequestration, has been made against any Borrower and no Borrower has applied for an individual voluntary arrangement or (in Scotland) has granted a trust deed for his or her creditors, in the period 6 years immediately prior to the point of origination of the relevant Mortgage Loan
- (y) so far as the Seller is aware, none of Borrowers of the Mortgage Loans forming part of the Mortgage Portfolio have had a county court judgment (or the Scottish equivalent) made against them (or are currently defending county court proceedings);
- (z) each Mortgage Loan and its Related Security is valid, binding and enforceable in accordance with its terms and is non-cancellable except in relation to any term in any loan or in its related security, in each case, which is not binding by virtue of the UTCCR as amended, extended or re-enacted from time to time or (as the case may be) the 1999 Regulations as amended, extended or re-enacted from time to time;
- (aa) to the best of the Seller's knowledge, none of the terms in any Mortgage Loan or in its Related Security is not binding by virtue of its being unfair within the meaning of the UTCCR. In this warranty and the previous warranty, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;
- (bb) the Seller has, since the making of each Mortgage Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such loan;
- (cc) there are no authorisations, permissions, approvals, licences or consents required as appropriate for the Seller to enter into or to perform the obligations under the Mortgage Sale Agreement or to make the Mortgage Sale Agreement legal, valid, binding and enforceable;

- (dd) no Mortgage Loan is a "home purchase plan" as defined in the FSA Handbook; and
- (ee) the land secured under any Mortgage Loan was not and was not intended to be occupied by the borrower or any of his or her relatives at the time that the Mortgage Loan was entered into.

Repurchase by the Seller

The Seller will be required to repurchase any Mortgage Loan sold pursuant to the Mortgage Sale Agreement if (a) any Seller Asset Warranty made by the Seller in relation to that Mortgage Loan and/or its Related Security proves on any date after the Closing Date to be materially untrue as at the Closing Date and are not capable of remedy by the Seller or if that default has not been remedied by the Seller within 20 days of the earlier of the Cash Manager becoming aware of the default and the receipt by the Cash Manager of notice of the default from the Issuer, or (b) upon the Seller making any Further Advance and/or any Product Switch with respect to a Mortgage Loan, within 20 days of the Cash Manager being notified (or, if earlier, within 20 days of the Cash Manager becoming aware of the Further Advance and/or Product Switch). The price to be paid by the Seller will be the Repurchase Price.

In order to mitigate the risk of Set-Off Losses in the Mortgage Portfolio, from time to time, the Seller may, but is not obliged to, repurchase Mortgage Loans on a random basis and thereby increase the Seller Percentage in consideration of a pro rata increase in the amount of Principal Deferred Consideration due and payable to the Seller.

Governing Law

The Mortgage Sale Agreement and any non-contractual obligations arising out or in connection with the Mortgage Sale Agreement, other than certain aspects of it in relation to Scottish Loans and their Related Security which will be governed by Scots Law, will be governed by English law.

STATISTICAL INFORMATION ON THE MORTGAGE PORTFOLIO

The statistical and other information contained in this Prospectus has largely been compiled by reference to Mortgage Loans in the Mortgage Portfolio as at 13 July 2010 (the "**Reference Date**"). The Mortgage Portfolio as at the Reference Date consisted of 41,404 Mortgage Loans originated by Bank of Scotland under the "Birmingham Midshires Brand" between 2003 to 2010 and secured over properties located in England, Wales and Scotland. The aggregate Current Balance of the Mortgage Loan in the Mortgage Portfolio as at the Reference Date was £3,879,512,640.11. Columns may not add up to 100 per cent. due to rounding. A Mortgage Loan will be removed from the Mortgage Portfolio if in the period from (and including) the Reference Date up to (but excluding) the Closing Date such Mortgage Loan is repaid in full or if such Mortgage Loan does not comply with the Seller Asset Warranties on the Closing Date or if the aggregate current balance of the Mortgage Loans in the Mortgage Portfolio as at the Reference Date exceeds the aggregate of the Seller Principal Amount and Investor Principal Amount. Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Reference Date, which includes all principal and accrued interest for the Mortgage Loans.

Outstanding Current Balances

The following table shows the range of Current Balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the Reference Date.

Range of outstanding Current Balances		Aggregate outstanding Current Balance	% of total	Number of Accounts	% of total
From	To				
£0	£49,999.99	£204,595,726.79	5.27%	4,938	11.93%
£50,000.00	£99,999.99	£1,715,376,873.26	44.22%	23,518	56.80%
£100,000.00	£149,999.99	£993,238,960.18	25.60%	8,336	20.13%
£150,000.00	£199,999.99	£460,807,466.57	11.88%	2,695	6.51%
£200,000.00	£249,999.99	£239,728,486.79	6.18%	1,087	2.63%
£250,000.00	£299,999.99	£108,694,495.93	2.80%	402	0.97%
£300,000.00	£349,999.99	£68,277,797.26	1.76%	212	0.51%
£350,000.00	£399,999.99	£37,940,098.01	0.98%	102	0.25%
£400,000.00	£449,999.99	£25,727,440.41	0.66%	61	0.15%
£450,000.00	£499,999.99	£25,125,294.91	0.65%	53	0.13%
Totals		£3,879,512,640.11	100.00%	41,404	100.00%
Largest balance		£498,566.85			
Average balance		£93,698.98			
Smallest balance		£1,062.23			

LTV ratios at origination

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate Mortgage Loans in a mortgage account (excluding capitalised interest, capitalised lending charges, insurance fees, booking fees and valuation fees) as at the date of the Mortgage Loan origination divided by the value of the relevant Mortgaged Property at the same date. The Seller has not revalued any of the mortgaged properties since the date of the origination of the related Mortgage Loan other than where an additional lending has been applied for or advanced on an account or a product holding on an account has been amended since origination, in which case the original valuation may have been updated with a more recent valuation. Where this is the case, this revised valuation has been used in formulating this data.

Range of LTV ratios at Origination		Aggregate outstanding Current Balance	% of total	Number of Mortgage Accounts	% of total
From	To				
0%	<25.00%	£16,440,328.42	0.42%	275	0.66%
25.00%	<50.00%	£194,053,234.02	5.00%	2,456	5.93%
50.00%	<55.00%	£111,735,714.36	2.88%	1,225	2.96%
55.00%	<60.00%	£305,691,334.89	7.88%	3,190	7.70%
60.00%	<65.00%	£309,778,711.78	7.98%	3,109	7.51%
65.00%	<70.00%	£406,125,784.47	10.47%	4,133	9.98%
70.00%	<75.00%	£1,791,759,320.26	46.19%	19,442	46.96%
75.00%	<80.00%	£169,261,434.42	4.36%	1,677	4.05%
80.00%	85.00%	£574,666,777.49	14.81%	5,897	14.24%
Totals		£3,879,512,640.11	100.00%	41,404	100.00%
Highest LTV		84.99%			
Weighted average LTV		70.84%			
Lowest LTV		1.07%			

LTV ratios at Current Balance

The following table shows the range of LTV ratios, which express the Current Balance of the aggregate of Mortgage Loans in a Mortgage Account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the Reference Date divided by the indexed valuation of the relevant Mortgaged Property at the same date.

Range of LTV ratios at Current Balance		Aggregate outstanding Current Balance	% of total	Number of Mortgage Accounts	% of total
From	To				
0%	<25.00%	£11,153,497.01	0.29%	244	0.59%
25.00%	<50.00%	£148,602,189.24	3.83%	1,934	4.67%
50.00%	<55.00%	£111,893,216.09	2.88%	1,133	2.74%
55.00%	<60.00%	£211,072,282.26	5.44%	2,205	5.33%
60.00%	<65.00%	£284,490,022.32	7.33%	2,819	6.81%
65.00%	<70.00%	£521,174,440.78	13.43%	4,809	11.61%
70.00%	<75.00%	£964,633,902.39	24.86%	10,427	25.18%
75.00%	<80.00%	£740,662,637.77	19.09%	8,566	20.69%
80.00%	<85.00%	£257,929,932.15	6.65%	2,597	6.27%
85.00%	<90.00%	£203,867,344.26	5.25%	2,165	5.23%
90.00%	<95.00%	£208,580,825.56	5.38%	2,334	5.64%
95.00%	<97.00%	£67,785,185.22	1.75%	585	1.41%
97.00%	<100.00%	£78,167,551.24	2.01%	749	1.81%
Greater than or equal to 100.00%		£69,499,613.82	1.79%	837	2.02%
Totals		£3,879,512,640.11	100.00%	41,404	100.00%
Highest LTV		130.12%			
Weighted average LTV		73.36%			
Lowest LTV		0.62%			

Geographical spread

The following table shows the distribution of the relevant Mortgaged Properties throughout England, Wales and Scotland as at the Reference Date. No such properties are situated outside England, Wales or Scotland.

Regions	Aggregate outstanding		Number of Mortgage	
	Current Balance	% of total	Accounts	% of total
East.....	£122,942,062.61	3.17%	1,381	3.34%
Greater London.....	£664,950,609.58	17.14%	3,594	8.68%
Midlands.....	£466,947,503.72	12.04%	6,229	15.04%
North.....	£492,304,028.92	12.69%	7,170	17.32%
North West.....	£379,073,628.90	9.77%	5,197	12.55%
Scotland.....	£359,071,651.67	9.26%	4,820	11.64%
South East.....	£955,123,664.65	24.62%	8,032	19.40%
South West & Wales.....	£429,465,155.38	11.07%	4,896	11.82%
Unidentified.....	£9,634,334.68	0.25%	85	0.21%
Totals.....	£3,879,512,640.11	100.00%	41,404	100.00%

Seasoning of Mortgage Loans

The following table shows the number of months since the date of origination of the Mortgage Loan in a Mortgage Account as at the Reference Date.

Age of loans in Months		Aggregate outstanding Current Balance	% of total	Number of Mortgage Accounts	% of total
From	To				
0	<6	£276,999,738.61	7.14%	2,945	7.11%
6	<12	£1,017,067,257.36	26.22%	11,458	27.67%
12	<18	£860,743,020.89	22.19%	9,953	24.04%
18	<24	£1,078,261,277.71	27.79%	11,032	26.64%
24	<30	£408,801,634.90	10.54%	3,775	9.12%
30	<36	£34,957,613.66	0.90%	320	0.77%
36	<42	£47,540,408.40	1.23%	485	1.17%
42	<48	£56,414,435.40	1.45%	540	1.30%
48	<54	£25,535,920.46	0.66%	225	0.54%
54	<60	£17,225,984.61	0.44%	152	0.37%
60	<66	£11,357,729.64	0.29%	95	0.23%
66	<72	£10,504,809.81	0.27%	107	0.26%
72	<78	£15,033,772.04	0.39%	140	0.34%
78	<84	£12,817,767.32	0.33%	126	0.30%
84	<90	£6,251,269.30	0.16%	51	0.12%
Totals		£3,879,512,640.11	100.00%	41,404	100.00%
Maximum seasoning		89.92			
Weighted average seasoning		17.72			
Minimum seasoning		4.50			

Years to maturity of loans

The following table shows the number of remaining years of the term of the Mortgage Loan in a Mortgage Account as at the Reference Date.

Years to maturity		Aggregate outstanding Current Balance	% of total	Number of Mortgage Accounts	% of total
From	To				
0	<5	£51,683,161.00	1.33%	541	1.31%
5	<10	£468,067,251.04	12.07%	5,101	12.32%
10	<15	£700,218,757.38	18.05%	7,693	18.58%
15	<20	£1,147,638,738.21	29.58%	12,336	29.79%
20	<25	£1,464,225,644.85	37.74%	15,227	36.78%
25	<30	£33,959,827.11	0.88%	369	0.89%
30	<35	£8,898,980.13	0.23%	89	0.21%
35	<40	£4,820,280.39	0.12%	48	0.12%
Totals		£3,879,512,640.11	100.00%	41,404	100.00%

Maximum remaining term	39.42
Weighted average remaining term	17.98
Minimum remaining term	0.08

Purpose of loan

The following table shows whether the purpose of the Mortgage Loan in a Mortgage Account on origination was to finance the purchase of a new property or to remortgage a property already owned by the borrower.

Use of proceeds	Aggregate outstanding current balance	% of total	Number of Mortgage Accounts	% of total
Purchase.....	£2,536,934,150.58	65.39%	28,892	69.78%
Remortgage.....	£1,342,578,489.53	34.61%	12,512	30.22%
Totals	£3,879,512,640.11	100.00%	41,404	100.00%

Property type

The following table shows the types of property to which the Mortgage Accounts relate.

Property type	Aggregate outstanding Current Balance	% of total	Number of Properties	% of total
Detached.....	£255,897,487.60	6.60%	1,902	4.59%
Semi-Detached.....	£691,473,407.43	17.82%	7,287	17.60%
Terraced.....	£1,419,869,616.12	36.60%	16,918	40.86%
Other (including flats and maisonettes).....	£1,512,272,128.96	38.98%	15,297	36.95%
Totals	£3,879,512,640.11	100.00%	41,404	100.00%

Repayment terms

The following table shows the repayment terms for the Mortgage Loans in the Mortgage Accounts as at the Reference Date. Where any Mortgage Loan in a Mortgage Account is interest-only, then that entire Mortgage Account is classified as interest-only.

Repayment method	Aggregate outstanding Current Balance	% of total	Number of Mortgage Accounts	% of total
Interest only.....	£3,560,851,406.16	91.79%	36,978	89.31%
Repayment.....	£318,661,233.95	8.21%	4,426	10.69%
Totals	£3,879,512,640.11	100.00%	41,404	100.00%

Payment method

The following table shows the payment methods for the Mortgage Accounts as at the Reference Date.

Payment method	Aggregate outstanding Current Balance	% of total	Number of Mortgage Accounts	% of total
Direct Debit.....	£3,480,269,369.12	89.71%	37,029	89.43%
Other	£399,243,270.99	10.29%	4,375	10.57%
	£3,879,512,640.11	100.00%	41,404	100.00%

Distribution of Fixed Rate Loans

As at the reference date, approximately 48.37 per cent. of the loans in the portfolio were Fixed Rate Loans.

The following tables shows the distribution of Fixed Rate Loans by their fixed rate of interest as at such date and the year in which the Fixed Rate Loans cease to bear a fixed rate of interest and instead bear a floating rate of interest.

Fixed Rate Loans remain at the relevant fixed rate for a period of time as specified in the Offer Conditions, after which they move to a Lifetime Tracker Rate or some other rate as specified in the Offer Conditions.

Fixed rate % Rate	Aggregate outstanding Interest bearing Balance	% of total	Number of Product Holdings	% of total fixed rate holdings
0.00% - 3.99%	£1,014,614.05	0.06%	8	0.04%
4.00% - 4.99%	£151,754,409.54	8.12%	1,560	6.96%
5.00% - 5.99%	£1,496,735,137.16	80.06%	17,232	76.93%
6.00% - 6.99%	£215,193,851.87	11.51%	3,529	15.75%
7.00% - 7.99%	£4,774,262.96	0.26%	71	0.32%
	£1,869,472,275.58	100.00%	22,400	100.00%

Year in which fixed rate period ends	Aggregate outstanding Interest bearing Balance	% of total	Number of Product Holdings	% of total fixed rate holdings
2010.....	£15,893,890.99	0.85%	155	0.69%
2011.....	£891,739,680.27	47.70%	9,677	43.20%
2012.....	£816,073,519.14	43.65%	10,733	47.92%
2013.....	£6,065,507.97	0.32%	82	0.37%
2014.....	£131,155,673.57	7.02%	1,649	7.36%
2015.....	£1,753,995.48	0.09%	24	0.11%
2019.....	£6,790,008.16	0.36%	80	0.36%
Totals	£1,869,472,275.58	100.00%	22,400	100.00%

CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

The UK housing market is primarily one of owner-occupied housing, with the remainder in some form of public, private landlord or social ownership. The mortgage market, whereby loans are provided for the purchase of a property and secured on that property, is the primary source of household borrowings in the United Kingdom.

Set out in the following tables are certain characteristics of the United Kingdom mortgage market.

Industry CPR Rates

In the following tables, quarterly industry constant repayment rate ("**Industry CPR**") data was calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom. These quarterly repayment rates were then annualised using standard methodology.

Quarter	Industrial CPR Rate for the Quarter (%)	12-month rolling Average (%)	Quarter	Industrial CPR Rate for the Quarter (%)	12-month rolling Average (%)
Mar-98	11.66%	11.66%	Jun-04	22.93%	23.26%
Jun-98	14.21%	12.94%	Sep-04	24.27%	23.32%
Sep-98	16.10%	13.99%	Dec-04	20.85%	22.32%
Dec-98	15.00%	14.24%	Mar-05	17.96%	21.50%
Mar-99	12.32%	14.41%	Jun-05	21.32%	21.10%
Jun-99	15.96%	14.85%	Sep-05	24.29%	21.10%
Sep-99	17.55%	15.21%	Dec-05	24.61%	22.04%
Dec-99	16.47%	15.57%	Mar-06	22.27%	23.12%
Mar-00	13.62%	15.90%	Jun-06	23.37%	23.64%
Jun-00	15.31%	15.73%	Sep-06	24.95%	23.80%
Sep-00	15.97%	15.34%	Dec-06	24.87%	23.87%
Dec-00	15.67%	15.14%	Mar-07	23.80%	24.25%
Mar-01	15.38%	15.58%	Jun-07	24.84%	24.61%
Jun-01	18.23%	16.31%	Sep-07	25.48%	24.74%
Sep-01	20.25%	17.39%	Dec-07	23.55%	24.42%
Dec-01	20.06%	18.48%	Mar-08	19.56%	23.36%
Mar-02	18.75%	19.32%	Jun-08	20.88%	22.37%
Jun-02	21.10%	20.04%	Sep-08	20.15%	21.03%
Sep-02	23.63%	20.89%	Dec-08	15.33%	18.98%
Dec-02	22.89%	21.59%	Mar-09	12.91%	17.32%
Mar-03	21.24%	22.22%	Jun-09	11.39%	14.95%
Jun-03	22.43%	22.55%	Sep-09	12.77%	13.10%
Sep-03	24.03%	22.65%	Dec-09	11.99%	12.27%
Dec-03	24.87%	23.14%	Mar-10	9.60%	11.44%
Mar-04	21.22%	23.14%	Jun-10	10.60%	11.24%

Source of repayment and outstanding mortgage information: Council of Mortgage Lenders

*Quarterly industry constant repayment rate ("**Industry CPR**") data was calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by Monetary and Financial Institutions (MFI) in a quarter by the quarterly balance of mortgages outstanding for MFIs in the United Kingdom. These quarterly repayment rates were then annualised using standard methodology.*

Monetary and Financial Institutions include banks (mutual and non-mutual banks) and building societies.

Repossession Rate

The table below sets out the repossession rate of residential properties in the United Kingdom since 1985.

Year	Repossession (%)	Year	Repossession (%)	Year	Repossession (%)
1985	0.25	1994	0.47	2003	0.07
1986	0.30	1995	0.47	2004	0.07
1987	0.32	1996	0.40	2005	0.12
1988	0.22	1997	0.31	2006	0.18
1989	0.17	1998	0.31	2007	0.22
1990	0.47	1999	0.27	2008	0.34
1991	0.77	2000	0.20	2009	0.42
1992	0.69	2001	0.16		
1993	0.58	2002	0.11		

Source: Council of Mortgage Lenders

HOUSE PRICE INDEX

UK residential property prices, as measured by the Nationwide House Price Index and Halifax Price Index (collectively the "**Housing Indices**"), have generally followed the UK Retail Price Index over an extended period. (Nationwide is a UK building society and Halifax is a brand name of Bank of Scotland, a UK bank.)

The UK housing market has been through various economic cycles in the recent past, with large year-to-year increases in the Housing Indices occurring in the late 1980s and the mid 1990s through to mid-2007 and decreases occurring in the early 1990s and mid-2007 through to the date of this Prospectus.

Annual House Price Index

Year	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
1988	106.9	4.8%	n/a	n/a	184.8	23.3%
1989	115.2	7.5%	n/a	n/a	223.1	20.7%
1990	126.1	9.0%	n/a	n/a	223.2	0.0%
1991	133.5	5.7%	107.4	n/a	220.5	-1.2%
1992	138.5	3.7%	103.0	-3.8%	208.1	-5.6%
1993	140.7	1.6%	102.1	-0.9%	202.1	-2.9%
1994	144.1	2.4%	103.5	1.4%	203.1	0.5%
1995	149.1	3.4%	102.3	-1.2%	199.6	-1.7%
1996	152.7	2.4%	106.3	3.9%	208.6	4.5%
1997	157.5	3.1%	117.9	10.4%	221.7	6.3%
1998	162.9	3.4%	129.8	9.6%	233.7	5.4%
1999	165.4	1.5%	141.7	8.8%	250.5	7.2%
2000	170.3	2.9%	160.0	12.1%	275.1	9.8%
2001	173.3	1.7%	177.0	10.1%	298.6	8.5%
2002	176.2	1.7%	211.8	17.9%	350.6	17.4%
2003	181.3	2.9%	253.0	17.8%	429.1	22.4%
2004	186.7	2.9%	296.3	15.8%	507.6	18.3%
2005	192.0	2.8%	311.4	5.0%	536.6	5.7%
2006	198.1	3.1%	331.4	6.2%	581.3	8.3%
2007	206.6	4.2%	361.8	8.8%	635.9	9.4%
2008	214.8	3.9%	337.4	-7.0%	585.9	-7.9%
2009	213.7	-0.5%	312.4	-7.7%	524.6	-10.5%

Quarterly House Price Index

Year	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March-2008	211.1	3.9%	357.8	2.1%	630.0	1.0%
June-2008	215.3	4.3%	348.1	-4.1%	597.6	-6.8%
September-2008	217.4	4.9%	329.5	-10.9%	564.0	-13.7%
December-2008	215.5	2.7%	312.9	-16.0%	534.6	-17.8%
March-2009	210.9	-0.1%	298.7	-18.1%	517.7	-19.6%
June-2009	212.6	-1.3%	307.3	-12.5%	510.6	-15.7%
September-2009	214.4	-1.4%	319.5	-3.1%	522.5	-7.6%
December-2009	216.9	0.6%	323.4	3.3%	540.6	1.1%
March-2010	219.3	3.9%	324.9	8.4%	543.8	4.9%
June-2010	223.5	5.0%	336.6	9.1%	543.0	6.2%

Source: Office for National Statistics, Nationwide Building Society and Lloyds Banking Group plc respectively

* Nationwide Annual House Price Index is the average of the monthly indices for that year (monthly values not available before 1991)

The percentage annual change in the table above is calculated in accordance with the following formula:

$LN(x/y)$ where X is equal to the current quarter's index value and Y is equal to the index value of the previous year's corresponding quarter.

All information contained in this Prospectus in respect of the Nationwide House Price Index has been reproduced from information published by Nationwide Building Society. All information contained in this Prospectus in respect of the Halifax House Price Index has been reproduced from information published by Lloyds Banking Group plc. The Issuer confirms that all information in this Prospectus in respect of the Nationwide House Price Index and the Halifax House Price Index has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Nationwide Building Society and Lloyds Banking Group plc, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Note, however, that the Issuer has not participated in the preparation of that information nor made any enquiry with respect to that information. Neither the Issuer nor Nationwide Building Society nor Lloyds Banking Group plc makes any representation as to the accuracy of the information or has any liability whatsoever to you in connection with that information. Anyone relying on the information does so at their own risk.

THE SERVICER

THE SERVICER

Under the Servicing Agreement, Bank of Scotland will be appointed as the Servicer of the Mortgage Loans on the Closing Date. The day-to-day servicing of the Mortgage Loans is performed by the Servicer in accordance with the Servicing Agreement through the Servicer's retail branches, telephone and customer service centres. For basic information on the organisation and history of the Servicer, see the section entitled "*Bank of Scotland*".

SERVICING OF THE MORTGAGE LOANS

Servicing responsibilities and procedures include responding to customer enquiries, monitoring compliance with and servicing the loan features and facilities applicable to the Mortgage Loans and management of Mortgage Loans in arrears. See the section entitled "*The Servicing Agreement*".

Pursuant to the Mortgage Conditions of the Mortgage Loans, Borrowers must pay the Monthly Payment on or before each Monthly Payment Date. Interest accrues in accordance with the Mortgage Conditions and is collected from Borrowers monthly.

In the case of Fixed Rate Loans or Tracker Rate Loans with an Initial Tracker Rate, the Borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the Borrower's Mortgage Conditions. After that period ends, and unless the Servicer sends an offer of and the Borrower accepts another option with an incentive (which would result in a Product Switch which would result in the Seller repurchasing such Mortgage Loan), interest will be payable at a Lifetime Tracker Rate.

The Servicer will take all steps necessary under the Mortgage Terms to notify Borrowers of any change in the interest rates applicable to the Mortgage Loans, whether due to a change in the Bank of England base rate or any variable margin or as a consequence of any provisions of those Mortgage Terms.

Payments of interest and principal on Repayment Loans are payable monthly in arrears. Payments of interest on Interest-only Loans are paid in the month that they are due. The Servicer is responsible for collecting payments by Borrowers into the Collection Account and ensuring that the same are transferred into the GIC Account on a regular basis but, in any event, in the case of payments by direct debits, no later than the next Business Day after they are deposited in the Collection Account. All amounts which are paid to the Collection Account will be held on trust by the Seller for the Issuer by way of the Collection Account Declaration of Trust until they are transferred to the GIC Account. Payments from Borrowers are generally made by direct debits from a suitable bank or building society account, although in some circumstances Borrowers pay by cash, cheque or standing order.

The Servicer initially credits the GIC Account with the full amount of the Borrowers' Monthly Payments. 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 their bank for a refund of direct debit payments. In each case, the Servicer is permitted to reclaim from the GIC Account the corresponding amounts previously credited. In these circumstances, the usual arrears procedures described in section entitled "*The Servicer – Servicing of the Mortgage Loans - Arrears and default procedures*" below will be taken.

Recent changes

From time to time, the Seller reviews and updates its policies and procedures in relation to the servicing of the Mortgage Loans. Some of these changes are market-driven. See the section entitled "*Risk factors – Certain Regulatory Considerations - Mortgages Regulated under FSMA*". Other changes are driven by the Seller reviewing its procedures and amending them to reflect current trading conditions.

Arrears and default procedures

Payment holidays and Underpayments

Borrowers do not have the right to Payment Holidays nor Underpayments under the Mortgage Terms. In certain restricted circumstances where the Borrower will not be receiving any rent and savings are used to cover repairs to the property, the Seller may exercise discretion in providing Payment Holidays or

Underpayments to Borrowers with short-term financial difficulties. Payments deferred under the Payment Holiday programme are rolled up and added to the Current Balance of the Mortgage and must be repaid over the remaining life of the Mortgage, unless the Seller and the Borrower agree to amend the Mortgage Term.

