

HEADINGLEY RMBS 2011-1 PLC

(Incorporated in England and Wales with limited liability under registered number 7061476)

Notes	Initial Principal Amount	Issue Price	Interest Rate/ Reference Rate	Margin/ Step-Up Margin	Final Maturity Date	Call Option/ Step-Up Date	Ratings (Moody's/ S&P)	Form of Notes
Class A1a	A\$275,000,000	100%	Three- Month BBSW	1.50% per annum/1.75% per annum	11 March 2051	11 March 2018	Aaa(sf)/AAA(sf)	Passthrough
Class A1b	€500,000,000	100%	Three- Month EURIBOR	1.25% per annum/1.50% per annum	11 March 2051	11 March 2018	Aaa(sf)/AAA(sf)	Passthrough
Class A2	£225,200,000	100%	Three- Month Sterling LIBOR	1.45% per annum/1.95% per annum	11 March 2051	11 March 2018	Aaa(sf)/AAA(sf)	Passthrough
Class A3	£225,300,000	100%	Three- Month Sterling LIBOR	1.55% per annum/2.30% per annum	11 March 2051	11 March 2018	Aaa(sf)/AAA(sf)	Passthrough
Class B	£112,900,000	100%	Fixed rate of 0.01%	N/A	11 March 2051	11 March 2018	Aa1(sf)/AA+(sf)	Passthrough
Class C	£75,300,000	100%	Fixed rate of 0.01%	N/A	11 March 2051	11 March 2018	Aa3(sf)/AA(sf)	Passthrough

The date of this Prospectus is 28 March 2011

Arranger

Lloyds Bank Corporate Markets

Lead Manager for the Sterling Notes

Lloyds Bank Corporate Markets

Lead Managers for the EUR Notes

Lloyds Bank Corporate Markets

Natixis

Lead Managers for the AUD Notes

Lloyds Bank Corporate Markets

National Australia Bank

Macquarie Bank

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 mortgage loans originated by Bank of Scotland under the "Halifax" 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.
Rating Agencies	<p>In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Community and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Community before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.</p> <p>Each of Moody's, S&P and Fitch is a credit rating agency established and operating in the European Community prior to 7 June 2010 and has submitted an application for registration in accordance with the CRA Regulation and, as at the date of this Prospectus, such application for registration has not been refused.</p>
Key Structural Features	<p><u>Credit Enhancement Features</u></p> <p>Excess Available Investor Revenue.</p> <p>General Reserve Fund with a General Reserve Fund Required Amount of £69,000,000 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 with a General Reserve Fund Required Amount of £69,000,000 on the Closing Date.</p> <p>Principal applied to make up Revenue Shortfall.</p> <p>Liquidity Reserve Fund.</p> <p>Swap Termination Reserve Accounts.</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 Mortgage Portfolio. The Seller's interest 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 payments of Deferred Consideration to the Seller by reference thereto in accordance with the Payments Priorities and other payment provisions, as described more fully in this Prospectus. The Seller Principal</p>

	<p>Amount as at the Closing Date represents the difference between the Current Balance of the Mortgage Portfolio and the Sterling Equivalent Principal Amount Outstanding of the Notes as at the Closing Date. The Noteholders' interest 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 Sterling Equivalent 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 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 and Cash Management</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 15 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase 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 (save that Principal Receipts may be applied as Seller Principal on such date up to the point that any Seller Principal Diversion Conditions cease to be satisfied) and will be applied as Available Investor Principal on such date and each subsequent Interest Payment Date, 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</i></p>