The Servicer's Arrears and default procedures

The Servicer will regularly provide the Issuer with written details of Mortgage Loans that are in arrears. A Mortgage 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 (other than Underpayments). In general, the Servicer attempts to collect all payments due under or in connection with the Mortgage Loans, having regard to the circumstances of the Borrower and principles of Treating Customers Fairly in each case. Mortgage collection is conducted through payment collection departments located primarily in Pendeford, Wolverhampton. The Servicer will work constructively with the Borrower to agree a course of action. Collections and recovery interventions will be commensurate with the rate of deterioration and the Borrower's willingness to address the arrears as well as risk of default. Only as a last resort where all reasonable efforts have been applied in reaching an agreement with the Borrower over the method of repaying the arrears is legal action considered.

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 and are equal to or greater than £50 overdue (based on due date), the 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 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 next appropriate course of action based on parameters set within a relevant policy. Where no contact has been made or no agreement has been reached, this could result in telephone contact via a dialer 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 vary the terms of the Mortgage Loan, in order to assist the Borrower in financial difficulties with the primary aim being to rehabilitate the Borrower and recover the situation. Such variations include:

- extensions to the term of the Mortgage Loan;
- amending the repayment terms of a Mortgage Loan from repayment to interest-only; and
- transferring the Mortgage Loan to a mortgage product with a lower interest rate.

Also, where considered appropriate, the Servicer may enter into arrangements with the Borrower regarding the arrears, including:

- arrangements to make each monthly Payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to 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 or parts of any of them.

Any arrangements may be varied from time to time at the discretion of the Servicer, the primary aim being to rehabilitate the Borrower and recover the situation.

The Servicer may also agree to capitalise arrears where the Borrower has shown an ability to maintain the monthly payment for a specified period.

Where an English Loan is at least two months in arrears and the arrears are in excess of £500, a receiver-of-rent may be appointed under the 1925 Law of Property Act. This arrangement keeps the tenant in the

property and may eventually result in the landlord's mortgage getting back on track as the rent received is applied directly to the Mortgage.

Once legal proceedings have commenced, the Servicer or the Servicer's solicitor may send further letters to the Borrower encouraging the Borrower to enter into discussions to pay the arrears and may still enter into an arrangement with a Borrower at any time prior to a court hearing. If a court order is made for payment and the Borrower subsequently defaults in making the payment, then the Servicer may take action as it considers appropriate, including entering into a further arrangement with the Borrower. If the Servicer applies to the court for an order for possession, the court has discretion as to whether it will grant the order.

After possession, the Servicer may take action as it considers appropriate, including to:

- secure, maintain or protect the property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest in the property, including a leasehold; and
- dispose of the property (in whole or in part) or of any interest in the property, by auction, private sale or otherwise, for a price it considers is the best price reasonably obtainable.

The Servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The Servicer may also carry out works on the property as it considers appropriate to maintain the market value of the property.

The Servicer has discretion, set within a relevant policy, to deviate from these procedures. In particular, the Servicer may deviate from these procedures where a Borrower suffers from a mental or physical infirmity, is deceased or where the Borrower is otherwise prevented from making payment due to causes beyond the Borrower's control. This is the case for both sole and joint Borrowers.

It should also be noted that the lender's ability to exercise its power of sale in respect of the property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the lender, such as whether the Borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the decision of the lender to exercise its power of sale and final completion of the sale.

It should also be noted that, in relation to Scottish mortgages, the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by the borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation.

The net proceeds of sale of the property are applied against the sums owed by the Borrower to the extent necessary to discharge the mortgage including any accumulated fees, expenses of the Servicer and interest. Where the funds arising from application of these default procedures are insufficient to pay all amounts owing in respect of a Mortgage Loan, the funds are applied first in paying interest and costs and second in paying principal. The Servicer may then institute recovery proceedings against the Borrower. If after the sale of the Mortgaged Property and redemption of the Mortgage there are remaining funds, those funds will be distributed by the acting solicitor to the next entitled parties. Where the customer cannot be traced, or where there is a dispute regarding entitlement to the funds, the surplus will be paid into the court (or held safe with the bank if the shortfall amount is small/uneconomical to pay into the court) until a valid claim is made for them.

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.

THE SERVICING AGREEMENT

The following section contains a summary of the material terms of the Servicing Agreement and is subject to the provisions of the Servicing Agreement.

Introduction

On the Closing Date, Bank of Scotland will be appointed by the Issuer and the Seller under the Servicing Agreement to be their agent to service the Mortgage Loans and their Related Security and the Trustee consented to the appointment.

The Servicer is required to administer the Mortgage Loans in the following manner:

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

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

Powers

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

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

Undertakings by the Servicer

The Servicer has undertaken, among other things, the following:

- (a) To maintain approvals, authorisations, permissions, consents, and licences required in order to perform its obligations under the Servicing Agreement.
- (b) To notify Borrowers when required of any change in interest rates.
- (c) To notify Borrowers of any change in their Monthly Payments.
- (d) To keep records and accounts on behalf of the Issuer in relation to the Mortgage Loans and their Related Security.
- (e) To keep records for all taxation purposes and VAT.
- (f) To keep the customer files and title deeds relating to the Mortgage Loans in safe custody and maintain records necessary to enforce each Mortgage.
- (g) To provide the Seller, the Issuer (and their respective auditors), the Trustee and any other person nominated by the Issuer with access to the title deeds and other records relating to the administration of the Mortgage Loans and Mortgages.

- (h) To make available to beneficial owners of the Notes, who have provided the beneficial ownership certification as described in the Servicing Agreement, on a monthly basis a report containing information about the Mortgage Loans.
- (i) To assist the Cash Manager in the preparation of monthly reports.
- (j) To provide the Rating Agencies such information relating to its mortgage business and financial condition as the Rating Agencies may reasonably request in connection with the ratings of the Notes, provided that such request does not adversely interfere with the Servicer's day-to-day provision of services under the Servicing Agreement, and, in particular, to facilitate an annual review if required by the Rating Agencies of the Portfolio.
- (k) To act as collection agent for the Issuer under the direct debiting scheme.
- (l) To take all reasonable steps, in accordance with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender, to recover all sums due to the Issuer, including instituting proceedings and enforcing any relevant Mortgage Loan or Mortgage.
- (m) To enforce any Mortgage Loan which is in default in accordance with its enforcement procedures or, if these are inapplicable, with the usual procedures undertaken by a Reasonable, Prudent Mortgage Lender on behalf of the Issuer.

Compensation of the Servicer

The Servicer receives a fee for servicing the Mortgage Loans. The Issuer will pay to the Servicer a servicing fee (inclusive of VAT, if any) of 0.05 per cent. per annum on the Current Balance of all the Mortgage Loans in the Mortgage Portfolio as at the immediately preceding Calculation Date. The fee is payable in arrears on each Interest Payment Date only to the extent that the Issuer has sufficient funds to pay it in accordance with the Payments Priorities. Any unpaid balance will be carried forward until the next Interest Payment Date.

Removal or resignation of the Servicer

The Issuer, the Seller and/or the Trustee may, upon written notice to the Servicer, terminate the Servicer's rights and obligations immediately if, among other things, any of the following events (each a "**Servicer Event**") occurs:

- the Servicer defaults in the payment of any amount due and fails to remedy that default for a period of five Business Days after the earlier of becoming aware of the default and receipt of written notice from the Issuer and/or the Trustee requiring the default to be remedied;
- the Servicer fails to comply with any of its other covenants or obligations under the Servicing Agreement which, in the opinion of the Trustee, is materially prejudicial to the Issuer and any of the Noteholders and does not remedy that failure within 20 Business Days after becoming aware of the failure; or
- an Insolvency Event of the Servicer.

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), the Servicer may voluntarily resign by giving not less than 12 months' notice to the Issuer, the Trustee and the Seller.

The substitute servicer is required to have experience of administering mortgages in the United Kingdom and to enter into a servicing agreement with the Issuer, the Seller and the Trustee substantially on the same terms as the relevant provisions of the Servicing Agreement. It is a further condition precedent to the resignation of the Servicer that the current ratings of the Notes are not reduced, withdrawn or qualified as a result of the resignation, unless the relevant classes of Noteholders otherwise agree by an Extraordinary Resolution.

If the appointment of the Servicer is terminated, the Servicer must deliver the title deeds and customer files relating to the Mortgage Loans to, or at the direction of, the Issuer. The Servicing Agreement will terminate at such time as the Issuer has no further interest in any of the Mortgage Loans or their Related Security serviced under the Servicing Agreement.

No provision has been made in the Servicing Agreement or otherwise for any costs and expenses associated with the transfer of servicing to a substitute servicer, and such costs and expenses will be borne by the Issuer. The servicing fee payable to a substitute servicer will be agreed with that substitute servicer prior to its appointment.

Back-Up Servicer

If the Servicer's long term issuer default rating ceases to be rated at least BBB- by Fitch or its long-term unsecured, unguaranteed and unsubordinated debt obligations ceases to be rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes, the Issuer and/or the Seller will use its reasonable endeavours to appoint a back-up servicer (the "**Back-Up Servicer**") with a long term issuer default rating of at least BBB- by Fitch and long-term unsecured, unguaranteed and unsubordinated debt obligations rated at least Baa3 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes within 30 Business Days of the default. The Issuer will inform the Rating Agencies of the identity and appointment of a Back-Up Servicer. Such Back-Up Servicer shall, if possible, have experience of servicing mortgage loans secured on residential properties in England, Wales and Scotland and enter into an agreement with the Issuer and the Trustee substantially on the terms of the Servicing Agreement, and at fees which are, in the opinion of the Issuer and the Seller, consistent with those payable generally at the relevant time for the provision of standby property loan administration services, which agreement shall provide that the Back-Up Servicer act as substitute servicer upon the termination of the appointment of the Servicer (the "**Back-Up Servicing Agreement**"). References in the Transaction Documents to the Servicer will, following the appointment of a Back-Up Servicer, be deemed to be references to the Servicer and/or the Back-Up Servicer, as appropriate.

Substitute Servicer

If the Servicer breaches the terms of the Servicing Agreement or the appointment of the Servicer terminates in circumstances where a Back-Up Servicer has not been appointed, the Issuer shall (or the Trustee may, upon failure of the Issuer to do so) appoint a substitute or successor servicer under the Servicing Agreement. Such substitute or successor shall enter into an agreement with the Issuer and the Trustee substantially on the terms of the Servicing Agreement, and for fees which are, in the opinion of the Issuer and the Seller, consistent with those payable generally at the relevant time for the provision of property loan administration services.

Right of delegation by the Servicer

The Servicer may sub-contract or delegate the performance of its duties (or any of them) under the Servicing Agreement, provided that it meets particular conditions, including that:

- the Issuer and the Trustee consent to the proposed sub-contracting or delegation;
- notification has been given to each of the Rating Agencies;
- where the arrangements involve the custody or control of any customer files and/or title deeds relating to the Mortgage Loans, the sub-contractor or delegate will provide a written acknowledgement that those customer files and/or title deeds will be held to the order of the Issuer or after delivery of an Enforcement Notice, the Trustee;
- where the arrangements involve the receipt by the sub-contractor or delegate of monies belonging to the Issuer which are paid into the GIC Account, the sub-contractor or delegate will execute a declaration that any such monies are held on trust for the Issuer

and will be paid forthwith into the GIC Account in accordance with the terms of the Mortgage Sale Agreement;

- the sub-contractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services; and
- the Seller, the Issuer and the Trustee have no liability for any costs, charges or expenses in relation to the proposed sub-contracting or delegation.

The consent of the Issuer and the Trustee referred to here (among other conditions) will not be required in respect of any delegation in whole or in part to a wholly owned subsidiary of Bank of Scotland or Lloyds Banking Group from time to time or to persons such as receivers, lawyers or other relevant professionals.

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

Liability of the Servicer

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

Governing law

The Servicing Agreement and any non-contractual obligations arising out of or in connection with the Servicing Agreement is governed by, and shall be construed in accordance with, English law, provided that any terms of the Servicing Agreement particular to Scots law will be construed in accordance with the laws of Scotland.

KEY STRUCTURAL FEATURES

CREDIT ENHANCEMENT AND LIQUIDITY SUPPORT

The Notes are obligations of the Issuer only and will not be the obligations of, or the responsibility of, or guaranteed by, any other party. However, there are a number of features of the transaction which enhance the likelihood of timely receipt of payments by the Noteholders, as follows:

- Available Investor Revenue is expected to exceed interest due and payable on the Notes and senior costs and expenses of the Issuer.
- A Revenue Shortfall on any Interest Payment Date may be funded by, *first*, the General Reserve Fund, *second*, Available Investor Principal or Seller Principal (as applicable) and, *third*, the Liquidity Reserve Fund.
- The subordination of payments of interest and principal on junior Classes of Notes and the deferral of interest payments where the Issuer has insufficient funds to pay such amounts.
- The Investor Percentage of Principal Losses will be allocated to the Notes in reverse Sequential Order in the Principal Deficiency Ledger.
- The transaction is overcollateralised in an amount equal to the Seller Principal Amount to mitigate the risk of the Issuer having insufficient funds to redeem the Notes in full as a result of Borrowers exercising set-off rights against the Seller.
- The GIC Account earns interest at a specified rate.
- A Subordinated Loan is provided by the Subordinated Loan Provider to fund the General Reserve Fund on the Closing Date and to meet the costs in connection with the issuance of the Notes and repayment of the Subordinated Loan is subordinated to payments on the Notes.
- The Issuer will enter into the Basis Swap to hedge against the possible variance between the floating and fixed interest rates due and payable by Borrowers on the Mortgage Loans and the LIBOR based interest payments in respect of the Notes.

Each of these factors is considered in more detail below.

Credit Support provided by Available Investor Revenue

It is anticipated that, during the life of the Notes, the Investor Percentage of the interest payable by Borrowers on the Mortgage Loans will be sufficient so that the Available Investor Revenue will cover the amounts payable under items (a) to (p) (inclusive) of the Pre Enforcement Investor Revenue Payments Priorities. The actual amount of any excess at the bottom of the Pre Enforcement Investor Revenue Payments Priorities which is to be applied as Seller Revenue will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Mortgage Loans in the Mortgage Portfolio (as to which, see the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support - Interest Rate Risk for the Notes*" below) and the performance of the Mortgage Portfolio.

An amount equal to Available Investor Revenue may be applied (after making payments or provisions ranking higher in the Pre Enforcement Investor Revenue Payments Priorities) on each Interest Payment Date in accordance with the Pre Enforcement Investor Revenue Payments Priorities, towards reducing any debit balance to the Principal Deficiency Ledger which may arise from Principal Losses on the Mortgage Portfolio and from using Available Investor Principal or Seller Principal (as applicable) and the Liquidity Reserve Fund to make up any Revenue Shortfall.

To the extent that the amount of Available Investor Revenue on any Interest Payment Date exceeds the aggregate of the payments and provisions required to be met under items (a) to (i)

(inclusive) of the Pre Enforcement Investor Revenue Payments Priorities, such excess is available to replenish and increase the General Reserve Fund up to and including an amount equal to the General Reserve Fund Required Amount.

Liquidity support provided by use of General Reserve Fund, Available Investor Principal, Seller Principal and Liquidity Reserve Fund to fund Revenue Shortfall

On each Calculation Date, the Cash Manager will calculate whether there will be a Revenue Shortfall on the following Interest Payment Date. Where there will be a Revenue Shortfall, then the Cash Manager shall pay or provide for that Revenue Shortfall by the application of (i) *first*, the General Reserve Fund, (ii) *second*, Available Investor Principal or Seller Principal (as applicable) and (iii) *third*, the Liquidity Reserve Fund, such amounts to form part of the Available Investor Revenue on the following Interest Payment Date; provided that, Available Investor Principal, Seller Principal and the Liquidity Reserve Fund may not be applied for the purposes of reducing the debit balance of the Principal Deficiency Ledger and will not be applied to pay interest on a Class of Rated Notes if the debit balance of the sub-ledger of the Principal Deficiency Ledger in respect of that Class of Rated Notes is 50% or more of the Principal Amount Outstanding of that Class of Rated Notes and the Liquidity Reserve Fund will only be available while a Liquidity Trigger Event is continuing. For the avoidance of doubt, interest on the Class C Notes will not be supported by the General Reserve Fund, Available Investor Principal, Seller Principal or the Liquidity Reserve Fund.

The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount of any Available Investor Principal or Seller Principal and monies in the Liquidity Reserve Fund applied to fund a Revenue Shortfall.

For more information about the General Reserve Fund, the Liquidity Reserve Fund and the application of Available Investor Principal or Seller Principal to fund Revenue Shortfalls, see the section entitled "*Key Structural Features - Cashflows and Cash Management*".

Subordination of the junior Classes of Notes and deferral of payments on the Notes

Payments of interest on the Notes (including, for the avoidance of doubt, any Unrated Additional Amount) will be paid in Sequential Order (so that payments on the Class C Notes and the Class B Notes will be subordinated to payments on the Class A Notes, and payments on the Class C Notes will be subordinated to payments on the Class B Notes) in accordance with the relevant Payments Priorities. Further, Available Investor Revenue will be applied to credit the Class C Principal Deficiency Sub-Ledger to eliminate any debit thereon and to credit the General Reserve Fund prior to payment of interest on the Class C Notes

Payments of principal on the Notes will be made in Sequential Order except that, following the occurrence of a Principal Payments Trigger Event, payments of principal on the Class A Notes will, amongst themselves, rank *pro rata* and *pari passu*; at all other times, payments of principal on the Class A Notes will be made in Sequential Order (so that principal payments will be made *first*, to the Class A1 Notes, *second*, to the Class A2 Notes and, *third*, to the Class A3 Notes) in accordance with the relevant Payments Priorities. In addition, once the Class A1 Notes and the Class A2 Notes have been redeemed in full, and provided that all the other Seller Principal Diversion Conditions are satisfied, Principal Receipts will not be applied as Available Investor Principal (to be applied, *inter alia*, in redeeming the Class A3 Notes, the Class B Notes and the Class C Notes) but will instead be applied as Seller Principal in accordance with the Pre Enforcement Seller Principal Payments Priorities to be applied, amongst other things, in paying Principal Deferred Consideration to the Seller until the Seller Principal Amount is equal to the Minimum Seller Principal Amount.

Any shortfall in payments of interest (including, for the avoidance of doubt, any Unrated Additional Amount) on any Class of Notes (including the Class A Notes) will be deferred until the next Interest Payment Date and this will not constitute an Event of Default. On the next Interest Payment Date, the amount of interest scheduled to be paid on a Class of Notes will be increased to take account of any deferral of such amounts of interest for such Class of Notes. On the next Interest Payment Date, interest shall also be payable on any Deferred Interest for such Class of Notes. The deferral process will continue until the Final Maturity Date of the Notes, at

which point, all such deferred amounts (including interest thereon) will become due and payable. However, if there is insufficient money available to the Issuer to pay interest (including, for the avoidance of doubt, any Unrated Additional Amount) on any Class of Notes, then the relevant Noteholders may not receive all interest amounts or any Unrated Additional Amount.

It is not intended that any surplus will be accumulated in the Issuer, other than, for the avoidance of doubt, the Issuer Profit Amount and amounts standing to the credit of the Reserve Ledgers and the Swap Collateral Ledger (if applicable).

Principal Losses are allocated in the Principal Deficiency Ledger

On each Calculation Date, the Cash Manager will determine the amount of Principal Losses on the Mortgage Portfolio which are allocable to the Notes and will be applied in reducing the Investor Principal Amount (by reference to the Investor Percentage) and the amount of Principal Losses which are allocable to the Seller and will be applied in reducing the Seller Principal Amount (by reference to the Seller Percentage).

A Principal Deficiency Ledger, comprising three sub-ledgers (one relating to each Class of Notes), will be established on the Closing Date in order to record the Investor Percentage of any Principal Losses and/or the application of Available Investor Principal or Seller Principal (as applicable) to fund any Revenue Shortfall and/or any debiting of the Liquidity Reserve Fund on an Interest Payment Date to fund any Revenue Shortfall. For the avoidance of doubt, Principal Losses recorded in the Principal Deficiency Ledger shall not include Set-Off Losses until the Seller Percentage is zero.

Losses or debits recorded on the Class A Principal Deficiency Sub-Ledger shall be recorded in respect of the Class A1 Notes, the Class A2 Notes and the Class A3 Notes on a *pro rata* and *pari passu* basis. Losses or debits recorded on the Class B Principal Deficiency Sub-Ledger shall be recorded in respect of the Class B Notes. Losses or debits recorded on the Class C Principal Deficiency Sub-Ledger shall be recorded in respect of the Class C Notes.

The Investor Percentage of Principal Losses and the amount of any Available Investor Principal or Seller Principal and/or monies in the Liquidity Reserve Fund applied to fund a Revenue Shortfall will be recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) *firstly*, to the Class C Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class C Notes;
- (b) *secondly*, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class B Notes; and
- (c) *thirdly*, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes

Amounts allocated to the Principal Deficiency Ledger shall be reduced to the extent of Available Investor Revenue available for such purpose on each Interest Payment Date in accordance with the Pre Enforcement Revenue Payments Priorities as follows:

- (a) *firstly*, to the Class A Principal Deficiency Sub-Ledger to reduce the debit balance to zero;
- (b) *secondly*, to the Class B Principal Deficiency Sub-Ledger to reduce the debit balance to zero; and
- (c) *thirdly*, to the Class C Principal Deficiency Sub-Ledger to reduce the debit balance to zero.

Available Investor Revenue allocated as described above will be applied in or towards redemption of the relevant Class of Notes as Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities.

Overcollateralisation to cover Set-Off Losses on the Mortgage Portfolio

The Current Balance of the Mortgage Loans transferred by the Seller to the Issuer on the Closing Date will be in excess of the Principal Amount Outstanding of the Notes issued on the Closing Date. This over-collateralisation, representing 1.50% of the Current Balance of the Mortgage Loans in the Mortgage Portfolio on the Closing Date represents the Seller Principal Amount and is intended to mitigate Set-Off Losses on the Mortgage Portfolio during the term of the transaction, but is not generally available to provide credit enhancement for the Notes. The Seller Percentage will reduce as a result of Set-Off Losses and as a result of the payment of Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities if the Investor Principal Amount is zero or whilst the Seller Principal Diversion Conditions are satisfied. See the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*" for further information.

GIC Account

All monies held by the Issuer will be deposited in the GIC Account in the first instance. The GIC Account is maintained with the Account Bank. This account is subject to a guaranteed investment contract, under which, the Account Bank has agreed to pay a variable rate of interest on sums in the GIC Account of 0.25 per cent. per annum below LIBOR for one-month Sterling deposits. The Account Bank is required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the GIC Account. The criteria include a requirement that (i) the short-term, issuer default rating of the Account Bank is at least F1 by Fitch and the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the Account Bank is at least P-1 by Moody's and (ii) the long-term, issuer default rating is rated at least A by Fitch and the long-term, unsecured and unsubordinated debt or counterparty obligations is A1 by Moody's, or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes. If the Account Bank ceases to satisfy these criteria, then the GIC Account may be transferred to another entity which does satisfy the criteria.

Subordinated Loan

The Issuer will enter into the Subordinated Loan Agreement with the Subordinated Loan Provider on or about the Closing Date. Pursuant to this agreement, the Subordinated Loan Provider will agree to make available to the Issuer the Subordinated Loan on the Closing Date. The Subordinated Loan will be a subordinate ranking loan which will be used by the Issuer to (a) fund the General Reserve Fund on the Closing Date (the "**General Reserve Fund Advance**") and (b) meet costs and expenses incurred by the Issuer in respect of the issuance of the Notes on the Closing Date (the "**Expenses Advance**"). The amount of the Subordinated Loan on the Closing Date will be £38,132,900.

The Subordinated Loan will bear interest until repaid at a rate of LIBOR for one-month Sterling deposits plus 0.25% per annum. Any unpaid interest will not fall due but will instead be due and payable on the next following Interest Payment Date on which sufficient funds are available to pay the unpaid amount and pending such payment, will itself bear interest. Interest in respect of the Subordinated Loan will be payable by the Issuer on each Interest Payment Date. The Issuer will repay (a) the General Reserve Fund Advance in full on the Final Maturity Date, or on such other date on which the Notes are redeemed in full and (b) the Expenses Advance on each Interest Payment Date to the extent that it has Available Investor Revenue to make such payment in accordance with the relevant Payments Priorities or on the Final Maturity Date, or on such other date on which the Notes are redeemed in full. To the extent that the amount of the Expenses Advance exceeds the amounts required by the Issuer to meet costs and expenses of the Issuer in respect of the issuance of the Notes, such amounts will be repaid directly to the Seller and will not form part of Available Investor Revenue or Available Investor Principal and will not be paid in accordance with the Payments Priorities.

Basis Risk for the Notes

Interest payable by Borrowers under the Mortgage Loans will be determined by reference to certain fixed and variable rates of interest, which will be determined on a different basis from the floating interest payable by the Issuer on the Notes. In order to hedge against this variance, the Issuer will enter into a Basis Swap. The Basis Swap will constitute a transaction pursuant to a 1992 ISDA Master Agreement to be entered into (together with a Schedule and Credit Support Annex thereto) between the Issuer and the Basis Swap Provider.

The Basis Swap Agreement

Under the Basis Swap Agreement, on each Interest Payment Date:

- (a) the Issuer will pay to the Basis Swap Provider an amount equal to the product of the Principal Share and the sum of:
 - (i) the product of the average daily aggregate Current Balance of the Fixed Rate Loans, the weighted average interest rate applicable to those Mortgage Loans and the number of days in the applicable Calculation Period divided by 365; and
 - (ii) the product of the average daily aggregate Current Balance of all Tracker Rate Loans, the Bank of England base rate applicable to those Mortgage Loans and the number of days in the applicable Calculation Period divided by 365;
- (b) the Basis Swap Provider will pay to the Issuer an amount equal to the product of the Principal Share and the sum of:
 - (i) the product of the average daily aggregate Current Balance of the Fixed Rate Loans, LIBOR plus a spread and the number of days in the applicable Calculation Period divided by 365; and
 - (ii) the product of the average daily aggregate Current Balance of all Tracker Rate Loans, LIBOR minus a spread and the number of days in the applicable Calculation Period divided by 365.

Ratings Downgrade

If, at any time following the Closing Date, the short term or long-term, unsecured and unsubordinated debt obligations of the Basis Swap Provider or any guarantor, as applicable, are downgraded by a Rating Agency below the required ratings specified in the Basis Swap Agreement for the Basis Swap Provider, the Basis Swap Provider will be required to take certain remedial measures which may include providing collateral for its obligations, arranging for its obligations to be transferred to an entity with the ratings required by the relevant Rating Agency, procuring another entity with rating(s) required by the relevant Rating Agency to become co obligor or guarantor in respect of its obligations, or taking such other action as it may agree with the relevant Rating Agency. A failure to take such steps will allow the Issuer to terminate the Basis Swap Agreement.

Termination of the Basis Swap Agreement

The Basis Swap Agreement may be terminated in, inter alia, the following circumstances (each, a "**Swap Early Termination Event**"):

- (a) if there is a failure by the other party to pay any amounts due and payable in accordance with the terms of the Basis Swap. Certain amounts may be due but not payable in accordance with the terms of the Basis Swap;
- (b) service by the Trustee of an Enforcement Notice;
- (c) upon the occurrence of an insolvency of the Basis Swap Provider or the merger of the Basis Swap Provider without an assumption of its obligations under the Basis Swap;

- (d) if the Basis Swap Provider is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the Basis Swap Agreement and described above in the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support - Ratings Downgrade*";
- (e) upon the occurrence of a Tax Event or an Illegality (as defined in the Basis Swap Agreement);
- (f) if the Pre Enforcement Payments Priorities or the Post Enforcement Payments Priorities is amended (in any case, other than in accordance with the Cash Management Agreement and/or the Deed of Charge, as the case may be, or with the prior written consent of the Basis Swap Provider), such that Issuer's obligations to the Basis Swap Provider under the Basis Swap Agreement are further contractually subordinated to the Issuer's obligations to any other Secured Creditor; and
- (g) if any Transaction Document is amended without the Basis Swap Provider's prior written consent, such that the Basis Swap Provider would, immediately after such amendment, be required to pay more or receive less under the Basis Swap Agreement on the immediately following scheduled payment date than would otherwise have been the case immediately prior to such amendment.

Upon the occurrence of a Swap Early Termination Event either the Issuer or the Basis Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated Basis Swap based on market quotations of the cost of entering into a Basis Swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties (or based upon loss in the event that market quotation cannot be determined). Any such termination payment could be substantial.

Except where the Basis Swap Provider has caused the Basis Swap Agreement to terminate by its own default (pursuant to which a Basis Swap Subordinated Amount is due), any termination payment in respect of the Basis Swap Agreement due by the Issuer to the Basis Swap Provider will rank in priority to payments due on the Class A Notes.

The Issuer will apply any termination payment it receives from a termination of the Basis Swap Agreement to purchase a replacement Basis Swap (as described above). To the extent that the Issuer receives a premium under any replacement swap, it shall apply such premium first to make any termination payment due under the terminated Basis Swap.

In the event that the Basis Swap is terminated prior to scheduled termination, and prior to the service of an Enforcement Notice or the redemption in full of all outstanding Notes, the Issuer shall use its reasonable efforts to enter into a replacement Basis Swap in respect of the Notes. Such replacement Basis Swap must be entered into on terms acceptable to the Rating Agencies, the Issuer and the Trustee with a replacement Basis Swap Provider that the Rating Agencies have previously confirmed in writing to the Issuer and the Trustee will not cause the then current ratings of the Notes to be downgraded, withdrawn or qualified.

Taxation

The Issuer is not obliged under the Basis Swap Agreement to gross up payments made by it if withholding taxes are imposed on payments made under the Basis Swap Agreement.

The Basis Swap Provider is always obliged to gross up payments made by it to the Issuer if withholding taxes are imposed on payments made by it to the Issuer under the Basis Swap Agreement. The imposition of withholding taxes on payments made by the Basis Swap Provider under the Basis Swap Agreement will constitute a Tax Event (as defined in the Basis Swap Agreement) and will give the Basis Swap Provider a right to terminate the Basis Swap Agreement subject to the terms thereof.

Governing Law

The Basis Swap Agreement and any non contractual obligation arising in out of or in relation to the Basis Swap Agreement will be governed by English law.

CASHFLOWS AND CASH MANAGEMENT

APPLICATION OF REVENUE RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

On each Calculation Date prior to the service of an Enforcement Notice, the Cash Manager will determine the Seller Revenue and the Investor Revenue, each as defined below. An amount equal to the Seller Revenue will be applied on the following Interest Payment Date in accordance with the Pre Enforcement Seller Revenue Payments Priorities and an amount equal to the Investor Revenue shall form part of the Available Investor Revenue on the following Interest Payment Date and be applied in accordance with the Pre Enforcement Investor Revenue Payments Priorities. Following the service of an Enforcement Notice, all Revenue Receipts and all other monies of the Issuer will be applied in accordance with the Post Enforcement Payments Priorities.

Definition of Investor Revenue, Net Revenue, Revenue Receipts and Seller Revenue

"Investor Revenue" means, for each Interest Payment Date, the Investor Percentage of the Net Revenue collected during the immediately preceding Calculation Period.

"Net Revenue" means, for each Interest Payment Date, the aggregate Revenue Receipts collected in respect of the relevant Calculation Period *less* Early Repayment Charges which are paid directly by the Cash Manager on behalf of the Issuer to the Seller in accordance with the Cash Management Agreement and *less* the amounts collected during the relevant Calculation Period which properly belong to third parties such as (but not limited to):

- (a) payments of certain insurance premia where such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts;
- (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
- (c) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller,

(items (a), (b) and (c) above being collectively referred to herein as **"Third Party Amounts"**).

"Revenue Receipts" means payments received by the Issuer as representing

- (a) payments of interest on the Mortgage Loans (including Arrears of Interest and Accrued Interest but excluding Capitalised Arrears) and fees due from time to time under the Mortgage Loans;
- (b) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced;
- (c) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) and/or principal from defaulting Borrowers under Mortgage Loans in respect of which enforcement procedures have been completed;
- (d) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to Accrued Interest, Arrears of Interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, Capitalised Arrears) as at relevant Transfer Date; and
- (e) any early repayment charges which have been paid by the Borrower in respect of the Mortgage Loans.

"Seller Revenue" means, for each Interest Payment Date, the Seller Percentage of the Net Revenue collected during the immediately preceding Calculation Period *plus* any excess Available Investor Revenue (after application of an amount equal to Available Investor Revenue

in or towards items ranking in priority to item (p) of the Pre Enforcement Investor Revenue Payments Priorities) applied as Seller Revenue.

Definition of Available Investor Revenue

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

- (a) the Investor Revenue received during the immediately preceding Calculation Period;
- (b) interest payable to the Issuer on the Issuer Accounts and income from any Authorised Investments in each case received during the immediately preceding Calculation Period;
- (c) all amounts (other than any early termination payment which is to be used to acquire, if necessary, a new basis swap) received by the Issuer under the Basis Swap Agreement (other than Swap Collateral and Replacement Swap Premium) on such Interest Payment Date;
- (d) other net income of the Issuer received during the immediately preceding Calculation Period (other than any Principal Receipts, Seller Revenue, Early Repayment Charges and Third Party Amounts);
- (e) any amounts available pursuant to item (h) (prior to a Principal Payments Trigger Event) or (f) (after a Principal Payments Trigger Event) of the Pre Enforcement Investor Principal Payments Priorities;
- (f) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;

plus

- (g) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (f) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), the amount then standing to the credit of the General Reserve Ledger and available to be drawn to the extent necessary to pay such Revenue Shortfall;

plus

- (h) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (g) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), Available Investor Principal or Seller Principal (as applicable) in an aggregate amount sufficient to cover such Revenue Shortfall (subject to the limits or conditions on the purposes for which the Available Investor Principal or Seller Principal (as applicable) may be so utilised, as described more fully below); and

plus

- (i) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (h) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), the amount then standing to the credit of the Liquidity Reserve Ledger and available to be drawn to the extent necessary to pay such Revenue Shortfall (subject to the limits or conditions on the purposes for which the Liquidity Reserve Fund may be utilised, as described more fully below).

General Reserve Fund and General Reserve Ledger

On the Closing Date, the Issuer will establish the General Reserve Fund to provide credit enhancement and liquidity support for the Class A Notes and the Class B Notes. The General Reserve Fund will be funded up to the General Reserve Fund Required Amount on the Closing Date from the Subordinated Loan and, following the Closing Date, will be replenished up to the General Reserve Fund Required Amount from Available Investor Revenue on each Interest

Payment Date to the extent required in accordance with the provisions of the Pre Enforcement Investor Revenue Payments Priorities. Interest on the Class C Notes will not be supported by the General Reserve Fund.

The General Reserve Fund will be deposited in the GIC Account (with a corresponding credit being made to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

Prior to service of an Enforcement Notice, monies standing to the credit of the General Reserve Ledger as at the end of the immediately preceding Calculation Period will be applied on each Interest Payment Date as Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities to fund a Revenue Shortfall.

On any Interest Payment Date on which the Notes are fully repaid or provided for, the General Reserve Fund Required Amount will be reduced to zero and any amounts held in the General Reserve Fund will form part of Available Investor Revenue and will be applied in accordance with the Pre Enforcement Investor Revenue Payments Priorities.

Following service of an Enforcement Notice, monies standing to the credit of the General Reserve Ledger will be applied in accordance with the Post Enforcement Investor Payments Priorities.

Application of an amount equal to Available Investor Principal or Seller Principal (as applicable) to fund Revenue Shortfall

Prior to service of an Enforcement Notice, to the extent that the General Reserve Fund is insufficient to make up the Revenue Shortfall on any Interest Payment Date, an amount equal to Available Investor Principal or Seller Principal (as applicable) may be applied on such Interest Payment Date to makeup such shortfall in accordance with the Pre Enforcement Investor Principal Payments Priorities or the Pre Enforcement Seller Principal Payments Priorities (as applicable).

Available Investor Principal or Seller Principal (as applicable) may be used by the Issuer to make up any Revenue Shortfall other than to (i) reduce the debit balance of any sub-ledger of the Principal Deficiency Ledger or (ii) pay interest on a Class of Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Rated Notes is 50% or more than the Principal Amount Outstanding of that Class of Rated Notes. Interest on the Class C Notes will not be supported by Available Investor Principal or Seller Principal.

If an amount equal to Available Investor Principal or Seller Principal (as applicable) is applied to fund a Revenue Shortfall on any Interest Payment Date, the Issuer (or the Cash Manager on its behalf) will make a corresponding debit in the Principal Deficiency Ledger.

Application of Liquidity Reserve Fund to fund Revenue Shortfall

While a Liquidity Trigger Event is continuing, the Issuer will be required to fund the Liquidity Reserve Fund to the Liquidity Reserve Fund Required Amount initially from (i) Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities or Seller Principal in accordance with the Pre Enforcement Seller Principal Payments Priorities (as the case may be) or (ii) (if insufficient funds are available therefrom) from Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities. The Issuer will be required to top up the Liquidity Reserve Fund to the Liquidity Reserve Fund Required Amount on each Interest Payment Date from (i) Available Investor Revenue at item (k) of the Pre Enforcement Investor Principal Payments Priorities, (ii) (when the Investor Percentage is greater than zero and the Seller Principal Diversion Conditions are not satisfied) from Available Investor Principal at item (b) of the Pre Enforcement Investor Principal Payments Priorities and/or (iii) (when the Investor Percentage is zero or the Seller Principal Diversion Conditions are satisfied) from Seller Principal at item (b) of the Pre Enforcement Seller Principal Payments Priorities.

The Liquidity Reserve Fund will be deposited in the GIC Account (with a corresponding credit being made to the Liquidity Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments.

Prior to service of an Enforcement Notice, to the extent that monies in the General Reserve Fund and Available Investor Principal or Seller Principal (as applicable) are insufficient to make up the Revenue Shortfall on any Interest Payment Date, monies in the Liquidity Reserve Fund as at the end of the immediately preceding Calculation Period will be applied on such Interest Payment Date to make up such shortfall subject to the conditions set out below.

Monies in the Liquidity Reserve Fund may be used by the Issuer to make up any Revenue Shortfall other than to (i) reduce the debit balance of any sub-ledger of the Principal Deficiency Ledger or (ii) pay interest on a Class of Rated Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Rated Notes is 50% or more than the Principal Amount Outstanding of that Class of Rated Notes. Interest on the Class C Notes will not be supported by the Liquidity Reserve Fund.

The amount of any Available Investor Principal or Seller Principal applied to fund the Liquidity Reserve Fund will be recorded as a credit to the Liquidity Reserve Principal Sub-Ledger and the amount of any Available Investor Revenue applied to fund the Liquidity Reserve Fund will be recorded as a credit to the Liquidity Reserve Revenue Sub-Ledger.

Amounts released from the Liquidity Reserve Fund will be applied using, *firstly*, funds in the Liquidity Reserve Revenue Sub-Ledger and *secondly*, funds in the Liquidity Reserve Principal Sub-Ledger. In addition, where there has been a reduction in the Liquidity Reserve Fund Required Amount, any such excess amounts will be treated as Available Investor Principal on the following Interest Payment Date and will be applied using, *firstly*, funds in the Liquidity Reserve Principal Sub-Ledger and *secondly*, funds in the Liquidity Reserve Revenue Sub-Ledger.

If a Liquidity Trigger Event is no longer continuing, the Liquidity Reserve Required Amount will reduce to zero and the monies released from the Liquidity Reserve Fund will form part of Available Investor Principal on the immediately following Interest Payment Date. On any date on which the Notes are redeemed in whole, the Liquidity Reserve Required Amount will reduce to zero and the monies released from the Liquidity Reserve Fund may be applied as Available Investor Principal. In addition, following a reduction in the Liquidity Reserve Fund Required Amount, any excess amounts released therefrom will be treated as Available Investor Principal on the following Interest Payment Date.

Following service of an Enforcement Notice, the Liquidity Reserve Fund will be applied in accordance with the Post Enforcement Investor Payments Priorities.

Application of monies following redemption of the Notes in full

On any date on which the Notes are repaid or provided for in full, the Issuer (or the Cash Manager on its behalf) may apply all amounts standing to the credit of any Issuer Account (including the Reserve Funds) of the Issuer to repay any liabilities of the Issuer and to discharge all other amounts required to be paid by the Issuer in accordance with the relevant Payments Priorities.

Application of Available Investor Revenue prior to the service of an Enforcement Notice

On each Interest Payment Date prior to the service of an Enforcement Notice, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of an amount equal to the Available Investor Revenue in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Pre Enforcement Investor Revenue Payments Priorities**"):

- (a) *first*, in or towards payment of the Investor Percentage of any remuneration, fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Trustee and any Appointee

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

- (b) *second*, in or towards payment *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 Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein
 - (ii) the Investor Percentage of any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Interest Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
 - (iii) the Investor Percentage of any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Account Bank in the immediately succeeding Interest Period under the provisions of the Account Bank Agreement, together with (if applicable) VAT thereon as provided therein;
 - (iv) the Investor Percentage of any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein; and
 - (v) the Investor Percentage of any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
- (c) *third*, in or towards payment of the Investor Percentage of any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax of the Issuer (but only to the extent not capable of being satisfied out of amounts retained by the Issuer under item (n) below));
- (d) *fourth*, in or towards payment of any amounts due to the Basis Swap Provider in respect of the Basis Swap Agreement (other than any Basis Swap Subordinated Amounts which are due payable under item (m) below);
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* of interest due and payable on:
- (i) the Class A1 Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to any Unrated Additional Amount due and payable on the Class A1 Notes);
 - (ii) the Class A2 Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to any Unrated Additional Amount due and payable on the Class A2 Notes); and

- (iii) the Class A3 Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to any Unrated Additional Amount due and payable on the Class A3 Notes);
- (f) *sixth*, to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Investor Principal);
- (g) *seventh*, in or towards payment of interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to any Unrated Additional Amount due and payable on the Class B Notes);
- (h) *eighth*, to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Investor Principal);
- (i) *ninth*, to credit the Class C Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon (such amounts to be applied as Available Investor Principal);
- (j) *tenth*, on any Interest Payment Date other than on the final Interest Payment Date, to credit the General Reserve Ledger up to the General Reserve Fund Required Amount;
- (k) *eleventh*, if a Liquidity Trigger Event has occurred and is continuing, towards crediting the Liquidity Reserve Ledger to the extent that the amount standing to the credit thereof is less than the Liquidity Reserve Fund Required Amount, taking into account any net replenishment of the Liquidity Reserve Fund on that Interest Payment Date from Available Investor Principal (see item (b) of the Pre Enforcement Investor Principal Payments Priorities) or Seller Principal (see item (b) of the Pre Enforcement Seller Principal Payments Priorities) (as the case may be);
- (l) *twelfth*, in or towards payment of interest due and payable on the Class C Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to any Unrated Additional Amount due and payable on the Class C Notes);
- (m) *thirteenth*, in or towards payment, in accordance with the terms of the Basis Swap Agreement, to the Basis Swap Provider, of any Basis Swap Subordinated Amount;
- (n) *fourteenth*, in or towards payment to the Issuer of an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in December 2011 and £100 on each Interest Payment Date thereafter in each case to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;
- (o) *fifteenth*, in or towards payment of interest due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (p) *sixteenth*, in or towards payment of principal due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (q) *seventeenth*, the excess (if any) to be applied as Seller Revenue.

Application of an amount equal to Seller Revenue prior to the service of an Enforcement Notice

On each Interest Payment Date prior to the service of an Enforcement Notice, the Cash Manager, on behalf of the Issuer, shall apply or provide for the application of, an amount equal to the Seller Revenue in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Pre Enforcement Seller Revenue Payments Priorities**"):

- (a) *first*, in or towards satisfaction of the Seller Percentage of any remuneration, fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable in the immediately succeeding Interest Period to the Trustee and any Appointee under the provisions of the Trust Deed 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 the Seller Percentage of:
 - (i) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Corporate Services Provider in the immediately succeeding Interest Period under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Account Bank in the immediately succeeding Interest Period under the provisions of the Account Bank Agreement, together with (if applicable) VAT thereon as provided therein;
 - (iii) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein;
 - (iv) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due or to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
- (c) *third*, in or towards satisfaction of the Seller Percentage of any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer for corporation tax of the Issuer (but only to the extent not capable of being satisfied out of the Issuer Profit Amount);
- (d) *fourth*, from and including the First Call Option Date, in or towards payment *pro rata* and *pari passu* of:
 - (i) the Unrated Additional Amount due and payable on the Class A1 Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class A1 Notes);
 - (ii) the Unrated Additional Amount due and payable on the Class A2 Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class A2 Notes);
 - (iii) the Unrated Additional Amount due and payable on the Class A3 Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class A3 Notes);
- (e) *fifth*, from and including the First Call Option Date, in or towards payment of the Unrated Additional Amount due and payable on the Class B Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class B Notes);

- (f) *sixth*, from and including the First Call Option Date, in or towards payment of the Unrated Additional Amount due and payable on the Class C Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class C Notes); and
- (g) *seventh*, to pay Revenue Deferred Consideration to the Seller.

Payments of Third Party Amounts and Early Repayment Charges

Both pre and post service of an Enforcement Notice, Third Party Amounts and Early Repayment Charges may be withdrawn by the Cash Manager on a daily basis from the Issuer Accounts to make payment to the persons entitled thereto except where such payments have already been provided for elsewhere. The Issuer will hold Early Repayment Charges on trust for the Seller pursuant to the terms of the Mortgage Sale Agreement and will hold the Third Party Amounts on trust for the parties entitled to payment of such amounts pursuant to the Mortgage Sale Agreement.

APPLICATION OF PRINCIPAL RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

On each Calculation Date prior to the service of an Enforcement Notice, the Cash Manager shall determine the amount of Principal Receipts to be applied (i) as Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities on the immediately succeeding Interest Payment Date (provided the Investor Principal Amount is greater than zero) and (ii) as Seller Principal in payment towards Principal Deferred Consideration in accordance with the Pre Enforcement Seller Principal Payments Priorities on the immediately succeeding Interest Payment Date, as follows (provided that the Seller Principal Amount is greater than zero and the other conditions specified below are satisfied):

- (a) to the extent that the Class A1 Notes and the Class A2 Notes will remain outstanding on the immediately succeeding Interest Payment Date, an amount equal to the lesser of (a) the Investor Principal Amount and (b) the available Principal Receipts shall be applied as part of Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities;
- (b) to the extent that no Class A1 Notes and Class A2 Notes will remain outstanding on the immediately succeeding Interest Payment Date, and provided that all of the other Seller Principal Diversion Conditions are satisfied, the available Principal Receipts shall be applied as Seller Principal to be applied in accordance with the Pre Enforcement Seller Principal Payments Priorities in payment, amongst other things, of Principal Deferred Consideration, until the Seller Principal Amount is equal to the Minimum Seller Principal Amount, and, thereafter, any excess Principal Receipts will be applied as part of Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities;
- (c) to the extent that no Class A1 Notes and Class A2 Notes will remain outstanding on the immediately succeeding Interest Payment Date, but any Seller Principal Diversion Condition is not satisfied on such date, an amount equal to the lesser of (a) the Investor Principal Amount and (b) the available Principal Receipts shall be applied as part of Available Investor Principal to be applied in accordance with the Pre Enforcement Investor Principal Payments Priorities; and
- (d) to the extent that the Investor Principal Amount is zero, an amount equal to the lesser of (a) the Seller Principal Amount and (b) the available Principal Receipts shall be applied as Seller Principal to be applied in paying Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities.

Definition of Principal Receipts, Available Investor Principal and Seller Principal

"Principal Receipts" means payments received by the Issuer representing

- (a) any payment in respect of principal received in respect of any Mortgage Loan (including Capitalised Arrears but excluding Accrued Interest and Arrears of Interest);
- (b) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property);
- (c) any payment pursuant to any insurance policy (including any Building Policies) in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio;
- (d) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan;
- (e) proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement; and
- (f) any other payments received which are not classified as Revenue Receipts.

"Available Investor Principal" means, for any Interest Payment Date, an amount equal to the aggregate of (without double counting):

- (a) the Principal Receipts received by the Issuer during the immediately preceding Calculation Period which have been designated as Available Investor Principal by the Cash Manager in accordance with the Cash Management Agreement (whilst the Seller Principal Diversion Conditions are not satisfied and the Investor Principal Amount is greater than zero);
- (b) any amounts released from the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced; and
- (c) any amounts of Available Investor Revenue (if any) to be applied on that Interest Payment Date pursuant to the Pre Enforcement Investor Revenue Payments Priorities, in reducing the debit balance of the Principal Deficiency Ledger.

"Seller Principal" means the amount of Principal Receipts to be applied as Seller Principal by the Cash Manager in accordance with the Pre Enforcement Seller Principal Payments Priorities on any Interest Payment Date, as determined by the Cash Manager in accordance with the Cash Management Agreement.

Application of an amount equal to Available Investor Principal prior to the service of an Enforcement Notice

Prior to the service of an Enforcement Notice, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply an amount equal to Available Investor Principal (if any) on each Interest Payment Date in the following order of priority (the **"Pre Enforcement Investor Principal Payments Priorities"**) (in each case only if and to the extent that payments or provisions of higher priority have been paid in full):

- (a) *first*, to fund any Revenue Shortfall on such Interest Payment Date, subject to the limits or conditions on the purposes for which the Available Investor Principal may be so utilised, as described more fully above (such amounts to be applied as Available Investor Revenue on such Interest Payment Date);
- (b) *second*, whilst a Liquidity Trigger Event is continuing, to credit the Liquidity Reserve Ledger to the Liquidity Reserve Fund Required Amount;

Prior to a Principal Payments Trigger Event:

- (c) *third*, in redeeming the Class A1 Notes until the Principal Amount Outstanding thereof has been reduced to zero;

- (d) *fourth*, in redeeming the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero
- (e) *fifth*, in redeeming the Class A3 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (f) *sixth*, in redeeming the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (g) *seventh*, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero; and
- (h) *eighth*, the excess (if any) to be applied as Available Investor Revenue.

After a Principal Payments Trigger Event:

- (c) *third*, in redeeming *pro rata* and *pari passu* according to the respective amounts due
 - (i) the Class A1 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
 - (ii) the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero; and
 - (iii) the Class A3 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (d) *fourth*, in redeeming the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (e) *fifth*, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero; and
- (f) *sixth*, the excess (if any) to be applied as Available Investor Revenue.

Application of an amount equal to Seller Principal prior to the service of an Enforcement Notice

Prior to the service of an Enforcement Notice, the Issuer is required pursuant to the terms of the Cash Management Agreement to apply an amount equal to Seller Principal (if any) on each Interest Payment Date in the following order of priority (the "**Pre Enforcement Seller Principal Payments Priorities**") (in each case only if and to the extent that payments or provisions of higher priority have been paid in full):

- (a) *first*, to fund any Revenue Shortfall on such Interest Payment Date, subject to the limits or conditions on the purposes for which the Seller Principal may be so utilised, as described more fully above (such amounts to be applied as Available Investor Revenue on such Interest Payment Date);
- (b) *second*, whilst a Liquidity Trigger Event is continuing, to credit the Liquidity Reserve Ledger to the Liquidity Reserve Fund Required Amount; and
- (c) *thirdly*, to pay Principal Deferred Consideration to the Seller.

For more information in relation to the calculation and payment of Principal Deferred Consideration payable to the Seller, see the section entitled "*The Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement*".

APPLICATION OF REVENUE RECEIPTS, PRINCIPAL RECEIPTS AND OTHER MONIES RECEIVED BY THE ISSUER FOLLOWING THE SERVICE OF AN ENFORCEMENT NOTICE

Following the service of an Enforcement Notice (which has not been revoked) on the Issuer, the Trustee (or the Cash Manager or a Receiver on its behalf) will calculate the Seller Percentage and the Investor Percentage of all amounts received or recovered (including, for the avoidance of doubt, on enforcement or realisation of the Security) other than Swap Collateral, Tax Credits, Replacement Swap Premium, Third Party Amounts and Early Repayment Charges, being the "**Post Enforcement Seller Amounts**" and the "**Post Enforcement Investor Amounts**", respectively.

Post Enforcement Seller Payments Priorities

The Post Enforcement Seller Amounts will be applied in accordance with the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Post Enforcement Seller Payments Priorities**").