	<i>Management – Application of Principal Receipts prior to service of an Enforcement Notice" for further information.</i>
Ratings	<p>Ratings will be assigned to the Notes by the Rating Agencies as set out above on or before the 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, <i>inter alia</i>, the ratings of the Basis Swap Provider and in respect of the EUR Notes and the AUD Notes, the Currency Swap Providers.</p> <p>The ratings assigned by S&P 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>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> <p>Credit ratings in respect of the Notes or the Issuer are for distribution in Australia only to persons who are not "retail clients" within the meaning of section 761G of the Corporations Act and are also sophisticated investors, professional investors or other investors in respect of whom disclosure is not required under Part 6D.2 of the Corporations Act and, in all cases, in such circumstances as may be permitted by applicable law in any jurisdiction in which an investor may be located. Anyone who is not such a person is not entitled to receive this Prospectus and anyone who receives this Prospectus must not distribute it to any person who is not entitled to receive it.</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").</p>
ECB Eligibility	The EUR Notes are intended to be held in a manner which will allow Eurosystem eligibility.
Obligations	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. The Notes do not represent deposits with, or any other liability of, Lloyds TSB Bank plc (ARBN 142 617 605), Bank of Scotland, Natixis, National Australia Bank Limited (ABN 12 004 044 937) or Macquarie Bank Limited (ABN 46 008 583 542), their related entities or any other person.
Definitions	Please refer to the section entitled " <i>Glossary</i> " for definitions of defined terms.

Retention Undertaking	The Seller will retain a material net economic interest of at least 5% in the securitisation in accordance with Article 122a of Directive 2006/48/EC (as amended). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche. Any change to the manner in which such interest is held will be notified to investors. Please refer to the Sections entitled " <i>Article 122a of the Capital Requirements Directive</i> " and " <i>Regulatory Initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes</i> " for further information.
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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.

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). THE NOTES DO NOT REPRESENT DEPOSITS WITH, OR ANY OTHER LIABILITY OF, LLOYDS TSB BANK PLC, BANK OF SCOTLAND PLC, NATIONAL AUSTRALIA BANK LIMITED, MACQUARIE BANK LIMITED OR NATIXIS, THEIR RELATED ENTITIES OR ANY OTHER PERSON. THE ISSUER IS NOT A BANK OR AN AUTHORISED DEPOSIT TAKING INSTITUTION AUTHORISED TO CARRY ON BANKING BUSINESS UNDER THE BANKING ACT 1959 OF THE COMMONWEALTH OF AUSTRALIA (THE "AUSTRALIAN BANKING ACT") NOR IS IT SUPERVISED BY THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY. THE AUD NOTES ARE NEITHER "PROTECTED ACCOUNTS" NOR "DEPOSIT LIABILITIES" WITHIN THE MEANING OF THE AUSTRALIAN BANKING ACT. THE AUD NOTES ARE NOT OBLIGATIONS OF ANY GOVERNMENT AND, IN PARTICULAR, THEY ARE NOT GUARANTEED BY THE COMMONWEALTH OF AUSTRALIA. THE ISSUER IS NOT REGISTERED AS A FOREIGN COMPANY OR OTHERWISE REGISTERED, AUTHORISED OR QUALIFIED TO CARRY ON FINANCIAL SERVICES OR OTHER BUSINESS IN AUSTRALIA.

YOU SHOULD REVIEW AND CONSIDER THE DISCUSSION UNDER "RISK FACTORS" BEGINNING ON PAGES 33 IN THIS PROSPECTUS BEFORE YOU PURCHASE ANY NOTES.

Each Class of Sterling Notes and EUR Notes will be represented on issue by a Global Note in registered form, of which the EUR Notes are expected to be deposited with a common safekeeper (the "**Common Safekeeper**") and the Sterling Notes with a common depositary (the "**Common Depositary**") in respect of the Sterling Notes, for EuroClear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking Société anonyme ("**Clearstream, Luxembourg**") and registered in the name of a nominee of such Common Safekeeper or, as the case may be, Common Depositary on the Closing Date. Each Class of Sterling Notes and EUR Notes 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 Safekeeper, in respect of the EUR Notes, and the Common Depositary, in respect of the Sterling Notes, as owner of the Global Note.