- (a) *first*, in or towards satisfaction of the Seller Percentage of any remuneration, fees, costs, charges, liabilities, expenses and all other amounts then due or to become due and payable to the Trustee and any Appointee (including any Receiver) under the provisions of the Trust Deed 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 the Seller Percentage of:
 - (i) any amounts then due and payable to the Corporate Services Provider and any fees, costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts then due and payable to the Account Bank and any fees, costs, charges, liabilities and expenses then due and payable to the Account Bank under the provisions of the Account Bank Agreement, together with (if applicable) VAT thereon as provided therein;
 - (iii) any amounts then due and payable to the Servicer and any fees, costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with VAT (if payable) thereon as provided therein; and
 - (iv) any amounts then due and payable to the Cash Manager and any fees, costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with VAT (if payable) thereon as provided therein;
- (c) *third*, in or towards payment of Principal Deferred Consideration to the Seller until the Seller Principal Amount is zero;
- (d) *fourth*, if the First Call Option Date falls on or prior to the date of service of an Enforcement Notice, in or towards payment *pro rata* and *pari passu* of:
 - (i) the Unrated Additional Amount due and payable on the Class A1 Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class A1 Notes);
 - (ii) the Unrated Additional Amount due and payable on the Class A2 Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class A2 Notes); and

- (iii) the Unrated Additional Amount due and payable on the Class A3 Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class A3 Notes);
- (e) *fifth*, if the First Call Option Date falls on or prior to the date of service of an Enforcement Notice, in or towards payment of the Unrated Additional Amount due and payable on the Class B Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class B Notes);
- (f) *sixth* if the First Call Option Date falls on or prior to the date of service of an Enforcement Notice, in or towards payment of the Unrated Additional Amount due and payable on the Class C Notes (including any Deferred Interest and Additional Interest relating to any Unrated Additional Amount due and payable on the Class C Notes); and
- (g) *seventh*, to pay Deferred Consideration to the Seller.

Post Enforcement Investor Payments Priorities

The Post Enforcement Investor Amounts will be applied in accordance with the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Post Enforcement Investor Payments Priorities**" and, together with the Pre Enforcement Investor Revenue Payments Priorities, the Pre Enforcement Seller Revenue Payments Priorities, the Pre Enforcement Investor Principal Payments Priorities, the Pre Enforcement Seller Principal Payments Priorities and the Post Enforcement Seller Payments Priorities, the "**Payments Priorities**"):

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

- (c) *third*, to provide for amounts due to pay, in or towards satisfaction any amounts due to the Basis Swap Provider in respect of the Basis Swap Agreement (other than any Basis Swap Subordinated Amounts which are due payable under item (h) below);
- (d) *fourth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof interest due and payable on:
 - (i) the Class A1 Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to the Unrated Additional Amount due and payable on the Class A1 Notes);
 - (ii) the Class A2 Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to the Unrated Additional Amount due and payable on the Class A2 Notes); and
 - (iii) the Class A3 Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to the Unrated Additional Amount due and payable on the Class A3 Notes);
- (e) *fifth*, to pay or in or towards redeeming, *pro rata* and *pari passu*: principal due and payable on the Class A1 Notes, the Class A2 Notes and the Class A3 Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (f) *sixth*, to pay, *first*, interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to the Unrated Additional Amount due and payable on the Class B Notes) and, *second*, principal due and payable on the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (g) *seventh*, to pay, *first*, interest due and payable on the Class C Notes (including any Deferred Interest and Additional Interest but excluding any Unrated Additional Amount and any Deferred Interest and any Additional Interest relating to the Unrated Additional Amount due and payable on the Class C Notes) and, *second*, principal due and payable on the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero;
- (h) *eighth*, to pay in accordance with the terms of the Basis Swap Agreement, to the Basis Swap Provider any Basis Swap Subordinated Amount;
- (i) *ninth*, in or towards payment to the Issuer of an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in December 2011 and £100 on each Interest Payment Date thereafter in each case to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;
- (j) *tenth*, to pay amounts due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (k) *eleventh*, to pay Deferred Consideration due and payable to the Seller.

Application of Amounts in Respect of Swap Collateral and Replacement Swap Premium

Amounts received by the Issuer in respect of Swap Collateral (except to the extent that the value of such Swap Collateral has been applied, pursuant to the provisions of the Basis Swap Agreement, to reduce the amount that would otherwise be payable by the Basis Swap Provider to the Issuer on early termination of the Basis Swap Agreement), Tax Credits and Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to the Basis Swap Provider) shall, to the extent due and payable under the

terms of the Basis Swap Agreement, be paid directly to the Basis Swap Provider without regard to the Payments Priorities and in accordance with the terms of the Deed of Charge.

DESCRIPTION OF THE NOTES IN GLOBAL FORM

General

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

The Global Note will be deposited on the Closing Date with a Common Depositary.

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

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

Book-Entry Interests in respect of the Global Note will be recorded in denominations of £100,000 and for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000 respectively (an Authorised Denomination). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (Participants) or persons that hold interests in the Book-Entry Interests through Participants (Indirect Participants), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Arranger. Ownership of Book-Entry Interests will be shown on, and transfers of Book-Entry Interests or the interests therein will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg (with respect to the interests of their Participants) and on the records of Participants or Indirect Participants (with respect to the interests of Indirect Participants). The laws of some jurisdictions or other applicable rules may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may therefore impair the ability to own, transfer or pledge Book-Entry Interests.

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

Unlike legal owners or holders of the Notes, holders of the Book-Entry Interests will not have the right under the Trust Deed to act upon solicitations by the Issuer or consents or requests by the Issuer for waivers or other actions from Noteholders. Instead, a holder of Book-Entry Interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear or Clearstream, Luxembourg, as the case may be, and, if applicable, their Participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of Book-Entry Interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an Event of Default under the Global Note, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Definitive Notes are issued in accordance with the

Conditions. There can be no assurance that the procedures to be implemented by Euroclear and Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

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

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

Although Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of Book-Entry Interests among account holders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the Arranger, the 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 the Global Note

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

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the order of the Common Depositary, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. On each record date (the "**Record Date**") Euroclear and Clearstream, Luxembourg will determine the identity of the Noteholders for the purposes of making payments to the Noteholders. The Record Date, in respect of the Notes shall be as at the close of the Business Day prior to the relevant Interest Payment Date. The Issuer expects that payments by Participants to owners of interests in Book-Entry Interests held through such Participants or Indirect Participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participants or Indirect Participants. None of the Issuer, any agent of the Issuer, the Arranger, the Trustee, the Paying Agents, the Agent Bank or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

Information Regarding Euroclear and Clearstream, Luxembourg

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

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

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

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

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

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

Redemption

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

Cancellation

All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

Transfers and Transfer Restrictions

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

Beneficial interests in the Global Notes may be held only through Euroclear or Clearstream, Luxembourg. The Global Notes will bear a legend substantially identical to that appearing in the Global Notes, and neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in the legend appearing in the Global Notes.

Issuance of Definitive Notes

Holders of Book-Entry Interests in the Global Note will be entitled to receive Definitive Notes in registered form (Definitive Notes) in exchange for their respective holdings of Book-Entry Interests if (a) Euroclear or 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 Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, 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 withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee.

Any Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg, as the case may be. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book-Entry Interests. Holders of Definitive Notes issued in exchange for Book-Entry Interests in the Global Note will not be entitled to exchange such Definitive Note for Book-Entry Interests in such Global Note. Any Notes issued in definitive form will be issued in registered form only within 30 days of the occurrence of the relevant event (but not earlier than the Exchange Date) and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above and provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Notes will not be issued in a denomination that is not an integral multiple of the minimum authorised denomination.

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

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

Reports

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Note or the Book-Entry Interests. In addition, notices regarding the Notes will be published in a leading newspaper having a general circulation in London (which so long as the Notes are listed on the London Stock Exchange and the rules of such Stock Exchange shall so require, is expected to be the Financial Times); provided that if, at any time, the Issuer procures that the information contained in such notice shall appear on a page of the Reuters screen, the Bloomberg screen or any other medium for electronic display of data as may be previously approved in writing by the Trustee, publication in the Financial Times shall not be required with respect to such information so long as the rules of the London Stock Exchange allow. See also Condition 22 (*Notices*) of the Notes.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the Notes in the form in which they will be set out in the Trust Deed (subject to completion and amendment). If the Notes were to be represented by Definitive Notes, the Conditions set out on the reverse of each of such Definitive Notes would be as follows. While the Notes are represented by Global Notes, they will be governed by the same terms and conditions except to the extent that such terms and conditions are appropriate only to securities in definitive form or are expressly varied by the terms of such Global Notes. These terms and conditions are subject to the detailed provisions of the Trust Documents and the other Transaction Documents (as defined below).

1. General

- 1.1 The £603,170,000 Class A1 Mortgage Backed Floating Rate Notes due 2051 (the "**Class A1 Notes**"), the £603,170,000 Class A2 Mortgage Backed Floating Rate Notes due 2051 (the "**Class A2 Notes**"), the £1,809,520,000 Class A3 Mortgage Backed Floating Rate Notes due 2051 (the "**Class A3 Notes**" and, together with the Class A1 Notes and the Class A2 Notes, the "**Class A Notes**"), the £558,480,000 Class B Mortgage Backed Floating Rate Notes due 2051 (the "**Class B Notes**") and the £148,950,000 Class C Mortgage Backed Floating Rate Notes due 2051 (the "**Class C Notes**") and, together with the Class A Notes and the Class B Notes, the "**Notes**") will be issued by Edgbaston RMBS 2010-1 plc (registered number 7070646) (the "**Issuer**") on or about the Closing Date.
- 1.2 The Issuer has agreed to issue the Notes subject to and with the benefit of the terms of the Trust Deed and the Agency Agreement. The security for the Notes is created pursuant to, and on the terms set out in, the Deed of Charge.
- 1.3 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the Notes.
- 1.4 Certain provisions of these Conditions are summaries of the Trust Documents and the Agency Agreement and are subject to their detailed provisions.
- 1.5 The Noteholders are bound by the terms of the Trust Documents, and are deemed to have notice of all the provisions of the Transaction Documents.
- 1.6 Copies of the Transaction Documents are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

2. Definitions

- 2.1 In these Conditions the following defined terms have the meanings set out below:

"**Account Bank**" means Bank of Scotland acting in such capacity.

"**Account Bank Agreement**" means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Account Bank and the Trustee;

"**Accrued Interest**" means as at any date (the "**determination date**") on or after the Closing Date and in relation to any Mortgage Loan, interest on such Mortgage Loan (not being interest which is currently payable on the determination date) which has accrued (but is not yet due and payable) from and including the Monthly Payment Date immediately prior to the determination date to and including the determination date;

"**Agency Agreement**" means the agreement so named dated on or about the Closing Date between the Issuer, the Agents and the Trustee;

"**Agent Bank**" means Deutsche Bank AG, London Branch in its capacity as agent bank pursuant to the Agency Agreement;

"**Agents**" means the Agent Bank, the Registrar and the Paying Agents and "**Agent**" means any one of them;

"**Arrears of Interest**" means as at any date (the "**determination date**") on or after the Closing Date and in relation to any Mortgage Loan, interest or, in respect of a Repayment Loan, capital and/or interest and expenses (which have not been capitalised) on such Mortgage Loan which is currently due, payable and unpaid on or before that determination date;

"**Available Investor Principal**" means, for any Interest Payment Date, an amount equal to the aggregate of (without double counting):

- (a) the Principal Receipts received by the Issuer during the immediately preceding Calculation Period which have been designated as Available Investor Principal by the Cash Manager in accordance with the Cash Management Agreement (whilst the Seller Principal Diversion Conditions are not satisfied and the Investor Principal Amount is greater than zero);
- (b) any amounts released from the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced; and
- (c) any amounts of Available Investor Revenue (if any) to be applied on that Interest Payment Date pursuant to the Pre Enforcement Investor Revenue Payments Priorities, in reducing the debit balance of the Principal Deficiency Ledger.

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

- (a) an amount equal to the Investor Revenue received during the immediately preceding Calculation Period;
- (b) interest payable to the Issuer on the Issuer Accounts and income from any Authorised Investments in each case received during the immediately preceding Calculation Period;
- (c) all amounts (other than any early termination payment which is to be used to acquire, if necessary, a new basis swap) received by the Issuer under the Basis Swap Agreement (other than Swap Collateral and Replacement Swap Premium) on such Interest Payment Date;
- (d) other net income of the Issuer received during the immediately preceding Calculation Period (other than any Principal Receipts, Seller Revenue, Early Repayment Charges and Third Party Amounts);
- (e) any amounts available pursuant to item (h) (prior to a Principal Payments Trigger Event) or (f) (after a Principal Payments Trigger Event) of the Pre Enforcement Investor Principal Payments Priorities;
- (f) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;

plus

- (g) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (f) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities, the amount then standing to the credit of the General Reserve Ledger and available to be drawn to the extent necessary to pay such Revenue Shortfall;

plus

- (h) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (g) above being insufficient to pay or provide for items (a) to (i)] of the Pre Enforcement Investor Revenue Payments Priorities), Available Investor Principal or Seller Principal (as applicable) in an aggregate amount sufficient to cover such Revenue Shortfall (subject to the limits or conditions on the purposes for which the Available Investor Principal may be so utilised);

plus

- (i) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (h) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), the amount then standing to the credit of the Liquidity Reserve Ledger and available to be drawn to the extent necessary to pay such Revenue Shortfall (subject to the limits or conditions on the purposes for which the Liquidity Reserve Fund may be utilised);

"Back-Up Servicer" means any back-up servicer appointed pursuant to the Back-Up Servicing Agreement;

"Bank of Scotland" means Bank of Scotland plc (formerly The Governor and Company of the Bank of Scotland) (registered number SC327000), incorporated under the laws of Scotland and registered as a public company under the Companies Act 1985 whose registered office is at The Mound, Edinburgh, EH1 1YZ;

"Basis Swap Agreement" means the agreement in the form of a 1992 ISDA Master Agreement (including a schedule thereto, a credit support annex and one or more confirmations) dated on or about the Closing Date between the Issuer and the Basis Swap Provider;

"Basis Swap Provider" means Bank of Scotland in its capacity as basis swap provider pursuant to the Basis Swap Agreement, and any successor thereto in such capacity;

"Borrower" means, in relation to a Mortgage Loan, the individual or individuals specified as such in the relevant Mortgage Conditions together with the individual or individuals (if any) from time to time assuming an obligation to repay such Mortgage Loan or any part of it;

"Breach of Duty" means in relation to any person a wilful default, fraud, illegal dealing, negligence or breach of trust or (other than with respect to the Trustee) material breach of any agreement by such person;

"Buildings Policies" means:

- (a) all buildings insurance policies relating to freehold or heritable Properties which have been taken out in the name of the relevant Borrower in accordance with the applicable Mortgage Terms or the recommendations contained in the Offer Conditions provided by the Seller to Borrowers who elect to arrange independent buildings insurance for their Properties; and
- (b) all landlord's buildings insurance policies relating to leasehold Properties including Properties in Scotland held under a long lease;

"Business Day" means a day on which commercial banks and foreign exchange markets settle payments in London;

"Calculation Date" means the first Business Day of a month. A Calculation Date shall relate to an Interest Payment Date (and be the **"related Calculation Date"** in respect of such Interest Payment Date) where such Calculation Date immediately precedes such Interest Payment Date;

"Calculation Period" means each period from, and including, a Calculation Date (or in respect of the first Calculation Period, from the Closing Date) to, but excluding, the next (or first) Calculation Date. A Calculation Period shall relate to an Interest Period (and be the **"relevant Calculation Period"** in respect of such Interest Period) where such Calculation Period runs to (but excluding) the Calculation Date which relates to the Interest Payment Date which falls immediately following the end of such Interest Period;

"Capitalised Arrears" means, in relation to a Mortgage Loan, at any date, amounts (excluding Arrears of Interest) which are overdue in respect of that Mortgage Loan and which as at that date have been added to the principal balance in respect of such Mortgage Loan in accordance with the Mortgage Terms or otherwise at the discretion of the Seller, acting in accordance with any applicable regulatory obligations;

"Cash Management Agreement" means the cash management agreement so named entered into on or about the Closing Date between the Cash Manager, the Issuer, the Trustee, the Seller and the Account Bank;

"Cash Manager" means Bank of Scotland in its capacity as cash manager or the Successor Cash Manager appointed in accordance with the terms of the Cash Management Agreement.

"Charged Property" means all the property of the Issuer which is subject to the Security;

"Class A Noteholders" means the persons who for the time being are holders of the Class A Notes;

"Class B Noteholders" means the persons who for the time being are holders of the Class B Notes;

"Class C Noteholders" means the persons who for the time being are holders of the Class C Notes;

"Clearstream, Luxembourg" means Clearstream Banking, société anonyme;

"Closing Date" means 27 August 2010, or such other date as the Issuer and the Lead Manager may agree;

"Collection Account Bank" means Barclays Bank plc acting in such capacity or its successor;

"Collection Account" means an account in the name of the Seller held with the Collection Account Bank;

"Conditions" means in relation to the Notes, the terms and conditions to be endorsed on the Notes in, or substantially in, the form set out in Schedule 3 (*Terms and Conditions*) of the Trust Deed as any of the same may from time to time be modified in accordance with the Trust Deed and any reference to a particular numbered Condition shall be construed accordingly;

"Corporate Services Agreement" means the agreement so named dated on or about the Closing Date between the Corporate Services Provider, the Share Trustee, Holdings, the Issuer, the Seller and the Trustee;

"Corporate Services Provider" means Structured Finance Management Limited;

"Credit Support Annex" means any credit support annex executed in accordance with the provisions of the Basis Swap Agreement;

"Day Count Fraction" means, in respect of an Interest Period, the actual number of days in such period divided by 365;

"Deed of Charge" means the deed so named entered into on or about the Closing Date between the Issuer and the Trustee;

"Definitive Notes" has the meaning ascribed to it in Condition 3.3;

"Enforcement Notice" means a notice issued by the Trustee to the Issuer declaring the Notes to be due and repayable pursuant to Condition 13 (*Events of Default*);

"Euroclear" means Euroclear Bank S.A./N.V., and any successor to such business;

"Event of Default" means any one of the events specified in Condition 13 (*Events of Default*);

"Exchange Date" means the first day following the expiry of forty days after the Closing Date;

"Extraordinary Resolution" means (a) 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 or (b) a Written Resolution;

"Final Call Option Date" means the Interest Payment Date falling in August 2022;

"Final Discharge Date" means the date on which the Trustee notifies the Issuer and the Secured Creditors that it is satisfied that all the Secured Amounts have been paid or discharged in full;

"Final Maturity Date" means the Interest Payment Date falling in December 2051;

"First Call Option Date" means the Interest Payment Date falling in August 2017;

"First Interest Payment Date" means 18 October 2010;

"Fitch" means Fitch Ratings Limited or any successor to its rating business;

"GIC Account" means the account in the name of the Issuer (account number 06078345, sort code 120883) held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

"Global Notes" has the meaning ascribed to it in Condition 3.2;

"holder" means the registered holder of a Note and the words **"holders"** and related expressions shall (where appropriate) be construed accordingly;

"Holdings" means Edgbaston RMBS Holdings Limited;

"Incorporated Terms Memorandum" means the memorandum so named dated on or the Closing Date and signed for the purpose of identification by each of the Transaction Parties;

"Insolvency Act" means the Insolvency Act 1986;

"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) the company takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or a moratorium is declared in respect of any of its indebtedness; 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 by the Issuer or its directors, or the appointment of an administrative receiver by the Trustee following any such application or notice; or
 - (ii) an encumbrancer (excluding, in relation to the Issuer, the 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 protection 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, diligence, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Trustee or any Receiver); or
- (f) an order being made or an effective resolution being passed for the winding-up of the company except, in the case of the Issuer, a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have been previously approved by the Trustee in writing or by Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding;
- (g) any procedure or step is taken, or any event occurs, analogous to those set out in (a) - (f) above, in any jurisdiction.

"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 Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes) provisional liquidator, administrator, administrative receiver, receiver, receiver or manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian 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;

"Interest Amount" means in respect of a Note for any Interest Period the amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by:

- (a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Note Rate; and
- (b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;

"Interest Determination Date" means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date;

"Interest Payment Date" means the 18th day of each month in each year commencing on the First Interest Payment Date, provided that if any such day is not a Business Day, the Interest Payment Date shall be the immediately succeeding Business Day;

"Interest Period" means the period from (and including) an Interest Payment Date (except in the case of the first Interest Period, where it shall be the period from (and including) the Closing Date) to (but excluding) the next succeeding (or first) Interest Payment Date;

"Investor Percentage" means

- (a) on the Closing Date 98.50%; and
- (b) thereafter, on each Calculation Date, shall be an amount, expressed as a percentage, equal to $\frac{A - B - C}{D} \times 100$, where:

A means the Investor Principal Amount on the immediately preceding Calculation Date (or, in the case of the first Calculation Date, the Principal Amount Outstanding of the Notes on the Closing Date);

B means the aggregate amount of Principal Receipts to be applied by the Issuer as Available Investor Principal on the immediately following Interest Payment Date in accordance with the Payments Priorities;

C means the aggregate amount of Principal Losses sustained on the Mortgage Loans during the immediately preceding Calculation Period to be debited to the Principal Deficiency Ledger (for the avoidance of doubt, disregarding Available Investor Revenue applied to reduce such debits); and

D means the Current Balance of the Mortgage Portfolio as at the last day of the immediately preceding Calculation Period minus Set-Off Losses during the immediately preceding Calculation Period;

"Investor Principal Amount" means

- (a) on the Closing Date, £3,723,290,000; and
- (b) thereafter, on each Calculation Date, an amount equal to $A - B - C$, where "A", "B" and "C" have the meaning set out in the definition of Investor Percentage;

"Issuer Accounts" means the GIC Account and the Transaction Account and "Issuer Account" means any of them and any additional or replacement bank accounts held in the name of the Issuer from time to time with the prior written consent of the Trustee;

"Issuer Covenants" means the covenants of the Issuer set out in Schedule 7 (*Issuer Covenants*) of the Incorporated Terms Memorandum;

"Issuer Jurisdiction" means England and Wales (and the United Kingdom, for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as

contemplated by Condition 21 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

"Issuer Profit Amount" means an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in December 2011 and £100 on each Interest Payment Date thereafter, in each case, to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

"Lead Manager" means Lloyds TSB Bank plc;

"Liabilities" means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including, without limitation properly incurred legal fees and expenses and any Taxes and penalties incurred by that person;

"Meeting" means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment);

"Minimum Amount" means one penny;

"Minimum Denomination" means in respect of the Notes represented by the Global Notes and (if issued) the Definitive Notes £100,000 and, for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000;

"Minimum Seller Percentage"

means (i) on the Closing Date, 0.52% and (ii) thereafter, on each Calculation Date on which the Seller Principal Diversion Conditions are satisfied, an amount calculated by the Cash Manager by reference to the following formula:

$$2 \times X / Y \times 100\%$$

where

X = means an amount equal to the deposit balance of the Borrowers which are in excess of the applicable limit under which Borrowers may be compensated under the Financial Services Compensation Scheme in respect of the Mortgage Loans in the Mortgage Portfolio; and

Y = aggregate Current Balance of Mortgage Loans in the Mortgage Portfolio as at the last day of the immediately preceding Calculation Period;

"Minimum Seller Principal Amount" means on the Closing Date, £19,361,108 and thereafter, on each Calculation Date, an amount equal to the Minimum Seller Percentage on such Calculation Date multiplied by the Investor Principal on such Calculation Date;

"Moody's" means Moody's Investors Service Limited and includes any successor to its rating business;

"Mortgage" means in respect of any Mortgage Loan, each first fixed charge by way of legal mortgage (or, in the case of a Scottish Mortgage, the first ranking standard security in Scotland) which is sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement which secures the repayment of the relevant Mortgage Loan, and, together, the **"Mortgages"**;

"Mortgage Conditions" means the terms and conditions applicable to a Mortgage Loan, as contained in the Seller's "Mortgage Conditions booklet for England and Wales or Scotland" applicable from time to time.

"Mortgage Loans" means the residential mortgage loans, secured by the Related Security to be sold to the Issuer on the Closing Date but excluding (for the avoidance of

doubt) each Mortgage Loan and its Related Security which is repurchased by the Seller pursuant to the Mortgage Sale Agreement and no longer beneficially owned by the Issuer;

"Mortgage Portfolio" means the portfolio of Mortgage Loans, the Mortgages, the Related Security and all rights, interest, benefit, income and payments sold to the Issuer by the Seller on the Closing Date;

"Mortgage Sale Agreement" means the mortgage sale agreement so named dated on or about the Closing Date between the Seller, the Issuer, the Trustee and the Servicer;

"Most Senior Class" means, the Class A Notes whilst they remain outstanding and thereafter the Class B Notes whilst they remain outstanding and thereafter the Class C Notes;

"Note Principal Payment" means, on any Interest Payment Date:

- (a) in the case of each Class A1 Note, an amount equal to the lesser of the amount of Available Investor Principal to be applied in or towards redeeming the Class A1 Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class A1 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1 Notes;
- (b) in the case of each Class A2 Note, an amount equal to the lesser of the Available Investor Principal to be applied in or towards redeeming the Class A2 Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class A2 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A2 Notes;
- (c) in the case of each Class A3 Note, an amount equal to the lesser of the Available Investor Principal to be applied in or towards redeeming the Class A3 Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class A3 Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A3 Notes;
- (d) in the case of each Class B Note, an amount equal to the lesser of the Available Investor Principal to be applied in or towards redeeming the Class B Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class B Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class B Notes;
- (e) in the case of each Class C Note, an amount equal to the lesser of the Available Investor Principal to be applied in or towards redeeming the Class C Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class C Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class C Notes;

in any such case rounded down to the nearest multiple of the Minimum Denomination;

"Note Purchase Agreement" means the note purchase agreement so named dated on or about the Closing Date between the Issuer, the Seller and the Lead Manager;

"Note Rate" for each Interest Period means:

- (a) in respect of each sub-class of the Class A Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such class; and

- (b) in respect of the Class B Notes, 0.01 per cent. per annum and in respect of the Class C Notes, 0.01 per cent. per annum;

"Noteholders" means the Class A Noteholders, the Class B Noteholders and the Class C Noteholders or, where the context otherwise requires, the holders of Notes of a particular class or classes (including the Class A1 Notes, the Class A2 Notes and the Class A3 Notes);

"Notes" means the Class A Notes, the Class B Notes and the Class C Notes and **"Note"** means any of them whether represented by Definitive Notes or the Global Note;

"Notices Condition" means Condition 22 (*Notices*);

"Notices Details" means the provisions set out in Schedule 9 (*Notices Details*) of the Incorporated Terms Memorandum;

"Obligations" means all of the obligations of the Issuer created by or arising under the Notes and the Transaction Documents;

"outstanding" means, in relation to the Notes, all the Notes other than:

- (a) those which have been redeemed in full and cancelled in accordance with the Conditions;
- (b) those in respect of which the date for redemption, in accordance with the provisions of the Conditions, has occurred and for which the redemption monies (including all interest accrued thereon to such date for redemption) have been duly paid to the Trustee or the Principal Paying Agent in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with the Notices Condition) and remain available for payment in accordance with the Conditions;
- (c) those which have been surrendered for cancellation as provided in Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and notice of the cancellation of which has been given to Trustee;
- (d) those which have become void under the Conditions;
- (e) those mutilated or defaced Notes which have been surrendered or cancelled and those Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement Notes have been issued pursuant to the Conditions; and
- (f) any Global Note, to the extent that it shall have been exchanged for the related Definitive Notes pursuant to the provisions contained therein and the Conditions;

"Paying Agents" means the paying agents named in the Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement;

"Payments Priorities" means the Pre Enforcement Payments Priorities and the Post Enforcement Payments Priorities;

"Post Enforcement Investor Payments Priorities" means the provisions relating to the order of priority of payments from the Issuer Accounts, set out in Clause 15.1 (*Post Enforcement Investor Payments Priorities*) of the Deed of Charge;

"Post Enforcement Payments Priorities" means the Post Enforcement Investor Payments Priorities and the Post Enforcement Seller Payments Priorities;

"Post Enforcement Seller Payments Priorities" means the provisions relating to the order of priority of payments from the Issuer Accounts, set out in Clause 15.2 (*Post Enforcement Seller Payments Priorities*) of the Deed of Charge;

"Potential Event of Default" means any event which may become (with the passage of time, the giving of notice, the making of any determination or any combination thereof) an Event of Default;

"Pre Enforcement Investor Revenue Payments Priorities" means the provisions relating to the order of priority of payments from the Revenue Ledger set out in Schedule 4, Part 1 of the Cash Management Agreement;

"Pre Enforcement Investor Principal Payments Priorities" means the provisions relating to the order of priority of payments from the Principal Ledger set out in Schedule 4, Part 3 of the Cash Management Agreement;

"Pre Enforcement Payments Priorities" means the Pre Enforcement Investor Revenue Payments Priorities, the Pre Enforcement Seller Revenue Payments Priorities, the Pre Enforcement Investor Principal Payments Priorities and the Pre Enforcement Seller Principal Payments Priorities;

"Pre Enforcement Seller Principal Payments Priorities" means the provisions relating to the order of priority of payments from the Principal Ledger set out in Schedule 4, Part 4 of the Cash Management Agreement

"Pre Enforcement Seller Revenue Payments Priorities" means the provisions relating to the order of priority of payments from the Revenue Ledger set out in Schedule 4, Part 2 of the Cash Management Agreement;

"Principal Amount Outstanding" means, on any day:

- (a) in relation to a Note, the principal amount outstanding of that Note as at the Closing Date, less the aggregate of any principal payments in respect of that Note which have been paid on or prior to that day; and
- (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 Deficiency Ledger" means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger and the Class C Principal Deficiency Sub-Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Principal Losses allocated to the Notes (by reference to the Investor Percentage), any drawings from the Liquidity Reserve Fund and Available Investor Principal or Seller Principal (as applicable) used to pay a Revenue Shortfall;

"Principal Ledger" means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer;

"Principal Paying Agents" means Deutsche Bank AG, London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement;

"Principal Payments Trigger Event" means the occurrence of any of the following:

- (a) the First Call Option Date;
- (b) there is a debit balance on the Class B Principal Deficiency Sub-Ledger; or
- (c) delivery of an Enforcement Notice;

"Principal Receipts" means payments received by the Issuer representing

- (a) any payment in respect of principal received in respect of any Mortgage Loan (including Capitalised Arrears;
- (b) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property);
- (c) any payment pursuant to any insurance policy (including any Building Policies) in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio;
- (d) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan;
- (e) proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement; and
- (f) any other payments received which are not classified as Revenue Receipts;

"Prospectus" means a Prospectus for the purposes of the Prospectus Directive;

"Prospectus Directive" means EU Directive 2003/71/EC;

"Provisions for Meetings of Noteholders" means the provisions contained in Schedule 4 (*Provisions for Meetings of Noteholders*) of the Trust Deed;

"Rating Agencies" means Fitch and Moody's and **"Rating Agency"** means either one of them;

"Receiver" means any receiver, manager, receiver or manager or administrative receiver appointed in respect of the Issuer by the Trustee in accordance with Clause 17.2 (*Appointment of Receiver*) of the Deed of Charge;

"Record Date" shall have the meaning as defined in Condition 11.2 (*Record Date*);

"Reference Banks" means the principal London offices of four major banks in the London interbank market, selected by the Agent Bank at the relevant time;

"Reference Rate" means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Screen Rate on such date or if, on such date, the Screen Rate is unavailable:

- (a) the Rounded Arithmetic Mean of the offered quotations as at or about 11:00 a.m. (London time) on that date of the Reference Banks to major banks for Sterling deposits for the Relevant Period in the London interbank market in the Representative Amount determined by the Agent Bank after request of each of the Reference Banks;
- (b) if, on such date, two or three only of the Reference Banks provide such quotations, the rate determined in accordance with paragraph (a) above on the basis of the quotations of those Reference Banks providing such quotations; or
- (c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Reserve Reference Rate;

"Register" means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

"Registrar" means the party responsible for the registration of the Notes, which at the Closing Date is Deutsche Bank Luxembourg S.A. acting in such capacity pursuant to the Agency Agreement;

"Related Security" means, in relation to a Mortgage Loan, the security granted for the repayment of that Mortgage Loan by the relevant Borrower including the relevant Mortgage and all other matters applicable thereto acquired as part of any Mortgage Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement (and as described more fully in the Mortgage Sale Agreement);

"Relevant Date" means, in respect of any payment in relation to the Notes, whichever is the later of:

- (a) the date on which the payment in question first becomes due; and
- (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders in accordance with the Notices Condition;

"Relevant Margin" means:

- (a) for the Class A1 Notes, 1.65 per cent. per annum;
- (b) for the Class A2 Notes, 1.70 per cent per annum; and
- (c) for the Class A3 Notes, 2.00 per cent. per annum;

"Relevant Period" means, in relation to an Interest Determination Date, the length in months of the related Interest Period;

"Relevant Screen" means a page of the Reuters service or of the Bloomberg service, or of any other medium for the electronic display of data as may be previously approved in writing by the Trustee and as has been notified to the Noteholders in accordance with the Notices Condition;

"Representative Amount" means an amount that is representative for a single transaction in the relevant market at the relevant time;

"Required Paying Agent" means any Paying Agent (which may be the Principal Paying Agent) which is the sole remaining Paying Agent with its Specified Office in any city where a stock exchange on which the Notes are listed requires there to be a Paying Agent;

"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 change 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;
- (b) (except in accordance with Condition 21 (*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 and/or for cash;
- (c) to change the currency in which amounts due in respect of the Notes of any class are payable;
- (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;

"Reserve Reference Rate" means on any Interest Determination Date:

- (a) the Rounded Arithmetic Mean of the rates at which deposits in Sterling are offered in the London interbank market at approximately 11:00 a.m. (London time) on the Interest Determination Date by the principal London office of each of four major banks selected by the Agent Bank in its absolute discretion for Sterling loans for the Relevant Period in the Representative Amount to major European banks; or
- (b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

"Revenue Ledger" means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer;

"Revenue Receipts" means payments received by the Issuer as representing

- (a) payments of interest on the Mortgage Loans (including Arrears of Interest and Accrued Interest but excluding Capitalised Arrears) and fees due from time to time under the Mortgage Loans;
- (b) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced;
- (c) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) and/or principal from defaulting Borrowers under Mortgage Loans in respect of which enforcement procedures have been completed;
- (d) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to Accrued Interest, Arrears of Interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, Capitalised Arrears) as at relevant Transfer Date; and
- (e) any early repayment charges which have been paid by the Borrower in respect of the Mortgage Loans;

"Rounded Arithmetic Mean" means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent.);

"Scottish Declaration of Trust" means the declaration of trust governed by Scots law and entered into among the Seller and the Issuer pursuant to the Mortgage Sale Agreement;

"Scottish Loan" means a Mortgage Loan secured by a Scottish Mortgage;

"Scottish Mortgage" means a Mortgage over a property located in Scotland;

"Screen" means, in relation to Sterling, Reuters Screen LIBOR01; or

- (a) such other page as may replace Reuters Screen LIBOR01 on that service for the purpose of displaying such information; or
- (b) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace such screen;

"Screen Rate" means the arithmetic mean of offered quotations for one-month Sterling deposits, each in the London inter-bank market displayed on the Reuters Screen LIBOR01 (or such other page as may replace that page on that service) 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 Trustee (rounded upwards, if necessary, to five decimal places);

"Secured Amounts" means any and 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 Trustee (in its own capacity and as trustee on behalf of the following creditors of the Issuer): the Corporate Services Provider, the Account Bank, the Servicer, the Cash Manager, the Seller, the Noteholders, any receiver appointed by the Trustee, the Agent Bank, the Paying Agents, the Registrar, the Basis Swap Provider and the Subordinated Loan Provider;

"Security" means the security granted by the Issuer to the Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors;

"Seller" means Bank of Scotland acting in its capacity as seller of the Mortgage Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;

"Seller Principal Amount" means

- (a) on the Closing Date, £56,710,000 and
- (b) on each Calculation Date, an amount equal to $D \times \text{Seller Percentage}$ on such date, where "D" has the meaning set out in the definition of Investor Percentage;

"Seller Security Power of Attorney" means the power of attorney scheduled to the Mortgage Sale Agreement;

"Servicer" means Bank of Scotland or such other person as may from time to time be appointed as servicer of the relevant Mortgage Loans in the Mortgage Portfolio pursuant to the Servicing Agreement;

"Servicing Agreement" means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Seller and the Trustee;

"Share Trust Deed" means the declaration of trust dated 24 August 2010 pursuant to which the Share Trustee holds the beneficial interest in the share of Holdings on trust for charitable purposes;

"Share Trustee" means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St Helen's, London EC3A 6AP;

"Specified Office" means, in relation to any Agent:

- (a) the office specified against its name in the Notices Details; or
- (b) such other office as such Agent may specify in accordance with Clause 13.8 (*Changes in Specified Offices*) of the Agency Agreement;

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

"Sterling" and **"£"** denote the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

"Stock Exchange" means London Stock Exchange Limited;

"Subordinated Loan Agreement" means the subordinated loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee;

"Subordinated Loan Provider" means Bank of Scotland in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;

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

"Swap Collateral Return Payment" means any amount of cash or securities required to be transferred to the Basis Swap Provider in accordance with the applicable Credit Support Annex;

"Tax" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income) imposed or levied by or on behalf of any Tax Authority in the Issuer Jurisdiction and **"Taxes"**, **"taxation"**, **"taxable"** and comparable expressions shall be construed accordingly;

"Tax Authority" means any government, state or municipality or any local, state, federal or other authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including, without limitation, Her Majesty's Revenue and Customs);

"Tax Deduction" means any deduction or withholding for or on account of Tax;

"Transaction Account" means the account in the name of the Issuer (account number 06078353, sort code 120883) held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

"Transaction Documents" means the Agency Agreement, Account Bank Agreement, Basis Swap Agreement, Cash Management Agreement, Corporate Services Agreement, Deed of Charge, Incorporated Terms Memorandum, Mortgage Sale Agreement, Note Purchase Agreement, Servicing Agreement, the Scottish Declaration of Trust, the Share Trust Deed, Subordinated Loan Agreement, the Notes and the Trust Deed (including the Conditions), 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 or are designated as a "Transaction Document";

"Transaction Party" means any person who is a party to a Transaction Document and **"Transaction Parties"** means some or all of them;

"Transfer Date" means, with respect to Mortgage Loans in the Portfolio on the Closing Date, the Closing Date and any other date in which the Seller repurchases the Mortgage Loans pursuant to the Mortgage Sale Agreement;

"Treaty" means the Treaty establishing the European Community, as amended;

"Trust Deed" means the deed so named (including the Conditions and the Notes) dated on or about the Closing Date between the Issuer and the Trustee constituting the Notes and any document expressed to be supplemental to the Trust Deed;

"Trust Documents" means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);

"Trustee" means Deutsche Trustee Company Limited in its capacity as trustee under the Trust Documents;

"Unrated Additional Amount" means in respect of a Note for any Interest Period, the amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by:

- (a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Unrated Additional Amount Rate; and
- (b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;

"Unrated Additional Amount Rate" for each Interest Period means:

- (a) zero, in respect of each of the Notes prior to the First Call Option Date;
- (b) from and including the First Call Option Date (up to and excluding the Final Maturity Date):
 - (i) for the Class A1 Notes, 0.15 per cent. per annum;
 - (ii) for the Class A2 Notes, 0.15 per cent per annum;
 - (iii) for the Class A3 Notes, 0.15 per cent per annum;
 - (iv) for the Class B Notes, 0 per cent. per annum; and
 - (v) for the Class C Notes, 0 per cent. per annum;
- (c) from and including the Final Call Option Date (up to and excluding the Final Maturity Date), the percentages in (b) above and the following:
 - (i) for the Class A1 Notes, 0 per cent. per annum;
 - (ii) for the Class A2 Notes, 0 per cent per annum;
 - (iii) for the Class A3 Notes, 0 per cent. per annum;
 - (iv) for the Class B Notes, 0 per cent. per annum; and
 - (v) for the Class C Notes, 0 per cent. per annum;

"VAT" means value added tax imposed by VATA and legislation and regulations supplemental thereto and includes any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere from time to time.

"VATA" means the Value Added Tax Act 1994; and

"Written Resolution" means a resolution in writing signed by or on behalf of not less than 90% of the 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.

2.2 **Interpretation:** Any reference in the Conditions to:

"continuing", in respect of an Event of Default, shall be construed as a reference to an Event of Default which has not been waived in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document;

a "**class**" or "**Class**" shall be a reference to a class of the Notes being each or any of the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class B Notes or the Class C Notes, as the context may require, and "**classes**" shall be construed accordingly;

"**including**" shall be construed as a reference to "**including without limitation**", so that any list of items or matters appearing after the word "**including**" shall be deemed not to be an exhaustive list, but shall be deemed rather to be a representative list, of those items or matters forming a part of the category described prior to the word "**including**";

"**indebtedness**" shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

a "**law**" shall be construed as any law (including common or customary law), statute, constitution, decree, judgement, treaty, regulation, directive, bye-law, order or any other legislative measure of any government, supranational, local government, statutory or regulatory body or court;

a "**person**" shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

"**principal**" shall, where applicable, include premium;

"**redeem**" and "**pay**" shall each include both of the others and "**redeemed**", "**redeemable**" and "**redemption**" and "**paid**", "**payable**" and "**payment**" shall be construed accordingly;

a reference to any person defined as a "**Transaction Party**" in the Conditions shall be construed so as to include its and any subsequent successors and permitted transferees in accordance with their respective interests;

a "**successor**" of any party shall be construed so as to include an assignee or successor in title of such party and any person who under the laws of the jurisdiction of incorporation or domicile of such party has assumed the rights and obligations of such party under any Transaction Document or to which, under such laws, such rights and obligations have been transferred; and

- 2.3 **Transaction Documents and other agreements:** Any reference to any document defined as a Transaction Document or any other agreement or document shall be construed as a reference to such Transaction Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, varied, novated, supplemented or replaced.
- 2.4 **Statutes and Treaties:** Any reference to a statute or treaty shall be construed as a reference to such statute or treaty as the same may have been, or may from time to time be, amended or, in the case of a statute, re-enacted.
- 2.5 **Schedules:** Any Schedule of, or Appendix to a Transaction Document forms part of such Transaction Document and shall have the same force and effect as if the provisions of such Schedule or Appendix were set out in the body of such Transaction Document. Any reference to a Transaction Document shall include any such Schedule or Appendix.
- 2.6 **Headings:** Condition headings are for ease of reference only.
- 2.7 **Sections:** Except as otherwise specified in the Condition, reference in the Conditions to a:
- (a) a "**Section**" shall be construed as a reference to a Section of such Transaction Document;

- (b) a "**Part**" shall be construed as a reference to a Part of such Transaction Document;
- (c) a "**Schedule**" shall be construed as a reference to a Schedule of such Transaction Document;
- (d) a "**Clause**" shall be construed as a reference to a Clause of a Part or Section (as applicable) of such Transaction Document; and
- (e) a "**Paragraph**" shall be construed as a reference to a Paragraph of a Schedule of such Transaction Document.

2.8 **Number**

In any Transaction Document, save where the context otherwise requires, words importing the singular number include the plural and vice versa.

3. **Form and Denomination**

- 3.1 The Notes are in fully registered form and serially numbered in the Minimum Denomination for the Notes. Notes in registered form are issued without coupons attached. The expression "**Notes**" means and includes co ownership under a permanent global note and the expression "**Noteholder**" shall mean and include any person entitled to co-ownership and further benefit under a permanent global note.
- 3.2 The Principal Amount Outstanding of the Notes of each Class initially offered and sold outside the United States to non U.S. persons pursuant to Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") is represented by one or more global notes in fully registered form (the "**Global Note**") without coupons attached.
- 3.3 Definitive registered Notes in an aggregate principal amount equal to the Principal Amount Outstanding of the Global Note (the "**Definitive Notes**") will be issued in registered form and serially numbered in the circumstances referred to Condition 3.4 below. Definitive Notes, if issued, will be issued in the Minimum Denomination for the Notes.
- 3.4 If, while any Notes are represented by a Global Note:
 - (a) in the case of a Global Note held in Euroclear or Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does so cease business and no alternative clearing system satisfactory to the Trustee is available; or
 - (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, 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 withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee,

the Issuer will issue Definitive Notes to Noteholders whose accounts with the relevant clearing systems are credited with interests in that Global Note in exchange for those interests within 30 days of the relevant event but not earlier than the Exchange Date. The Global Note will not be exchangeable for Definitive Notes in any other circumstances.

4. **Title**

- 4.1 The person registered in the Register as the holder of any Note will (to the fullest extent permitted by applicable law) 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 regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon or, if more than one person, the first named of such persons who will be treated as the absolute owner of such Note.
- 4.2 The Issuer shall cause to be kept at the Specified Office of the Registrar, the Register on which shall be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of the Notes.
- 4.3 No transfer of a Note will be valid unless and until entered on the Register.
- 4.4 Transfers and exchanges of beneficial interests in the Global Note and any Definitive Notes and entries on the Register relating thereto will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the legend appearing on the face of the Notes. In no event will the transfer of a beneficial interest in a Global Note or the transfer of a Definitive Note be made absent compliance with the regulations referred to above, and any purported transfer in violation of such regulations shall be void *ab initio* and will not be honoured by the Issuer or the Trustee. The regulations referred to above may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be sent by the Principal Paying Agent in the U.K. or the Registrar to any holder of a Note who so requests and will be available upon request at the Specified Office of the Registrar or the Principal Paying Agent.
- 4.5 A Definitive Note may be transferred in whole or in part upon the surrender of the relevant Definitive Note, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar or the Principal Paying Agent. In the case of a transfer of part only of a Definitive Note, a new Definitive Note in respect of the balance remaining will be issued to the transferor by or by order of the Registrar.
- 4.6 Each new Definitive Note to be issued upon transfer of Definitive Notes will, within five Business Days of receipt of such request for transfer, be available for delivery at the Specified Office of the Registrar or the Principal Paying Agent stipulated in the request for transfer, or be mailed at the risk of the holder entitled to the Definitive Note to such address as may be specified in such request.
- 4.7 Registration of Definitive Notes on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment of (or the giving of such indemnity as the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.
- 4.8 No holder of a Definitive Note may require the transfer of such Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on such Note.

5. **Status and Ranking**

- 5.1 **Status:** The Notes of each class constitute direct, secured and unconditional obligations of the Issuer.
- 5.2 **Ranking:** The Class A1 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class A2 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class A3 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class B Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class

C Notes will at all times rank without preference or priority *pari passu* amongst themselves.

5.3 **Sole Obligations:** The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.

5.4 **Priority of Interest Payments:** Payments of interest on the Class A Notes will at all times rank in priority to payments of interest on the Class B Notes and the Class C Notes and payments of interest on the Class B Notes will at all times rank in priority to payments of interest on the Class C Notes, in each case in accordance with the Pre Enforcement Investor Revenue Payments Priorities and the Pre Enforcement Seller Revenue Payments Priorities (if applicable). Payments of interest on the Class A1 Notes, the Class A2 Notes and the Class A3 Notes will rank *pari passu* and *pro rata*.

5.5 **Priority of Principal Payments:** Payments of principal on the Class A Notes will rank in priority to payments of principal on the Class B Notes and the Class C Notes and payments of principal on the Class B Notes will at all times rank in priority to payments of principal on the Class C Notes, in each case in accordance with the Pre Enforcement Principal Payments Priorities and the Post Enforcement Payments Priorities.

Payments of principal on the Class A1 Notes will rank in priority to payments of principal on the Class A2 Notes and the Class A3 Notes and payments of principal on the Class A2 Notes will rank in priority to payments of principal on the Class A3 Notes unless a Principal Payments Trigger Event has occurred, in which case, payments of principal on the Class A1 Notes, the Class A2 Notes and the Class A3 Notes will rank *pari passu* and *pro rata*.

5.6 **Payments Priorities:** Prior to the delivery of an Enforcement Notice, the Issuer is required to apply an amount equal to the Available Investor Revenue and an amount equal to the Available Investor Principal in accordance with the Pre Enforcement Investor Revenue Payments Priorities and the Pre Enforcement Investor Principal Payments Priorities, respectively and, thereafter, in accordance with the Post Enforcement Payments Priorities.

6. Security

6.1 **Security:** The Notes are secured by the Security.

6.2 **Enforceability:** The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 13 (*Events of Default*) and subject to the matters referred to in Condition 14 (*Enforcement*).

7. Issuer Covenants

The Issuer makes the Issuer Covenants in favour of the Trustee which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness (save as permitted in the Trust Deed), dispose of assets or change the nature of its business, without the prior written consent of the Trustee. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

8. Interest

8.1 **Accrual of Interest:** Each Note bears interest on its Principal Amount Outstanding, from (and including) the Closing Date.

8.2 **Cessation of Interest:** Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused or default is otherwise made in respect of the payment, in which case, it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of:

- (e) 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
 - (f) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of the relevant class (in accordance with Condition 22 (*Notices*)) that the full amount payable is available for collection by the Noteholder, provided that on due presentation payment is in fact made.
- 8.3 **Interest Payments:** Interest on each Note is payable in arrear on the First Interest Payment Date, and thereafter monthly in arrear on each Interest Payment Date in an amount equal to the Interest Amount and the Unrated Additional Amount (if any) in respect of such Note for the Interest Period ending on the day immediately preceding such Interest Payment Date.
- 8.4 **Calculation of Interest Amount and Unrated Additional Amount:** Upon or as soon as practicable after each Interest Determination Date, the Issuer shall calculate (or shall cause the Agent Bank to calculate) the Interest Amount and the Unrated Additional Amount (if any) payable on each Note for the related Interest Period.
- 8.5 **Determination of Note Rate, Interest Amount, Unrated Additional Amount and Interest Payment Date:** The Agent Bank will, on each Interest Determination Date, determine:
- (a) the Note Rate for each of the Class A1 Notes, the Class A2 Notes and the Class A3 Notes for the related Interest Period;
 - (b) the Interest Amount and the Unrated Additional Amount (if any) for each class for the related Interest Period; and
 - (c) the Interest Payment Date next following the related Interest Period;
- and notify the Issuer, the Servicer, the Cash Manager, the Trustee, the Registrar, the Basis Swap Provider and the Paying Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange.
- 8.6 **Publication of Note Rate, Interest Amount, Unrated Additional Amount and Interest Payment Date:** As soon as practicable after receiving each notification of the Note Rate, the Interest Amount, the Unrated Additional Amount (if any) and the Interest Payment Date in accordance with Condition 8.4 (*Determination of Note Rate, Interest Amount, Unrated Additional Amount and Interest Payment Date*) and in any event no later than the second Business Day thereafter, the Issuer will cause such Note Rate, Interest Amount and Unrated Additional Amount (if any) for each class and the next following Interest Payment Date to be published in accordance with the Notices Condition.
- 8.7 **Amendments to Publications:** The Note Rate, Interest Amount for each class, the Unrated Additional Amount (if any) and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Interest Period.
- 8.8 **Determination or Calculation by Trustee:** If the Agent Bank does not at any time for any reason determine the Note Rate, the Interest Amount or the Unrated Additional Amount (if any) for each class in accordance with this Condition 8 (*Interest*), the Trustee may (but without, in the absence of fraud, any liability accruing to the Trustee as a result):
- (a) determine the Note Rate for the Class A1 Notes, the Class A2 Notes and the Class A3 Notes at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition), it shall deem fair and reasonable in all the circumstances; and/or

- (b) calculate the Interest Amount and the Unrated Additional Amount (if any) for each class in the manner specified in this Condition,

and any such determination and/or calculation shall be deemed to have been made by the Agent Bank. In each case the Trustee may, at the expense of the Issuer, employ an expert to make the determination or calculation and any such determination shall be deemed to have been made by the Agent Bank.

- 8.9 **Notifications to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 (*Interest*), whether by the Reference Banks (or any of them), the Paying Agents, the Registrar, the Agent Bank or the Trustee shall (in the absence of any Breach of Duty, or manifest error) be binding on the Issuer and all Noteholders and (in the absence of any Breach of Duty or manifest error) no liability to the Noteholders shall attach to the Reference Banks, the Agents, the Registrar or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 8 (*Interest*).

- 8.10 **Reference Banks and Agent Bank:** The Issuer shall ensure that, so long as any of the Class A1 Notes, the Class A2 Notes and the Class A3 Notes remain outstanding there shall at all times be four Reference Banks, an Agent Bank, a Paying Agent and a Principal Paying Agent. In the event of any of the Reference Banks being unable or unwilling to continue to act as a Reference Bank or an Agent being unable or unwilling to continue to act as an Agent, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved in writing by the Trustee is appointed by the Issuer. Notice of any change in any of the Reference Banks or Agents or in their Specified Offices shall promptly be given by the Issuer to the Noteholders in accordance with the Notices Condition.

- 8.11 **Interest Accrual:**

- (a) To the extent that funds available to the Issuer to pay interest (including for the avoidance of doubt, any Unrated Additional Amount) on the Notes of any Class on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall in respect of such Class of Notes ("**Deferred Interest**") will not then fall due but will instead be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer (after allowing for the Issuer's liabilities of higher priority and subject to and in accordance with these Conditions) to fund the payment of such Deferred Interest to the extent of such available funds.

- (b) Such Deferred Interest will accrue interest ("**Additional Interest**") at the rate of interest applicable from time to time in respect of such Notes and payment of any Additional Interest will also be deferred until the First Interest Payment Date thereafter on which funds are available (subject to Condition 8 (*Interest*) and in accordance with these Conditions) to the Issuer to pay such Additional Interest to the extent of such available funds.

- (c) Payment of any amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date or beyond any earlier date on which each Class of Notes falls to be redeemed in full in accordance with Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and any such amount which has not then been paid in respect of the relevant Class of Notes shall thereupon become due and payable in full.

- 9. **Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation**

- 9.1 **Final Redemption:** Unless previously redeemed and cancelled as provided in this Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption*)

and Cancellation), the Issuer shall redeem the Notes of each class at their Principal Amount Outstanding together with any accrued (and unpaid) interest (including, for the avoidance of doubt, any accrued (and unpaid) Unrated Additional Amount) on the Final Maturity Date.

9.2 ***Mandatory Redemption in part:*** On each Interest Payment Date prior to the delivery of an Enforcement Notice, the Issuer is required to apply an amount equal to Available Investor Principal which is available for such purposes in accordance with the Pre Enforcement Investor Principal Payments Priorities in and towards redemption of the Notes.

9.3 ***Optional Redemption in whole:*** The Issuer may redeem all (but not some only) of the Notes of each class at their Principal Amount Outstanding together with any accrued (and unpaid) interest (including, for the avoidance of doubt, any accrued (and unpaid) Unrated Additional Amount) on any Interest Payment Date:

- (a) when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of the outstanding Notes is less than 20 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date; or
- (b) from and including the First Call Option Date up to and including the Final Call Option Date;

subject to the following:

- (c) no Enforcement Notice has been delivered by the Trustee prior to such Interest Payment Date;
- (d) the Issuer has given not more than 20 nor less than 10 days' notice to the Trustee and the Noteholders in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes of each class; and
- (e) prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre Enforcement Investor Payments Priorities.

9.4 ***Optional Redemption in whole for taxation reasons:*** The Issuer may redeem all (but not some only) of the Notes of each class at their Principal Amount Outstanding together with any accrued (and unpaid) interest (including, for the avoidance of doubt, any accrued (and unpaid) Unrated Additional Amount) on any Interest Payment Date after the date on which, by virtue of a change in Tax law (or the application or official interpretation of Tax law):

- (a) the Issuer is to make any payment in respect of the Notes or the Basis Swap Provider is to make any payments in respect of the Basis Swap Agreement and the Issuer or the Basis Swap Provider, as the case may be, would be required to make a Tax Deduction in respect of such relevant payment; or
- (b) the Issuer would be subject to United Kingdom corporation tax in an accounting period on an amount which materially exceeds the aggregate Issuer Profit Amount retained during that account period;

subject to the following:

- (c) no Enforcement Notice has been delivered by the Trustee prior to such Interest Payment Date;

- (d) that the Issuer has given not more than 20 nor less than 10 days' notice to the Trustee and the Noteholders in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes of each class
- (e) that prior to giving any such notice, the Issuer (or in respect to Condition 9.4(a), the Basis Swap Provider) has provided to the Trustee; and
 - (i) a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in Tax law and confirming that the circumstance set out in either paragraph (a) or (b) above is applicable; and
 - (ii) if relevant, a certificate signed by the Issuer or, as the case may be, the Basis Swap Provider, to the effect that the obligation to make a Tax Deduction cannot be avoided; and
 - (iii) a certificate signed by the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre Enforcement Payments Priorities.

9.5 ***Calculation of Note Principal Payment, Principal Amount Outstanding and Pool Factor:*** On each Calculation Date, the Issuer shall calculate (or cause the Agent Bank to calculate):

- (a) the aggregate of any Note Principal Payment due in relation to each class on the Interest Payment Date immediately succeeding such Calculation Date;
- (b) the Principal Amount Outstanding of each Note of each class on the Interest Payment Date immediately succeeding such Calculation Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date in relation to such class); and
- (c) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that Class (as referred to in Condition 9.5(b) above) and the denominator is £100,000,

and notify the Trustee, the Paying Agents, the Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange thereof in accordance with Condition 9.9 (*Notice of Calculation*).

9.6 ***Calculations final and binding:*** Each calculation by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note of each class and the Pool Factor shall in each case (in the absence of any Breach of Duty) be final and binding on all persons.

9.7 ***Trustee to determine amounts in case of Issuer default:*** If the Issuer does not at any time for any reason calculate (or cause the Agent Bank to calculate) any Note Principal Payment, the Principal Amount Outstanding in relation to each Note of each class or the Pool Factor in accordance with this Condition, such amounts may be calculated by the Trustee (without, in the absence of fraud, any liability accruing to the Trustee as a result) in accordance with this Condition (based on information supplied to it by the Issuer, the Cash Manager or the Servicer) and each such calculation shall be deemed to have been made by the Issuer.

9.8 ***Conclusiveness of certificates and legal opinions:*** Any certificate and legal opinion given by or on behalf of the Issuer or, as the case may be, the Basis Swap Provider pursuant to Condition 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional*

Redemption in whole for taxation reasons) may be relied on by the Trustee without further investigation and shall be conclusive and binding on the Noteholders and on the other Secured Creditors.

- 9.9 **Notice of Calculation:** The Issuer will cause each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each Note of each class and the Pool Factor to be notified immediately after calculation to the Trustee, the Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange and will, as soon as practicable after their determination but in any event not later than two Business Days prior to each Interest Payment Date, cause details of each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each Note of each class and the Pool Factor to be published in accordance with the Notices Condition.
- 9.10 **Notice irrevocable:** Any such notice as is referred to in Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) or Condition 9.9 (*Notice of Calculation*) shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes to which such notice relates at their Principal Amount Outstanding if effected pursuant to Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*).
- 9.11 **Cancellation of redeemed Notes:** All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

10. **Limited Recourse**

10.1 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 an Enforcement Notice; and
- (b) Realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Payments Priorities,

the proceeds of such Realisation are insufficient, after the same have been allocated as Available Investor Principal, Seller Principal, Available Investor Revenue or Seller Revenue (as applicable) or as Post Enforcement Investor Amounts or Post Enforcement Seller Amounts (as applicable) and payment of all claims ranking in priority to the Notes in accordance with the applicable Payments Priorities (including for the avoidance of doubt, amounts due and payable to the Seller as Deferred Consideration pursuant to the Post Enforcement Seller Payments Priorities), 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 (b) 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 (b) above, cease to be due and payable by the Issuer.

For the purposes of this Condition 10, "**Realisation**" means, in relation to any Charged Property, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by an obligor.

11. **Payments**

- 11.1 **Principal and interest:** Payments of principal and interest shall be made by transfer to an account in Sterling, maintained by the payee with a bank in London and (and in the

case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the Specified Office of any Paying Agent in accordance with the terms of the Agency Agreement.

- 11.2 **Record date:** Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office as at the close of the Business Day before the due date for such payment (the "**Record Date**"). The person shown in the Register at the opening of business on the relevant Record Date in respect of a Note shall be the only person entitled to receive payments in respect of Notes represented by such Note and the Issuer will be discharged by payment to, or to the order of, such person in respect of each amount so paid.
- 11.3 **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in each case to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- 11.4 **Partial Payments:** If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note.
- 11.5 **Payments on Business Days:** If the due date for payment of any amount in respect of any Note is not a Business Day, then the holder shall not be entitled to payment until the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note.

12. **Taxation**

- 12.1 **Payments free of Tax:** All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of any Taxes imposed, levied, collected, withheld or assessed by the Issuer's Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer or the Paying Agents (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer or the Paying Agents (as the case may be) shall make such payments after such Tax Deduction and shall account to the relevant authorities for the amount so withheld or deducted.
- 12.2 **No payment of additional amounts:** Neither the Issuer nor the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

13. **Events of Default**

- 13.1 **Events of Default:** Each of the following events shall be an "**Event of Default**":
- (a) **Non-payment:** the Issuer fails to pay any amount of principal in respect of the Notes within five days following the due date for payment of such principal or fails to pay any amount of interest in respect of the Notes within ten days following the due date for payment of such interest (provided that, for the avoidance of doubt, a deferral of interest in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest for the purposes of this Condition 13 (*Events of Default*)); or
 - (b) **Breach of other obligations:** the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Issuer Covenants, the Trust Deed, the Deed of Charge or any of the other Transaction Documents and such default (a) is, in the opinion of the Trustee, incapable of remedy or (b) is, in the opinion of the Trustee, capable of remedy, but remains unremedied for 20 days or such longer period as the Trustee may agree after the Trustee has given written notice of such default to the Issuer; or

- (c) *Insolvency Event*: an Insolvency Event occurs in relation to the Issuer; or
- (d) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Documents or any of the other Transaction Documents.

13.2 ***Delivery of Enforcement Notice***: Subject to Condition 13.3 (*Conditions to delivery of Enforcement Notice*), if an Event of Default occurs and is continuing, the Trustee may at its discretion and shall:

- (a) if 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) if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes;

deliver an Enforcement Notice to the Issuer.

13.3 ***Conditions to delivery of Enforcement Notice***: Notwithstanding Condition 13.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless:

- (a) in the case of the occurrence of any of the events mentioned in Condition 13.1(b) (*Breach of other obligations*), the Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes; and
- (b) it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

13.4 ***Consequences of delivery of Enforcement Notice***: Upon the delivery of an Enforcement Notice, the Notes of each class shall become immediately due and payable, without further action or formality, at their Principal Amount Outstanding together with any accrued interest.

14. **Enforcement**

14.1 ***Proceedings***: The Trustee may, at its discretion and without notice, institute such proceedings or take such other steps or action as it thinks fit to enforce and/or to exercise its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under 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 to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.2 ***Directions to the Trustee***: If the Trustee shall take any action described in Condition 14.1 (*Proceedings*) 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 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 classes of Notes ranking senior to such other class; or
- (b) (if the Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Notes of each Class ranking senior to such other class;

and in such case, only if it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur in so doing.

14.3 ***Restrictions on disposal of Issuer's assets:*** If an Enforcement Notice has been delivered by the Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Trustee will not be entitled to dispose of the Charged Property or any part thereof (apart from monies standing to the credit of the Swap Collateral Ledger which are required to pay any Swap Collateral Return Payment to the Basis Swap Provider under the terms of the Credit Support Annex) 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 Payments Priorities; or
- (b) the Trustee has received advice which shall be binding on the Noteholders and the other Secured Creditors from an investment bank or other financial adviser selected by the Trustee, (and if the Trustee is unable to obtain such advice having made efforts to do so this Condition 14.3(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 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 Payments Priorities and the resulting shortfall would be greater than the shortfall arising upon disposal of the Charged Property; and
- (c) the Trustee shall not be bound to seek the advice referred to in Condition 14.3(b) unless the Trustee shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.4 ***Third Party Rights:*** No person shall have any right to enforce any Condition or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

15. **No action by Noteholders or any other Secured Creditor**

15.1 Only the Trustee may pursue the remedies available under the general law or under the Trust Documents and/or enforce the Security and no Noteholder or other Secured Creditor shall be entitled to proceed directly against the Issuer in respect of the Trust Documents or 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 Trustee where appropriate) are entitled:

- (a) otherwise than as permitted by these Conditions, to direct the Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security;
- (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 such Noteholders or any other 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 in the taking of any steps or proceedings which would result in the Payments Priorities not being observed.

16. **Meetings of Noteholders**

16.1 **Convening:** The Trust Deed contains "**Provisions for Meetings of Noteholders**" 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, which modification may be made if sanctioned by an Extraordinary Resolution.

16.2 **Separate and combined meetings:** The Trust Deed provides that, except in the case of an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each Class of Noteholders) and subject to Condition 16.5 (*Relationship between Classes*):

- (a) an Extraordinary Resolution which in the opinion of the Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;
- (b) an Extraordinary Resolution which in the opinion of the 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 Trustee shall determine in its absolute discretion; and
- (c) an Extraordinary Resolution which in the opinion of the 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.

16.3 **Request from Noteholders:** A meeting of Noteholders of a particular class may be convened by the Trustee or the Issuer at any time and must be convened by the Trustee (subject to its being indemnified and/or secured 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. However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any action, either directly or indirectly through the Trustee, without consent of the Issuer and, if applicable, certain other transaction parties pursuant to any relevant Transaction Documents, unless the Issuer has an obligation to take such action under the relevant Transaction Documents.

16.4 **Quorum:** The quorum at any meeting convened to vote on:

- (a) 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 in 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 so held or represented in such class or classes; and
- (b) 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 not less than 75 per cent. of the Principal Amount Outstanding of the outstanding Notes in 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 in the relevant class or classes.

16.5 ***Relationship between Classes:***

In relation to each class of Notes:

- (a) 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 each of the other classes of Notes (to the extent that there are outstanding Notes in each such other classes);
- (b) 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 each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class) unless the Trustee considers 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 the implementation of such first-mentioned Extraordinary Resolution; and
- (c) 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.

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

17. **Modification and Waiver**

17.1 ***Modification:*** The 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:

- (a) any modification to these Conditions, the Trust Documents (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of a Reserved Matter), the Notes or the other Transaction Documents in relation to which its consent is required which, in the opinion of the Trustee, will not be materially prejudicial to the interest of the holders of the Most Senior Class of Notes then outstanding; or
- (b) any modification to these Conditions, the Trust Documents or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is (i) of a formal, minor or technical nature, (ii) is made to correct a manifest error or (iii) is necessary or desirable to reflect the then current rating criteria of any Rating Agency provided that in respect of (iii), a certificate from the Servicer (on behalf of the Issuer) is provided to the Trustee certifying that in its opinion such modifications are necessary or desirable to reflect the then current rating criteria of any Rating Agency.

17.2 ***Waiver:*** The Trustee may at any time and from time to time in its sole discretion, without prejudice to its rights in respect of any subsequent breach, condition, event or act, from time to time and at any time, but only if and in so far as in its opinion the interests of the holders of the Most Senior Class of Notes then outstanding shall not be materially prejudiced thereby:

- (a) authorise or waive, on such terms and subject to such conditions (if any) as it may decide, any proposed breach or breach of any of the covenants or provisions contained in the Trust Documents, the Notes or any other of the Transaction Documents; or
- (b) determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Documents, the Notes or any of the other Transaction Documents

without any consent or sanction of the Noteholders or any other Secured Creditor.

17.3 **Restriction on power to waive:** The Trustee shall not exercise any powers conferred upon it by Condition 17.2 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of outstanding Notes, but so that no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any such proposed breach or breach relating to a Reserved Matter unless the holders of each class of outstanding Notes has, by Extraordinary Resolution, so authorised its exercise.

17.4 **Notification:** Unless the 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 the Notices Condition and the Transaction Documents, as soon as practicable after it has been made.

17.5 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 17.1 (*Modification*) or Condition 17.2 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

18. Prescription

18.1 **Principal:** Claims for principal in respect of Notes shall become void where application for payment is made more than ten years after the due date therefor.

18.2 **Interest:** Claims for interest in respect of Notes, shall become void where application for payment is made more than five years after the due date therefor.

19. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and Stock Exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

20. Trustee and Agents

20.1 **Trustee's right to Indemnity:** Under the Transaction Documents, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid or reimbursed for any Liabilities incurred by it in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

20.2 **Trustee not responsible for loss or for monitoring:** The Trustee is not be responsible for any loss, expense or liability which may be suffered as a result of the Charged Property or any documents of title thereto being uninsured or inadequately insured or being held by or to the order of the Servicer or by any person on behalf of the Trustee. The Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents.

- 20.3 **Regard to classes of Noteholders:** In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will:
- (a) have regard to the interests of each class of Noteholders as a class and will not be responsible for any consequence for individual Noteholders, including, without limitation, as a result of such holders being domiciled or resident in, or otherwise connected in any way with, or subject to the jurisdiction of, a particular territory or taxing jurisdiction; and
 - (b) in the event of a conflict of interests of holders of different classes have regard only to the holders of the Most Senior Class of outstanding Notes, save in respect of a Reserved Matter, and will not have regard to any lower ranking class of Notes nor to the interests of the other Secured Creditors.
- 20.4 **Agents solely agents of Issuer:** In acting under the Agency Agreement and in connection with the Notes, the Paying Agents, Agent Bank and Registrar act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.
- 20.5 **Initial Agents:** The Issuer reserves the right (with the prior written approval of the Trustee) to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, registrar or agent bank and additional or successor paying agents at any time, having given not less than 30 days notice to such Agent.
21. **Substitution of Issuer**
- 21.1 **Substitution of Issuer:** The Trustee may, without the consent of the Noteholders or any other Secured Creditor and subject to the request of the Issuer and to such further conditions as are specified in the Trust Deed, agree to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Trust Documents, the Notes and the Secured Amounts.
- 21.2 **Notice of Substitution of Issuer:** Not later than fourteen days after any substitution of the Issuer in accordance with this Condition, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the other relevant Transaction Documents.
- 21.3 **Change of Law:** In the case of a substitution pursuant to this Condition, the 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 would not, in the opinion of the Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes.
- 21.4 **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.
22. **Notices**
- 22.1 **Valid Notices:** Any notice to Noteholders shall be validly given if such notice is either:
- (a) published in the Financial Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; or
 - (b) published on the Relevant Screen; and
 - (c) prior to the issue of any Definitive Notes and so long as the Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg upon delivery of

the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders.

22.2 ***Date of publication:*** Any notices so published shall be deemed to have been given on the date on which it was so sent or, as the case may be, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required or on the Relevant Screen or on the applicable date of delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as applicable).

22.3 ***Other Methods:*** The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the Stock Exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

23. **Governing Law and Jurisdiction**

23.1 ***Governing law:*** The Transaction Documents and the Notes and all non-contractual obligations arising from or connected with them are governed by, and shall be construed in accordance with, English law other than the Scottish Declaration of Trust and certain provisions of the Transaction Documents particular to the law of Scotland (which are governed by, and shall be construed in accordance with, Scots law).

23.2 ***Jurisdiction:*** The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and the Transaction Documents (other than the Scottish Declaration of Trust) (including a dispute relating to non-contractual obligations or a dispute regarding the existence, validity or termination of any of the Notes or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes and/or the Transaction Documents (other than the Scottish Declaration of Trust) may be brought in such Courts. The Issuer has in each of the Transaction Documents (other than the Scottish Declaration of Trust) irrevocably submitted to the jurisdiction of such Courts.

TAX TREATMENT ON THE NOTES

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and the practice of HMRC, which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Holders of Notes who are in any doubt as to their tax position should consult their professional advisers. Holders of Notes 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, holders of the Notes 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.

Interest on the Notes

Withholding tax on payments of interest on the Notes

The Notes 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 "listed on a recognised stock exchange" for this purpose 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 they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000). The London Stock Exchange is a recognised stock exchange, and 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 Regulated Market of that 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%) subject to such relief as may be available pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Provision of Information

Holders of the Notes should note that where any interest on the 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 holder of the Notes (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 holder of the Notes (including the holder'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 holder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive.

EU Savings Directive

Under the 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. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

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. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

Other Rules Relating to United Kingdom Withholding Tax

- (a) Where interest has been paid under deduction of United Kingdom income tax, holders of the Notes 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.
- (b) 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.
- (c) The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 21 (*Substitution of the Issuer*) of the Notes or otherwise and does not consider the tax consequences of any such substitution.

SUBSCRIPTION AND SALE

The Lead Manager has, pursuant to a note purchase agreement dated on or about the Closing Date between the Lead Manager, the Seller, and the Issuer (the "**Note Purchase Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for (a) 100 per cent. of the Class A Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A Notes as at the Closing Date, (b) 100 per cent. of the Class B Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class B Notes as at the Closing Date and (c) 100 per cent. of the Class C Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class C Notes as at the Closing Date.

The Issuer has agreed to indemnify Bank of Scotland and the Lead Manager 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, the Lead Manager or the Bank of Scotland, which would or has been 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.

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 Kingdom

The Lead Manager has represented and agreed 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 any 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.

Each of the Lead Manager and Bank of Scotland has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of FSMA, having applied for the admission of the Notes to the Official List and admission to trading on the London Stock Exchange, no further action has been or will be taken in any jurisdiction by the Lead Manager or Bank of Scotland that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

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.

Each of the Lead Manager and Bank of Scotland has agreed 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.

General

Each of the Lead Manager and Bank of Scotland has undertaken 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.

LISTING AND GENERAL INFORMATION

- (a) 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 27 August 2010. 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 for delivery on the third working day after the date of the transaction.
- (b) The Issuer is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware), since 9 November 2009 (being the date of incorporation of the Issuer) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer.
- (c) No statutory or non-statutory accounts within the meaning of Section 434 and 435 of the Companies Act 2006 (as amended) 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.
- (d) 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.
- (e) Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
- (f) Since 9 November 2009 (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.
- (g) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 24 August 2010.
- (h) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Code:

<u>Class of Notes</u>	<u>ISIN</u>	<u>Common Code</u>
Class A1 Notes	XS0533534011	053353401
Class A2 Notes	XS0533535331	053353533
Class A3 Notes	XS0533535505	053353550
Class B Notes	XS0533535844	053353584
Class C Notes	XS0533537030	053353703

- (i) For so long as this Prospectus is in effect, copies of the Memorandum and Articles of Association of each of the Issuer and Holdings may be inspected at the registered office of the Principal Paying Agent during usual business hours, on any weekday (public holidays excepted);
- (j) The Cash Manager on behalf of the Issuer will publish the monthly report detailing, inter alia, certain aggregated loan data in relation to the Mortgage Portfolio. Monthly reports will also be made available to the Seller as purchaser of all the Notes, the Rating Agencies and any subsequent holders of the Notes. Such reports may be obtained from the registered office of Bank of Scotland. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans.
- (k) The Issuer confirms that the Mortgage Loans backing the issue of the Notes 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.

GLOSSARY OF DEFINED TERMS

"Account Bank "	means Bank of Scotland acting in such capacity.
"Account Bank Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Account Bank and the Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time).
"Accrued Interest"	means, as at any date (the " determination date ") on or after the Closing Date and in relation to any Mortgage Loan, interest on such Mortgage Loan (not being interest which is currently payable on the determination date) which has accrued (but is not yet due and payable) from and including the Monthly Payment Date immediately prior to the determination date to and including the determination date.
"Additional Interest"	shall have the meaning given to this term in Condition 8.11(b) of the Notes.
"Agency Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Agents and the Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time).
"Agent Bank"	means Deutsche Bank AG, London Branch in its capacity as agent bank pursuant to the Agency Agreement.
"Agents"	means the Agent Bank, the Registrar and the Paying Agents and " Agent " means any one of them.
"Appointee"	means any delegate, agent, nominee, custodian, attorney or manager appointed by the Trustee pursuant to the provisions of the Trust Documents.
"Arranger"	means, in relation to the Notes, Lloyds TSB Bank plc in its capacity as the arranger.
"Arrears of Interest"	means as at any date (the determination date) on or after the Closing Date and in relation to any Mortgage Loan, interest or, in respect of a Repayment Loan, capital and/or interest and expenses (which have not been capitalised) on such Mortgage Loan which is currently due, payable and unpaid on or before that determination date.
"Authorised Investments"	means: (a) Sterling gilt-edged securities which have a maturity date of 30 days or less and mature on or before the next following Calculation Date and the short-term, 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 institution under the FSMA) are rated at least equal P-1 by Moody's and the short-term issue default ratings of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised institution under the FSMA) are rated at least equal to F1+ by Fitch and (if such long term rating is available) the long-term issuer default rating of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised institution under the FSMA) are rated at least equal to AA-

	<p>by Fitch or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current rating of the Notes; and</p> <p>(b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) which may include deposits into any account which earns a rate of interest related to LIBOR) provided that in all cases these investments have a maturity date of 30 days or less and mature on or before the next following Calculation Date and the short-term, 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 institution under the FSMA) are rated at least equal to P-1 by Moody's and the short-term issuer default ratings of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised institution under the FSMA) are rated at least equal to F1+ by Fitch and (if such long-term rating is available) the long-term issuer default ratings of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised institution under the FSMA) are rated at least equal to AA- by Fitch or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current rating of the Notes.</p>
<p>"Available Investor Principal"</p>	<p>means, for any Interest Payment Date, an amount equal to the aggregate of (without double counting):</p> <p>(a) the Principal Receipts received by the Issuer during the immediately preceding Calculation Period which have been designated as Available Investor Principal by the Cash Manager in accordance with the Cash Management Agreement (whilst the Seller Principal Diversion Conditions are not satisfied and the Investor Principal Amount is greater than zero);</p> <p>(b) any amounts released from the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced; and</p> <p>(c) any amounts of Available Investor Revenue (if any) to be applied on that Interest Payment Date pursuant to the Pre Enforcement Investor Revenue Payments Priorities, in reducing the debit balance of the Principal Deficiency Ledger.</p>
<p>"Available Investor Revenue"</p>	<p>means, for each Interest Payment Date, an amount equal to the aggregate of (without double-counting):</p> <p>(a) an amount equal to the Investor Revenue received during the immediately preceding Calculation Period;</p> <p>(b) interest payable to the Issuer on the Issuer Accounts and income from any Authorised Investments in each case received during the immediately preceding Calculation Period;</p> <p>(c) all amounts (other than any early termination payment which is to be used to acquire, if necessary, a new basis swap)</p>

	<p>received by the Issuer under the Basis Swap Agreement (other than Swap Collateral and Replacement Swap Premium) on such Interest Payment Date;</p> <p>(d) other net income of the Issuer received during the immediately preceding Calculation Period (other than any Principal Receipts, Seller Revenue, Early Repayment Charges and Third Party Amounts);</p> <p>(e) any amounts available pursuant to item (h) (prior to a Principal Payments Trigger Event) or (f) (after a Principal Payments Trigger Event) of the Pre Enforcement Investor Principal Payments Priorities;</p> <p>(f) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;</p> <p><i>plus</i></p> <p>(g) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (f) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), the amount then standing to the credit of the General Reserve Ledger and available to be drawn to the extent necessary to pay such Revenue Shortfall;</p> <p><i>plus</i></p> <p>(h) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (g) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), Available Investor Principal or Seller Principal (as applicable) in an aggregate amount sufficient to cover such Revenue Shortfall (subject to the limits or conditions on the purposes for which the Available Investor Principal may be so utilised);</p> <p><i>plus</i></p> <p>(i) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (h) above being insufficient to pay or provide for items (a) to (i)) of the Pre Enforcement Investor Revenue Payments Priorities), the amount then standing to the credit of the Liquidity Reserve Ledger and available to be drawn to the extent necessary to pay such Revenue Shortfall (subject to the limits or conditions on the purposes for which the Liquidity Reserve Fund may be utilised).</p>
"Bank of Scotland"	means Bank of Scotland plc (formerly The Governor and Company of the Bank of Scotland) (registered number SC327000) incorporated under the laws of Scotland and registered as a public company under the Companies Act 1985 whose registered office is at The Mound, Edinburgh, EH1 1YZ.
"Basis Swap"	means a basis swap entered into pursuant to the Basis Swap Agreement.
"Basis Swap Agreement"	means the agreement in the form of a 1992 ISDA Master Agreement (including a schedule thereto, a credit support annex and one or more confirmations) dated on or about the Closing Date between the Issuer

	and the Basis Swap Provider.
"Basis Swap Subordinated Amount"	means any termination payment due to the Basis Swap Provider which arises due to an event of default where the Basis Swap Provider is the defaulting party.
"Basis Swap Provider"	means Bank of Scotland in its capacity as basis swap provider pursuant to the Basis Swap Agreement, and any successor thereto in such capacity.
"Book-Entry Interests"	Means the beneficial interests in the Global Notes recorded by Euroclear and Clearstream, Luxembourg.
"Borrower"	means, in relation to a Mortgage Loan, the individual or individuals specified as such in the relevant Mortgage Terms together with the individual or individuals (if any) from time to time assuming an obligation to repay such Mortgage Loan or any part of it.
"Business Day"	means, a day on which commercial banks and foreign exchange markets settle payments in London.
"Buy-to-Let Loans"	means Mortgage Loans taken out by Borrowers in relation to the purchase or re-mortgage of properties for letting purposes.
"Calculation Date"	means the first Business Day of a month. A Calculation Date shall relate to an Interest Payment Date (and be the " related Calculation Date " in respect of such Interest Payment Date) where such Calculation Date immediately precedes such Interest Payment Date.
"Calculation Period"	means each period from, and including, a Calculation Date (or in respect of the first Calculation Period, from the Closing Date) to, but excluding, the next (or first) Calculation Date. A Calculation Period shall relate to an Interest Period (and be the " related Calculation Period " in respect of such Interest Period) where such Calculation Period runs to (but excluding) the Calculation Date which relates to the Interest Payment Date which falls immediately following the end of such Interest Period.
"Call Option"	means the option of the Issuer to redeem all (but not some only) of the Notes on any Interest Payment Date from and including the First Call Option Date up to and including the Final Call Option Date in accordance with Condition 9.3(b) (<i>Optional Redemption in Whole</i>).
"Capitalised Arrears"	means, in relation to a Mortgage Loan, at any date, amounts (excluding Arrears of Interest) which are overdue in respect of that Mortgage Loan and which as at that date have been added to the principal balance in respect of such Mortgage Loan in accordance with the Mortgage Terms or otherwise at the discretion of the Seller, acting in accordance with any applicable regulatory obligations.
"Cash Management Agreement"	means the cash management agreement so named entered into on or about the Closing Date between the Cash Manager, the Issuer, the Trustee, the Seller and the Account Bank (as the same may be amended, restated, supplemented, replaced and/or novated from time to time).
"Cash Manager"	means Bank of Scotland in its capacity as Cash Manager or the successor Cash Manager appointed in accordance with the terms of the Cash Management Agreement.

"Charged Property"	means all the property of the Issuer which is subject to the Security.
"Class" or "class"	means, in relation to the Notes, each or any of the Class A1 Notes, the Class A2 Notes, the Class A3 Notes, the Class B Notes and the Class C Notes, as the context may require.
"Class A Noteholders"	means the persons who for the time being are holders of the Class A Notes.
"Class A Notes"	means the Class A1 Notes, the Class A2 Notes and the Class A3 Notes.
"Class A Principal Deficiency Sub-Ledger"	means the sub-ledger of the Principal Deficiency Ledger relating to the Class A Notes.
"Class A1 Notes"	means the £603,170,000 Class A1 asset backed floating rate Notes due 2051.
"Class A2 Notes"	means the £603,170,000 Class A2 asset backed floating rate Notes due 2051.
"Class A3 Notes"	means the £1,809,520,000 Class A3 asset backed floating rate Notes due 2051.
"Class B Noteholders"	means the persons who for the time being are holders of the Class B Notes
"Class B Notes"	means the £558,480,000 Class B asset backed fixed rate Notes due 2051.
"Class B Principal Deficiency Sub-Ledger"	means the sub-ledger of the Principal Deficiency Ledger relating to the Class B Notes.
"Class C Noteholders"	means the persons who for the time being are holders of the Class C Notes.
"Class C Notes"	means the £148,950,000 Class C asset backed fixed rate Notes due 2051.
"Class C Principal Deficiency Sub-Ledger"	means the sub-ledger of the Principal Deficiency Ledger relating to the Class C Notes.
"Clearstream, Luxembourg"	Clearstream Banking, <i>société anonyme</i> .
"Closing Date"	means 27 August 2010, or such other date as the Issuer and the Lead Manager may agree.
"Collection Account"	means an account in the name of the Seller held with the Collection Account Bank.
"Collection Account Bank"	means Barclays Bank plc acting in such capacity or its successor.
"Collection Account Declaration of Trust"	means the declaration of trust so named in relation to the Collection Account dated on or about the Closing Date and any subsequent declaration of trust so named, each being made by the Seller.
"Common Depository"	means the common depository for Euroclear and Clearstream, Luxembourg.
"Conditions"	means, in relation to the Notes, the terms and conditions to be endorsed on the Notes in, or substantially in, the form set out in Schedule 3 (<i>Terms and Conditions</i>) of the Trust Deed, as any of the

	same may from time to time be modified in accordance with the Trust Deed and any reference to a particular numbered Condition shall be construed accordingly
"Corporate Services Agreement"	means in the agreement so named dated on or about the Closing Date between the Corporate Services Provider, the Share Trustee, Holdings, the Issuer, the Seller and the Trustee.
"Corporate Services Provider"	means Structured Finance Management Limited (registered number 3853947), private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St Helen's, London EC3A 6AP or such other person or persons for the time being acting as corporate services provider to the Issuer and Holdings under the Corporate Services Agreement.
"CRA Directive"	means Credit Rating Agencies Regulations 2010.
"CRD"	means Directives 2006/48/EC and 2006/49/EC, referred to as the Capital Requirements Directive.
"Credit Support Annex"	means any credit support annex executed in accordance with the provisions of the Basis Swap Agreement.
"Current Balance"	means, in respect of a Mortgage Loan on any date (the " determination date "), the aggregate principal balance of the Mortgage Loan on such date which shall comprise the following (without double counting): (i) the Initial Advance, (ii) each Further Advance, (iii) Capitalised Arrears and (iv) any increase in the principal amount as a result of the Borrower taking Payment Holidays in each case relating to such Mortgage Loan less any prepayment, repayment or payment of the foregoing made on or prior to the determination date.
"Deed of Charge"	means the deed so named dated on or about the Closing Date between the Issuer and the Trustee.
"Deferred Consideration"	means the Revenue Deferred Consideration and the Principal Deferred Consideration payable by the Issuer to the Seller prior to the service of an Enforcement Notice and the Deferred Consideration payable by the Issuer to the Seller after the service of an Enforcement Notice in accordance with the terms of the Mortgage Sale Agreement.
"Deferred Interest"	shall have the meaning given to this term in Condition 8.11(a) of the Notes.
"Definitive Notes"	means the any definitive note representing any of the Notes in, or substantially in the form set out in the Trust Deed.
"Early Repayment Charges"	means any charges (other than a Redemption Fee) which a Borrower is required to pay in the event that the Borrower repays all or any part of the relevant Mortgage Loan before a specified date in the Mortgage Conditions or he or she is in default or his or her Mortgage Loan becomes repayable for any other mandatory reason.
"Enforcement Notice"	means a notice issued by the Trustee to the Issuer declaring the Notes to be due and repayable pursuant to Condition 13 (<i>Events of Default</i>).
"English Loan"	means a Mortgage Loan secured by an English Mortgage.

"English Mortgage"	means a Mortgage over a property in England or Wales.
"Euroclear"	means Euroclear Bank S.A./N.V. and any successor to such business.
"Event of Default"	means any one of the Events specified in Condition 13 (<i>Events of Default</i>) of the Notes.
"Extraordinary Resolution"	means (a) 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 or (b) a Written Resolution.
"Final Call Option Date"	means the Interest Payment Date falling in August 2022.
"Final Maturity Date"	means the Interest Payment Date falling in December 2051.
"First Call Option Date"	means the Interest Payment Date falling on August 2017.
"First Interest Payment Date"	means 18 October 2010.
"Fitch"	means Fitch Ratings Limited or any successor to its rating business.
"Fixed Rate Loans"	means those Mortgage Loans to the extent that and for such period that their Mortgage Terms provide that the interest rate does not vary and is fixed by the Seller.
"Flexible Loan"	means a type of Mortgage Loan product that typically incorporates features that give the Borrower options to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month.
"FSA"	means the Financial Services Authority, which is the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom or its replacement (if any).
"FSMA"	means the Financial Services and Markets Act 2000.
"Further Advance"	means, in relation to a Mortgage Loan, any advance of further money following a request from an existing Borrower following the making of the Initial Advance which is secured by the same Mortgage as the Initial Advance where the Seller has a discretion as to whether to accept that request, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage.
"General Reserve Fund"	means the reserve fund established on the Closing Date which will be initially funded by the Subordinated Loan Provider up to the General Reserve Fund Required Amount and which will subsequently be funded from Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities.
"General Reserve Fund Required Amount"	means an amount equal to £37,232,900 (being an amount equal to 1 per cent. of Investor Percentage of the Current Balance of the Mortgage Portfolio as at the Closing Date and being zero on any date when the Notes are fully repaid or provided for).
"General Reserve Ledger"	means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer.
"GIC Account"	means the account in the name of the Issuer (account number

	06078345, sort code 120883) held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such.
"Global Notes"	means the Notes of each sub-class represented on issue by a global note in registered form for each such sub-class of Notes.
"HMRC"	means Her Majesty's Revenue and Customs.
"holder"	means the registered holder of a Note and the words " holders " and related expressions shall (where appropriate) be construed accordingly.
"Holdings"	means Edgbaston RMBS Holdings Limited (registered number 7296094), a private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St Helen's, London EC3A 6AP.
"In Arrears or in arrears"	means, in respect of a Mortgage Account, that one or more Monthly Payments in respect of such Mortgage Account have become due and remain unpaid (either in whole or in part) by a Borrower.
"Incorporated Terms Memorandum"	means the memorandum so named dated on or about the Closing Date and signed for the purpose of identification by each of the Transaction Parties.
"Initial Advance"	means, in relation to a Mortgage Loan, the original principal amount advanced to the relevant Borrower including the amount of any retention advanced to the relevant Borrower after completion of the Mortgage.
"Initial Consideration"	means the sum of £3,723,290,000, being an amount equal to the Investor Percentage of the Current Balance of the Mortgage Loan in the Mortgage Portfolio on the Closing Date and all Arrears of Interest and Accrued Interest relating thereto.
"Insolvency Act"	means the Insolvency Act 1986.
"Insolvency Event"	in respect of a company means: <ul style="list-style-type: none"> (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) the company takes steps with a view to obtaining a moratorium in respect of any of its indebtedness or a moratorium is declared in respect of any of its indebtedness; 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

	<p>step is taken in relation to:</p> <ul style="list-style-type: none"> (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 by the Issuer or its directors, or the appointment of an administrative receiver by the Trustee following any such application or notice; or (ii) an encumbrancer (excluding, in relation to the Issuer, the 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 protection 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, diligence, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such company (excluding, in relation to the Issuer, by the Trustee or any Receiver); or (f) an order being made or an effective resolution being passed for the winding-up of the company except, in the case of the Issuer, a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have been previously approved by the Trustee in writing or by Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding; (g) any procedure or step is taken, or any event occurs, analogous to those set out in (a) - (f) above, in any jurisdiction.
<p>"Insolvency Official"</p>	<p>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 Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes) provisional liquidator, administrator, administrative receiver, receiver, receiver or manager, compulsory or interim manager, nominee, supervisor, trustee, conservator, guardian 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.</p>

"Interest Determination Date"	means each Interest Payment Date or, in the case of the first Interest Period, the Closing Date.
"Interest Payment Date"	means the 18th day of each month in each year commencing on the First Interest Payment Date, provided that if any such day is not a Business Day, the Interest Payment Date shall be the immediately succeeding Business Day.
"Interest Period"	means the period from (and including) an Interest Payment Date (except in the case of the first Interest Period, where it shall be the period from (and including the Closing Date) to (but excluding) the next (or first) Interest Payment Date.
"Interest-only Loan"	means a Mortgage Loan whereby the Borrower makes monthly payments of interest but not of principal so that, when the Mortgage Loan matures, the entire principal amount of the Mortgage Loan is still outstanding and is payable in one lump sum.
"Investor Percentage"	<p>means</p> <p>(a) on the Closing Date, 98.50%; and</p> <p>(b) thereafter, on each Calculation Date, shall be an amount, expressed as a percentage, equal to $\frac{A - B - C}{D} \times 100$, where:</p> <p>A means the Investor Principal Amount on the immediately preceding Calculation Date (or, in the case of the first Calculation Date, the Principal Amount Outstanding of the Notes on the Closing Date);</p> <p>B means the aggregate amount of Principal Receipts to be applied by the Issuer as Available Investor Principal on the immediately following Interest Payment Date in accordance with the Payments Priorities;</p> <p>C means the aggregate amount of Principal Losses sustained on the Mortgage Loans during the immediately preceding Calculation Period to be debited to the Principal Deficiency Ledger (for the avoidance of doubt, disregarding Available Investor Revenue applied to reduce such debits); and</p> <p>D means the Current Balance of the Mortgage Portfolio as at the last day of the immediately preceding Calculation Period minus Set-Off Losses during the immediately preceding Calculation Period.</p>
"Investor Principal Amount"	<p>means</p> <p>(a) on the Closing Date, £3,723,290,000; and</p> <p>(b) thereafter, on each Calculation Date, an amount equal to A – B – C, where "A", "B" and "C" have the meaning set out in the definition of Investor Percentage.</p>
"Investor Revenue"	means, for each Interest Payment Date, the Investor Percentage of the Net Revenue received by the Issuer during the immediately preceding Calculation Period.
"Issuer"	means Edgbaston RMBS 2010-1 plc (registered number 7070646), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St Helen's, London

	EC3A 6AP.
" Issuer Accounts "	means the GIC Account and the Transaction Account and " Issuer Account " means any of them and any additional or replacement bank accounts held in the name of the Issuer from time to time with the prior written consent of the Trustee.
" Issuer Profit Amount "	means an amount equal to £1,400 on each Interest Payment Date up to and including the Interest Payment Date falling in December 2011 and £100 on each Interest Payment Date thereafter in each case to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer.
" Lead Manager "	means Lloyds TSB Bank plc.
" Lending Criteria "	means the criteria contained in the Mortgage Sale Agreement or such other criteria as would be acceptable to a Reasonable, Prudent Mortgage Lender.
" LIBOR "	means London Interbank Offered Rate.
" Liquidity Reserve Fund "	means the liquidity reserve fund funded upon a Liquidity Trigger, up to the Liquidity Reserve Fund Required Amount from Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities.
" Liquidity Reserve Fund Required Amount "	means an amount equal to (i) 3% of the Principal Amount Outstanding of the Notes (taking into account any principal repayments to be made on such date) less (ii) the aggregate of amounts standing to the credit of the General Reserve Fund on such date, provided that the amount shall be zero (a) where the aggregate of the Principal Amount Outstanding of the outstanding Notes is less than 3% of the Principal Amount Outstanding of all the Notes as at the Closing Date, (b) on any date when the Notes are fully repaid or provided for, or (c) on any date when a Liquidity Trigger Event is no longer continuing.
" Liquidity Reserve Ledger "	means the Liquidity Reserve Ledger comprising the Liquidity Reserve Revenue Sub-Ledger and the Liquidity Reserve Principal Sub-Ledger.
" Liquidity Reserve Principal Sub-Ledger "	means the sub-ledger of the Liquidity Reserve Ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer.
" Liquidity Reserve Revenue Sub-Ledger "	means the sub-ledger of the Liquidity Reserve Ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer.
" Liquidity Trigger Event "	means any date on which the Seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's (or such other rating that is consistent with the then published criteria of the relevant Rating Agency as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes.
" Loan Files "	means the file or files relating to each Mortgage Loan (including files kept in microfiche format or similar electronic data retrieval system or the substance of which is transcribed and held on an electronic data retrieval system) containing inter alia correspondence between the Borrower and the Seller and including mortgage documentation

	applicable to the Mortgage Loan, each letter of offer for that Mortgage Loan, the Valuation Report (if applicable) and, to that extent available, the solicitor's or licensed conveyancer's certificate of title.
"London Stock Exchange"	means London Stock Exchange plc.
"LTV", "LTV Ratio" or "loan-to-value ratio"	means the ratio (expressed as a percentage) of the outstanding balance of a Mortgage Loan to the value of the relevant Mortgaged Property.
"Markets in Financial Instruments Directive"	means the EU Directive 2004/39/EC.
"Meeting"	means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment).
"Minimum Seller Percentage"	<p>means (i) on the Closing Date, 0.52% and (ii) thereafter, on each Calculation Date on which the Seller Principal Diversion Conditions are satisfied, an amount calculated by the Cash Manager by reference to the following formula:</p> $2 \times X / Y \times 100\%$ <p>where</p> <p>X = means an amount equal to the deposit balance of the Borrowers which are in excess of the applicable limit under which Borrowers may be compensated under the Financial Services Compensation Scheme in respect of the Mortgage Loans in the Mortgage Portfolio; and</p> <p>Y = aggregate Current Balance of Mortgage Loans in the Mortgage Portfolio as at the last day of the immediately preceding Calculation Period.</p>
"Minimum Seller Principal Amount"	means on the Closing Date, £19,361,108 and thereafter, on each Calculation Date, an amount equal to the Minimum Seller Percentage on such Calculation Date multiplied by the Investor Principal on such Calculation Date.
"Monthly Payment"	means the amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Date in respect of that Borrower's Mortgage Loan.
"Monthly Payment Date"	means the date on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Mortgage Loan or, if any such day is not Business Day, the next following Business Day.
"Moody's"	means Moody's Investors Service Limited and includes any successor to its rating business.
"Mortgage"	means in respect of any Mortgage Loan, each first fixed charge by way of legal mortgage (or, in the case of a Scottish Loan, the first ranking standard security in Scotland) which is sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement which secures the repayment of the relevant Mortgage Loan including the Mortgage Conditions applicable to it, and together the "Mortgages".
"Mortgage Account"	means all Mortgage Loans secured on the same Mortgaged Property

	and thereby forming a single mortgage account.
"Mortgage Conditions" or "Loan Conditions"	means the terms and conditions applicable to a Mortgage Loan, as contained in the Seller's "Mortgage Conditions booklet for England and Wales or Scotland" applicable from time to time.
"Mortgage Deed"	means, in respect of any Mortgage, the deed in written form creating that Mortgage.
"Mortgage Loans"	means the residential mortgage loans, secured by a mortgage and Related Security, to be sold to the Issuer on the Closing Date but excluding (for the avoidance of doubt) each Mortgage Loan and its Related Security which is repurchased by the Seller pursuant to the Mortgage Sale Agreement and no longer beneficially owned by the Issuer.
"Mortgage Portfolio"	means the portfolio of Mortgage Loans, the Mortgages the Related Security and all rights, interest, benefit, income and payments sold to the Issuer by the Seller on the Closing Date.
"Mortgage Sale Agreement"	means the mortgage sale agreement so named dated on or about the Closing Date between the Seller, the Issuer, the Trustee and the Servicer.
"Mortgage Terms"	means all the terms and conditions applicable to a Mortgage Loan, including without limitation the applicable Mortgage Conditions and Offer Conditions.
"Mortgaged Property"	means a freehold, heritable, leasehold (or in Scotland, a property held under a long lease) or commonhold property which is subject to a Mortgage and together, the "Mortgaged Properties".
"Mortgages"	means Mortgages sold by the Seller to the Issuer on the Closing Date pursuant to the Mortgage Sale Agreement.
"Most Senior Class"	means, the Class A Notes whilst they remain outstanding and thereafter the Class B Notes whilst they remain outstanding and thereafter the Class C Notes.
"Net Revenue"	means, for each Interest Payment Date, the aggregate Revenue Receipts collected in respect of the relevant Calculation Period less Early Repayment Charges which are paid directly by the Cash Manager on behalf of the Issuer to the Seller in accordance with the Cash Management Agreement and less the amounts collected during the relevant Calculation Period which properly belong to third parties such as (but not limited to) Third Party Amounts.
"Note Purchase Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Seller and the Lead Manager.
"Noteholders"	means the Class A Noteholders, the Class B Noteholders and the Class C Noteholders or, where the context otherwise requires, the holders of Notes of a particular class or classes (including the Class A1 Notes, the Class A2 Notes and the Class A3 Notes).
"Notes"	means the Class A Notes, the Class B Notes and the Class C Notes and "Note" means any of them whether represented by Definitive Notes or the Global Note.
"Offer Conditions"	means the terms and conditions applicable to a specified Mortgage

	Loan as set out in the relevant offer letter to the Borrower.
"Official List"	means the official list maintained by the FSA under Section 73A of FSMA.
"OFT"	means the Office of Fair Trading in the U.K.
"Ombudsman"	means the Financial Ombudsman Service.
"One Month LIBOR"	means the London Interbank Offered Rate for one-month Sterling deposits as displayed on Reuters Screen page LIBOR01.
"Outstanding"	see the term defined in Terms and Conditions of the Notes.
"Overpayment"	means a payment by a Borrower in an amount greater than the Monthly Payment then due on the Mortgage Loan.
"Paying Agents"	means the paying agents named in the Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement.
"Payment Holiday"	means the period of time that a Borrower under a Mortgage Loan refrains from making payments of interest and principal on his Mortgage Loan as expressly permitted by the terms of the Borrower's Mortgage Loan.
"Payments Priorities"	means the Pre Enforcement Payments Priorities and the Post Enforcement Payments Priorities.
"Perfection Event"	<p>(a) the Seller being required to perfect the Issuer's legal title to the Mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority to which the Seller is subject or any organisation whose members comprise, but are not necessarily limited to, mortgage lenders with whose instructions it is customary for the Seller to comply;</p> <p>(b) the Trustee certifying that, in its opinion, the Charged Property or any material part thereof is/are in jeopardy and the Trustee deciding to take action to reduce materially that jeopardy;</p> <p>(c) the Seller requesting perfection by serving notice in writing on the Issuer and the Trustee;</p> <p>(d) the occurrence of an Insolvency Event of the Seller; or</p> <p>(e) it being rendered necessary by law to take action to perfect legal title to the Mortgages,</p> <p>(each of the events set out in paragraphs (a) to (e) inclusive being a Perfection Event).</p>
"Post Enforcement Investor Amounts"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Revenue Receipts, Principal Receipts and Other Monies of the Issuer following the service of an Enforcement</i> ".
"Post Enforcement Investor Payments Priorities"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Revenue Receipts, Principal Receipts and Other Monies of the Issuer following the service of an Enforcement Notice – Post Enforcement</i> ".

	<i>Investor Payments Priorities</i> ".
"Post Enforcement Payments Priorities"	means the Post Enforcement Investor Payments Priorities and the Post Enforcement Seller Payments Priorities.
"Post Enforcement Seller Amounts"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Revenue Receipts, Principal Receipts and Other Monies of the Issuer following the service of an Enforcement</i> ".
"Post Enforcement Seller Payments Priorities"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Revenue Receipts, Principal Receipts and Other Monies of the Issuer following the service of an Enforcement Notice – Post Enforcement Seller Payments Priorities</i> ".
"Potential Event of Default"	means any event which may become (with the passage of time, the giving of notice, the making of any determination or any combination thereof) an Event of Default.
"Pre Enforcement Investor Revenue Payments Priorities"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Revenue Receipts prior to service of an Enforcement Notice – Application of Available Investor Revenue prior to the service of an Enforcement Notice</i> ".
"Pre Enforcement Payments Priorities"	means the Pre Enforcement Investor Revenue Payments Priorities; Pre Enforcement Seller Revenue Payments Priorities the Pre Enforcement Investor Principal Payments Priorities and the Pre Enforcement Seller Principal Payments Priorities.
"Pre Enforcement Investor Principal Payments Priorities"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Principal Receipts prior to service of an Enforcement Notice – Application of Available Investor Principal prior to the service of an Enforcement Notice</i> ".
"Pre Enforcement Seller Principal Payments Priorities"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Principal Receipts prior to service of an Enforcement Notice – Application of Available Investor Principal prior to the service of an Enforcement Notice</i> ".
"Pre Enforcement Seller Revenue Payments Priorities"	shall have the meaning given to this term as set out in the section entitled " <i>Cashflows and Cash Management – Application of Revenue Receipts prior to service of an Enforcement Notice – Application of Available Seller Revenue prior to the service of an Enforcement Notice</i> ".
"Principal Amount Outstanding"	means, on any day: <ul style="list-style-type: none"> (a) in relation to a Note, the principal amount outstanding of that Note as at the Closing Date, less the aggregate of any principal payments in respect of that Note which have been paid on or prior to that day (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 Deferred Consideration"	means the principal element of the deferred consideration payable to the Seller in respect of the Mortgage Loans sold to the Issuer, which is due and payable to the Seller under the Mortgage Sale Agreement on each Interest Payment Date (subject to either the Investor Principal Amount being zero or the Seller Principal Diversion Conditions being satisfied).
"Principal Deficiency Ledger"	means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub-Ledger, the Class B Principal Deficiency Sub-Ledger and the Class C Principal Deficiency Sub-Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Principal Losses allocated to the Notes (by reference to the Investor Percentage), any drawings from the Liquidity Reserve Fund and Available Investor Principal or Seller Principal (as applicable) used to pay a Revenue Shortfall.
"Principal Ledger"	means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer.
"Principal Losses"	means any losses arising in relation to a Mortgage Loan in the Mortgage Portfolio which causes a shortfall in the amount available to pay principal on the Notes (other than Set-Off Losses, unless the Seller Percentage at the relevant time is zero).
"Principal Paying Agent"	means Deutsche Bank AG, London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement.
"Principal Payments Trigger Event"	means the occurrence of any of the following: <ul style="list-style-type: none"> (a) the First Call Option Date; (b) there is a debit balance on the Class B Principal Deficiency Sub-Ledger; or (c) delivery of an Enforcement Notice.
"Principal Receipts"	means payments received by the Issuer representing <ul style="list-style-type: none"> (a) any payment in respect of principal received in respect of any Mortgage Loan (including Capitalised Arrears but excluding Accrued Interest and Arrears of Interest); (b) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property); (c) any payment pursuant to any insurance policy (including any Building Policies) in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio; (d) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan; (e) proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement; and (f) any other payments received which are not classified as

	Revenue Receipts.
"Product Period"	means the period, usually between one and five years, during which the rates in respect of the Fixed Rate Loans and the Initial Tracker Rate in respect of the Tracker Rate Loans is offered.
"Principal Share"	means, in respect of a Calculation Period, a percentage equal to the product of (i) (x) the Investor Principal Amount divided by (y) the sum of the Average Fixed Rate Loan Balance (as defined in the Basis Swap Agreement) and the Average Tracker Rate Loan Balance (in each case in respect of that Calculation Period) and (ii) 100.
"Product Switches"	means any variation in the financial terms and conditions applicable to a Mortgage Loan other than any variation: (a) agreed with a Borrower to control or manage arrears on the Mortgage Loan; (b) in the maturity date of the Mortgage Loan unless the maturity date would be extended to a date later than two years before the Final Maturity Date of the Notes; (c) imposed by statute; (d) of the rate of interest payable in respect of the Mortgage Loan where that rate is offered to the Borrowers of more than 10 per cent. by the Current Balance of the Mortgage Loans in the Mortgage Portfolio in any 3 month period; and (e) in the frequency with which the interest payable in respect of the Mortgage Loan is charged.
"Property"	means a freehold, heritable or leasehold property (or in Scotland a property held under a long lease) which is subject to a Mortgage.
"Prospectus"	means this prospectus of the Issuer for the purposes of the Prospectus Directive.
"Prospectus Directive"	means EU Directive 2003/71/EC.
"Provisions for Meetings of Noteholders"	has the meaning defined in the Terms and Conditions.
"Purchase Price"	means in respect of the Mortgage Portfolio as at the Closing Date, the amount payable therefor by the Issuer pursuant to the Mortgage Sale Agreement.
"Rated Note"	means the Class A Notes and the Class B Notes.
"Rating Agencies"	means Fitch and Moody's and "Rating Agency" means either one of them.
"Ratings Confirmation"	means confirmation from the Rating Agencies that any action, determination or exercise of discretion proposed to be taken by the Issuer and/or the Trustee will not have an adverse effect on the then current rating of the Notes.
"Reasonable, Prudent Mortgage Lender"	means a reasonably prudent residential mortgage lender lending to borrowers in England, Wales and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.
"Receiver"	means any receiver, manager, receiver or manager or administrative receiver appointed in respect of the Issuer by the Trustee in accordance with Clause 17.2 (<i>Appointment of Receiver</i>) of the Deed of Charge.
"Redemption Fee"	means the standard redemption fee charged to the Borrower by the Seller where the Borrower makes a repayment of the full outstanding

	principal of a Mortgage Loan.
"Reference Banks"	the principal London offices of four major banks in the London interbank market, selected by the Agent Bank at the relevant time.
"Register"	means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar.
"Registrar"	means the party responsible for the registration of the Notes, which at the Closing Date is Deutsche Bank Luxembourg S.A. acting in such capacity pursuant to the Agency Agreement.
"Regulated Market"	means a market regulated for the purposes of the Markets in Financial Instruments Directive.
"Regulation S" or "Reg S"	means Regulation S under the Securities Act.
"Regulated Mortgage Contract"	means an agreement under FSMA where, at the time it is entered into on or after the Mortgage Regulation Date (a) the borrower is an individual or trustee, (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage or first ranking standard security on land (other than timeshare accommodation) in the UK and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person.
"Related Security"	means, in relation to a Mortgage Loan, the security granted for the repayment of that Mortgage Loan by the relevant Borrower including the relevant Mortgage and all other matters applicable thereto acquired as part of any Mortgage Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement (and as described more fully in the Mortgage Sale Agreement).
"Repayment Loan"	means a Mortgage Loan whereby the Borrower makes monthly payments of both interest and principal so that, when the Mortgage Loan matures, the full amount of the principal of the Mortgage Loan will have been repaid
"Replacement Swap Premium"	means any amount received by the Issuer from a replacement Basis Swap Provider upon entry by the Issuer into an agreement with such replacement Basis Swap Provider to replace the Basis Swap.
"Repurchase Price"	means, in relation to any Mortgage Loans to be repurchased by the Seller under the Mortgage Sale Agreement, an amount equal to the Current Balance of the Mortgage Loans at the date of the reassignment of such Mortgage Loans by the Issuer to the Seller, all Arrears of Interest and Accrued Interest relating thereto and the reasonable fees and costs incurred by the Issuer in relation to the reassignment.
"Reserve Funds"	means the General Reserve Fund and the Liquidity Reserve Fund and "Reserve Fund" means any of them.
"Reserve Ledgers"	means the General Reserve Ledger and the Liquidity Reserve Ledger and "Reserve Ledger" means any of them.
"Reserved Matter"	has the meaning given to it in the Condition 2 (<i>Definitions</i>).

"Revenue Deferred Consideration"	means the revenue element of the deferred consideration payable to the Seller in respect of the Mortgage Loans sold to the Issuer, which is due and payable to the Seller under the Mortgage Sale Agreement on each Interest Payment Date.
"Revenue Ledger"	means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer.
"Revenue Receipts"	means payments received by the Issuer as representing <ul style="list-style-type: none"> (a) payments of interest on the Mortgage Loans (including Arrears of Interest and Accrued Interest but excluding Capitalised Arrears) and fees due from time to time under the Mortgage Loans; (b) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced; (c) recoveries of interest and outstanding fees (excluding Capitalised Arrears, if any) and/or principal from defaulting Borrowers under Mortgage Loans in respect of which enforcement procedures have been completed; (d) the proceeds of the repurchase of any Mortgage Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement to the extent such proceeds are attributable to Accrued Interest, Arrears of Interest and other interest amounts in respect of the Mortgage Loans (excluding, for the avoidance of doubt, Capitalised Arrears) as at relevant Transfer Date; and (e) any early repayment charges which have been paid by the Borrower in respect of the Mortgage Loans.
"Revenue Shortfall"	means the difference between the amount required to pay items (a) to (i) of the Pre Enforcement Investor Revenue Payments Priorities and the Available Investor Revenue (and Available Investor Revenue for the purposes of this calculation shall not include monies from the General Revenue Fund, the Liquidity Reserve Fund or any Available Investor Principal or Seller Principal) which is calculated by the Cash Manager on each Calculation Date.
"Scottish Declaration of Trust"	means the declaration of trust governed by Scots law and entered into between the Seller and the Issuer pursuant to the Mortgage Sale Agreement.
"Scottish Loan"	means a Mortgage Loan secured by a Scottish Mortgage.
"Scottish Mortgage"	means a Mortgage over a property located in Scotland.
"Secured Amounts"	means any and all of the monies and Liabilities which an Issuer covenants to pay or discharge under the relevant Deed of Charge and all other amounts owed by it to each of the Secured Creditors under and pursuant to the relevant Transaction Documents.
"Secured Creditors"	means the Trustee (in its own capacity and as trustee on behalf of the following creditors of the Issuer): Corporate Services Provider, the Account Bank, the Servicer, the Cash Manager, the Seller, the Noteholders, any receiver appointed by the Trustee, the Agent Bank, the Paying Agents, the Registrar, the Basis Swap Provider and the

	Subordinated Loan Provider.
"Securities Act"	means the United States Securities Act of 1933, as amended.
"Security"	means the security granted by the Issuer to the Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors.
"Seller"	means Bank of Scotland acting in its capacity as seller of the Mortgage Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement.
"Seller Asset Warranties"	means the representations and warranties in respect of the Mortgage Loans as set out in the Incorporated Terms Memorandum and given by the Seller.
"Seller Percentage"	means <ul style="list-style-type: none"> (a) on the Closing Date, 1.50%; and (b) thereafter, on each Calculation Date, a percentage equal to 100% minus the Investor Percentage on such date (subject to a maximum of 100 and a minimum of zero).
"Seller Principal"	means the amount of Principal Receipts to be applied as Seller Principal by the Cash Manager in accordance with the Pre Enforcement Seller Principal Payments Priorities on any Interest Payment Date, as determined by the Cash Manager, in accordance with the Cash Management Agreement.
"Seller Principal Amount"	means <ul style="list-style-type: none"> (a) on the Closing Date, £56,710,000 and (b) on each Calculation Date, an amount equal to $D \times \text{Seller Percentage}$ on such date, where "D" has the meaning set out in definition of Investor Percentage.
"Seller Principal Diversion Conditions"	means an event where <ul style="list-style-type: none"> (a) the Class A1 Notes and the Class A2 Notes have been redeemed in full; (b) there is no debit balance on the Class B Principal Deficiency Sub-Ledger; (c) a Principal Payments Trigger Event has not occurred; (d) an Insolvency Event of the Seller has not occurred; (e) the Seller Principal Amount is more than the Minimum Seller Principal Amount; and (f) either the Servicer's long term issuer default rating is rated at least BBB- by Fitch or a Back-Up Servicer has been appointed.
"Seller Revenue"	means, for each Interest Payment Date, the Seller Percentage of the Net Revenue collected during the immediately preceding Calculation Period plus any excess Available Investor Revenue (after application of an amount equal to Available Investor Revenue in or towards items ranking in priority to item (p) of the Pre Enforcement Investor

	Revenue Payments Priorities) applied as Seller Revenue.
"Senior Expenses"	means senior expenses of the Issuer which rank in priority to the Class A Notes in the Payments Priorities.
"Sequential Order"	means the following order: (a) in respect of payments to be made to the Class A Notes themselves: firstly, to the Class A1 Notes, secondly, to the Class A2 Notes and, thirdly, to the Class A3 Notes; (b) in respect of payments to be made to the Class A Notes, Class B Notes and Class C Notes: firstly, to the Class A Notes, secondly, to the Class B Notes and, thirdly, to the Class C Notes.
"Servicer"	means Bank of Scotland or such other person as may from time to time be appointed as servicer of the relevant Mortgage Loans in the Mortgage Portfolio pursuant to the Servicing Agreement.
"Servicer Termination Event"	means any of the events listed in the Servicing Agreement pursuant to which the appointment of the Servicer may be terminated by the Issuer and the Trustee.
"Servicing Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Seller and the Trustee.
"Set-Off Losses"	means any reduction in Principal Receipts as a result of Borrowers exercising any set-off rights against the Seller.
"Share Trust Deed"	means the declaration of trust dated on or about the Closing Date pursuant to which the Share Trustee holds the beneficial interest in the share of Holdings on trust for charitable purposes.
"Share Trustee"	means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St Helen's, London EC3A 6AP.
"Specified Office"	see Terms and Conditions of the Notes.
"Standard Documentation"	means the standard documentation, a list of which is set out in the Mortgage Sale Agreement, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender.
"Standard Security" or "standard security"	"Standard Security" or "standard security" means a standard security as defined in Part II of the Conveyancing and Feudal Reform (Scotland) Act 1970.
"Subordinated Loan Agreement"	means the Subordinated loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee.
"Subordinated Loan Provider"	means Bank of Scotland in its capacity as Subordinated loan provider pursuant to the Subordinated Loan Agreement.
"Sterling" and "£"	denote the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.
"Stock Exchange"	means London Stock Exchange Limited.

"Swap Collateral"	means any cash or securities transferred by the Basis Swap Provider to the Issuer on any date pursuant to the terms of the Credit Support Annex to the Basis Swap Agreement.
"Swap Collateral Ledger"	means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer.
"Swap Provider Default"	means the occurrence of an Event of Default (as defined in the Basis Swap Agreement) where the Basis Swap Provider is the Defaulting Party (as defined in the Basis Swap Agreement).
"Swap Provider Downgrade Event"	means the occurrence of an Additional Termination Event (as defined in the Basis Swap Agreement) following the failure by the Basis Swap Provider to comply with the requirements of the ratings downgrade provisions set out in the Basis Swap Agreement.
"Tax Credits"	means any credit, allowance, set-off or repayment received by the Issuer in respect of tax from the tax authorities of any jurisdiction relating to any deduction or withholding giving rise to an increased payment by the Basis Swap Provider to the Issuer.
"Third Party Amounts"	<ul style="list-style-type: none"> (a) payments of certain insurance premia where such cash amounts have been paid by the relevant Borrower and form part of Revenue Receipts; (b) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and (c) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller.
"Tracker Rate Loans"	means loans which are subject to a variable interest rate which will be set at a fixed margin above, below or the same as the base rate set by the Bank of England or a variable margin above, below or the same as the base rate set by the Bank of England.
"Tax Deduction"	has the meaning set out in the Terms and Conditions.
"Transaction Account"	means the account in the name of the Issuer (account number 06078353, sort code 120883) held at the Account Bank, or such additional or replacement bank account at the Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such.
"Transaction Documents"	means the Agency Agreement, Account Bank Agreement, Cash Management Agreement, Basis Swap Agreement, Corporate Services Agreement, Deed of Charge, Incorporated Terms Memorandum, Mortgage Sale Agreement, Note Purchase Agreement, Servicing Agreement; the Scottish Declaration of Trust, the Share Trust Deed, Subordinated Loan Agreement, the Notes, Trust Deed (including the Conditions), 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 or are designated as a "Transaction Document".
"Transaction Party"	means any person who is a party to a Transaction Document and " Transaction Parties " means some or all of them.
"Treaty"	means the Treaty establishing the European Community, as amended.

"Trust Deed"	means the deed so named (including the Conditions and the Notes) dated on or about the Closing Date between the Issuer and the Trustee constituting the Notes and any document expressed to be supplemental to the Trust Deed.
"Trust Documents"	means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable).
"Trustee"	means Deutsche Trustee Company Limited, acting through its principal office at Winchester House, 1 Great Winchester Street, London EC2N 2DB and acting in its capacity as Trustee under the terms of the Trust Documents, or such other person as may from time to time be appointed as Trustee (or co-trustee) pursuant to the Trust Documents.
"U.S. Persons"	means U.S. Persons as defined in Regulation S under the Securities Act/
"Underpayment"	means a payment by a Borrower in an amount less than the Monthly Payment then due on the Mortgage Loan, being a sum not exceeding the aggregate of any previous Overpayment.
"United Kingdom" or "UK"	means the United Kingdom of Great Britain and Northern Ireland.
"Unrated Additional Amount"	<p>in respect of a Note for any Interest Period the amount of interest calculated on the related Interest Determination Date in respect of such Note for such Interest Period by:</p> <p>(a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Unrated Additional Amount Rate; and</p> <p>(b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount.</p>
"Unrated Additional Amount Rate"	<p>for each Interest Period means:</p> <p>(a) zero, in respect of each of the Notes prior to the First Call Option Date;</p> <p>(b) from and including the First Call Option Date (up to and excluding the Final Maturity Date):</p> <p>(i) for the Class A1 Notes, 0.15 per cent per annum;</p> <p>(ii) for the Class A2 Notes, 0.15 per cent per annum;</p> <p>(iii) for the Class A3 Notes, 0.15 per cent per annum;</p> <p>(iv) for the Class B Notes, 0 per cent. per annum;</p> <p>(v) for the Class C Notes, 0 per cent. per annum; and</p> <p>(c) from and including the Final Call Option Date (up to and excluding the Final Maturity Date), the percentages in (b) above and the following:</p>

	<p>(i) for the Class A1 Notes, 0 per cent. per annum;</p> <p>(ii) for the Class A2 Notes, 0 per cent per annum;</p> <p>(iii) for the Class A3 Notes, 0 per cent. per annum;</p> <p>(iv) for the Class B Notes, 0 per cent. per annum; and</p> <p>(iv) for the Class C Notes, 0 per cent. per annum.</p>
"Valuation Report"	means the valuation report or reports for mortgage purposes, in the form of one of the pro forma contained in the Standard Documentation, obtained by the Seller from a valuer in respect of each Mortgaged Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Reasonable, Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller.
"VAT"	means value added tax imposed by VATA and legislation and regulations supplemental thereof and includes any other tax of a similar fiscal nature whether imposed in the United Kingdom (instead of or in addition to value added tax) or elsewhere from time to time.
"VATA"	means the Value Added Tax Act 1994.
"Written Resolution"	means a resolution in writing signed by or on behalf of not less than 90% of the 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.

INDEX OF DEFINED TERMS

£	133, 179	Collection Account	122, 163
1999 Regulations	43	Collection Account Bank	122, 163
2010 Act	43	Collection Account Declaration of Trust	20, 163
Account Bank	119, 159	Common Depository	163
Account Bank Agreement	119, 159	Conditions	122, 163
Accrued Interest	119, 159	continuing	135
Acquisition	60	Corporate Services Agreement	122, 164
Additional Interest	141, 159	Corporate Services Provider	122, 164
Agency Agreement	119, 159	CPUTRs	44
Agent	159	CRA Directive	164
Agent Bank	119, 159	CRD	164
Agents	120, 159	Credit Support Annex	122, 164
Appointee	159	Current Balance	164
Arranger	159	Day Count Fraction	123
Arrears of Interest	120, 159	Deed of Charge	123, 164
Authorised Investments	159	Deferred Consideration	164
Available Investor Principal	108, 120, 160	Deferred Interest	9, 141, 164
Available Investor Revenue	101, 120, 160	Definitive Notes	123, 137, 164
Back-Up Servicer	91, 121	determination date	159
Back-Up Servicing Agreement	91	Early Repayment Charges	164
Bank of Scotland	60, 121, 161	Enforcement Notice	123, 164
Bank of Scotland Group	60	English Loan	164
Banking Act	46	English Mortgage	165
Basis Swap	161	Euroclear	123, 165
Basis Swap Agreement	121, 161	Event of Default	123, 145, 165
Basis Swap Provider	121, 162	Exchange Date	123
Basis Swap Subordinated Amount	162	Exchange Offers	60
Book-Entry Interests	114, 162	Expenses Advance	96
Borrower	121, 162	Extraordinary Resolution	123, 165
Breach of Duty	121	Final Call Option Date	123, 165
Buildings Policies	121	Final Discharge Date	123
Business Day	121, 162	Final Maturity Date	123, 165
Buy-to-Let Loans	162	First Call Option Date	123, 165
Calculation Date	121, 162	First Interest Payment Date	123, 165
Calculation Period	122, 162	Fitch	123, 165
Call Option	162	Fixed Rate Loans	165
Capitalised Arrears	122, 162	Flexible Loan	165
Cash Management Agreement	122, 162	FSA	46, 165
Cash Manager	122, 162	FSCS	51
CCA	42	FSMA	41, 165
Charged Property	122, 163	Further Advance	165
class	136, 163	General Reserve Fund	165
Class	136, 163	General Reserve Fund Advance	96
Class A Noteholders	122, 163	General Reserve Fund Required Amount	165
Class A Notes	119, 163	General Reserve Ledger	165, 169
Class A Principal Deficiency Sub-Ledger	163	GIC Account	123, 165
Class A1 Notes	119, 163	Global Note	137
Class A2 Notes	119, 163	Global Notes	123, 166
Class A3 Notes	119, 163	HMRC	166
Class B Noteholders	122, 163	holder	123, 166
Class B Notes	119, 163	holders	123, 166
Class B Principal Deficiency Sub-Ledger	163	Holdings	56, 123, 166
Class C Noteholders	122, 163	Housing Indices	84
Class C Notes	119, 163	In Arrears or in arrears	166
Class C Principal Deficiency Sub-Ledger	163	including	136
Clause	137	including without limitation	136
Clearstream, Luxembourg	122, 163	Incorporated Terms Memorandum	123, 166
Closing Date	122, 163	indebtedness	136

<i>Industry CPR</i>	83	Most Senior Class	127, 171
Initial Advance	166	Net Revenue.....	100, 171
Initial Consideration	71, 166	Note Principal Payment	127
Initial Tracker Rate.....	65	Note Purchase Agreement.....	127, 155, 171
Insolvency Act.....	123, 166	Note Rate	127
Insolvency Event	123, 166	Noteholder	137
Insolvency Official	124, 167	Noteholders	128, 171
Interest Amount	124	Notes	119, 128, 137, 171
Interest Determination Date	125, 168	Notices Condition	128
Interest Payment Date	125, 168	Notices Details	128
Interest Period.....	125, 168	Obligations	128
Interest-only Loan	64, 168	Offer Conditions	171
Investor Percentage	125, 168	Official List.....	172
Investor Principal Amount	125, 168	OFT.....	172
Investor Revenue	100, 168	Ombudsman	172
Issuer	119, 168	One Month LIBOR	172
Issuer Accounts	125, 169	outstanding.....	128
Issuer Covenants.....	125	Outstanding	172
Issuer Jurisdiction.....	125	Overpayment.....	172
Issuer Profit Amount	126, 169	paid	136
law	136	Paragraph	137
Lead Manager.....	126, 169	Part.....	137
Lending Criteria	169	pay.....	136
Liabilities.....	126	payable	136
LIBOR	169	paying agent.....	153
Lifetime Tracker Rate	65	Paying Agents	128, 172
Liquidity Reserve Fund	169	payment.....	136
Liquidity Reserve Fund Required Amount...	169	Payment Holiday.....	172
Liquidity Reserve Principal Sub-Ledger	169	Payments Priorities	111, 128, 172
Liquidity Reserve Revenue Sub-Ledger.....	169	Perfection Event.....	73, 172
Liquidity Trigger Event.....	169	person.....	136
Lloyds Banking Group	60	Pool Factor.....	143
Loan Conditions	171	Post Enforcement Investor Amounts	110, 172
Loan Files	169	Post Enforcement Investor Payments Priorities 111, 128, 172
loan-to-value ratio	170	Post Enforcement Payments Priorities..	128, 173
London Stock Exchange.....	170	Post Enforcement Seller Amounts	110, 173
LTV	170	Post Enforcement Seller Payments Priorities	110, 129, 173
LTV Ratio	170	Potential Event of Default.....	129, 173
Markets in Financial Instruments Directive ...	iv, 170	Pre Enforcement Investor Principal Payments	Priorities..... 108, 129, 173
MCOB	41	Pre Enforcement Investor Principal Seller	Priorities..... 173
Meeting.....	126, 170	Pre Enforcement Investor Revenue Payments	Priorities..... 103, 129, 173
Minimum Amount.....	126	Pre Enforcement Payments Priorities....	129, 173
Minimum Denomination	126	Pre Enforcement Seller Principal Payments	Priorities..... 109, 129
Minimum Seller Percentage	126, 170	Pre Enforcement Seller Revenue Payments	Priorities..... 105, 129, 173
Minimum Seller Principal Amount	126, 170	principal	136
Monthly Payment	170	Principal Amount Outstanding.....	129, 173
Monthly Payment Date.....	170	Principal Deferred Consideration.....	174
Moody's	126, 170	Principal Deficiency Ledger	129, 174
Mortgage	126, 170	Principal Ledger.....	129, 174
Mortgage Account.....	170	Principal Losses	174
Mortgage Conditions	126, 171	Principal Paying Agent	174
Mortgage Deed	171	Principal Paying Agents.....	129
Mortgage Loans.....	126, 171	Principal Payments Trigger Event	129, 174
Mortgage Portfolio	127, 171		
Mortgage Regulation Date	41		
Mortgage Sale Agreement.....	127, 171		
Mortgage Terms	171		
Mortgaged Property.....	171		
Mortgages.....	126, 170, 171		

Principal Receipts.....	107, 130, 174	sale	72
Principal Share	175	Schedule.....	137
Product Period	65, 175	Scottish Declaration of Trust	132, 177
Product Switches	175	Scottish Loan	132, 177
Property	175	Scottish Mortgage	132, 177
Proposals	60	Screen	132
Prospectus.....	130, 175	Screen Rate	132
Prospectus Directive	130, 175	Section	136
Provisions for Meetings of Noteholders	130, 148, 175	Secured Amounts	133, 177
Purchase Price	175	Secured Creditors.....	133, 177
Rated Note.....	175	Securities Act.....	i, 137, 178
Rating Agencies	130, 175	Security	133, 178
Rating Agency.....	130, 175	sell.....	72
Ratings Confirmation	34, 175	Seller.....	133, 178
Realisation.....	144	Seller Asset Warranties.....	178
Reasonable, Prudent Mortgage Lender	175	Seller Percentage.....	178
Receiver.....	130, 175	Seller Principal.....	108, 178
Record Date.....	115, 130, 145	Seller Principal Amount.....	133, 178
redeem	136	Seller Principal Diversion Conditions.....	71, 178
redeemable	136	Seller Revenue	100, 178
redeemed	136	Seller Security Power of Attorney	133
redemption.....	136	Senior Expenses	179
Redemption Fee.....	175	Sequential Order	179
Reference Banks.....	130, 176	Servicer	133, 179
Reference Date	21, 78	Servicer Event.....	90
Reference Rate	130	Servicer Termination Event	179
Reg S	176	Servicing Agreement	133, 179
Register.....	130, 176	Set-Off Losses.....	179
Registrar	130, 176	Share Trust Deed.....	133, 179
Regulated Market	176	Share Trustee	58, 133, 179
Regulated Mortgage Contract.....	41, 176	sold.....	72
Regulation S	137, 176	Specified Office	133, 179
related Calculation Date	121, 162	SPV Criteria	133
related Calculation Period	162	SRR.....	46
Related Security	131, 176	Standard Documentation.....	179
Relevant Date	131	standard security	179
relevant entity	46	Standard Security	179
Relevant Margin.....	131	Sterling.....	133, 179
Relevant Period	131	Stock Exchange.....	133, 179
Relevant Screen.....	131	Subordinated Loan Agreement	134, 179
Reorganisation Act	60	Subordinated Loan Provider	134
Repayment Loan.....	64, 176	Substituted Obligor	134
Replacement Swap Premium.....	176	successor.....	136
Representative Amount	131	Swap Collateral.....	180
repurchase.....	72	Swap Collateral Ledger.....	180
Repurchase Price	176	Swap Collateral Return Payment	134
repurchased.....	72	Swap Early Termination Event.....	97
Required Paying Agent.....	131	Swap Provider Default	180
Reserve Fund.....	176	Swap Provider Downgrade Event	180
Reserve Funds	176	Tax	134
Reserve Ledgers	176	Tax Authority.....	134
Reserve Reference Rate.....	132	Tax Credits.....	180
Reserved Matter	131, 176	Tax Deduction.....	134, 180
Revenue Deferred Consideration.....	177	taxable.....	134
Revenue Ledger.....	132, 177	taxation	134
Revenue Receipts	100, 132, 177	Taxes.....	134
Revenue Shortfall	177	Third Party Amounts.....	100, 180
Rights Issue	60	Tracker Rate Loans	180
Rounded Arithmetic Mean	132	Transaction Account	134, 180
		Transaction Documents	134, 180

Transaction Parties	180	Underpayment.....	181
Transaction Party.....	134, 136, 180	Unfair Practices Directive.....	44
Transfer Date.....	134	United Kingdom	181
Treaty	134, 180	Unrated Additional Amount.....	135, 181
Trust Deed	134, 181	Unrated Additional Amount Rate	135, 181
Trust Documents	134, 181	UTCCR	43
Trustee.....	134, 181	Valuation Report.....	182
TSC Regulations.....	47	VAT	135, 182
U.S. Persons	181	VATA	135, 182
UK.....	181	Written Resolution.....	135, 182

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