The EUR Notes are intended to be held in a manner which will allow Eurosystem eligibility. This simply means that the Global Notes for the EUR Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, and does not necessarily mean that the EUR Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

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 (in respect of the Sterling Notes and EUR Notes) 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 AUD Notes will be issued in registered form and will take the form of entries in a register to be maintained by the Australian Registrar. The AUD Notes will be constituted by, and owing under, the Deed Poll. Holders of the AUD Notes will also have the benefit of, and be subject to, the terms of the Trust Deed.

The Issuer will procure that the AUD Notes are accepted for clearance through the Austraclear System. Such acceptance by Austraclear is not a recommendation or endorsement by Austraclear of the AUD Notes. Interests in AUD Notes held in the Austraclear System may only be transferred in accordance with the Austraclear Regulations.

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. WITHOUT LIMITATION, NEITHER THIS PROSPECTUS NOR ANY OTHER DISCLOSURE DOCUMENT IN RELATION TO THE NOTES HAS BEEN, OR WILL BE, LODGED WITH THE AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION OR ANY OTHER GOVERNMENT AGENCY IN AUSTRALIA AND THIS PROSPECTUS IS NOT A PROSPECTUS OR OTHER DISCLOSURE DOCUMENT FOR THE PURPOSES OF THE CORPORATIONS ACT 2001 OF AUSTRALIA. 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 MANAGERS 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 "*DESCRIPTION OF THE EUROPEAN NOTES IN GLOBAL FORM*" AND "*DESCRIPTION OF THE AUD NOTES*".

THE NOTES WILL BE SUBJECT TO RESTRICTIONS ON TRANSFER AS DESCRIBED HEREIN. 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 THE PROSPECTUS (IN THE SECTION ENTITLED "TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS"), SUCH NOTES, THE TRUST DEED AND THE DEED POLL 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. THE STERLING NOTES AND THE EUR NOTES WILL ALSO BEAR RESTRICTIVE LEGENDS.

NONE OF THE ISSUER OR THE ARRANGER OR THE LEAD MANAGERS OR ANY OTHER TRANSACTION PARTY 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.

BANK OF SCOTLAND ACCEPTS RESPONSIBILITY FOR THE INFORMATION SET OUT IN THE SECTIONS HEADED "*BANK OF SCOTLAND*" AND "*ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE*". TO THE BEST OF THE KNOWLEDGE AND BELIEF OF BANK OF SCOTLAND (HAVING TAKEN ALL REASONABLE CARE TO ENSURE THAT SUCH IS THE CASE), THE INFORMATION CONTAINED IN THE SECTIONS REFERRED TO IN THIS PARAGRAPH IS IN ACCORDANCE WITH THE FACTS AND DOES NOT OMIT ANYTHING LIKELY TO AFFECT THE IMPORT OF SUCH INFORMATION. NO REPRESENTATION, WARRANTY OR UNDERTAKING, EXPRESS OR IMPLIED, IS MADE AND NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY BANK OF SCOTLAND AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS PROSPECTUS (OTHER THAN IN THE SECTION REFERRED TO ABOVE) OR ANY OTHER INFORMATION SUPPLIED IN CONNECTION WITH THE NOTES OR THEIR DISTRIBUTION.

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 IS GIVEN BY THE TRUSTEE, THE ARRANGER, THE LEAD MANAGERS OR ANY TRANSACTION PARTY (OTHER THAN THE ISSUER AND BANK OF SCOTLAND AS SET OUT ABOVE) AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION. NONE OF THE ARRANGER, THE LEAD MANAGERS, THE TRUSTEE OR ANY TRANSACTION PARTY (OTHER THAN THE ISSUER AND BANK OF SCOTLAND AS SET OUT ABOVE) HAS SEPARATELY VERIFIED THE INFORMATION CONTAINED HEREIN. ACCORDINGLY, NONE OF THE TRUSTEE, THE LEAD MANAGERS, THE ARRANGER OR ANY TRANSACTION PARTY (OTHER THAN THE ISSUER AND BANK OF SCOTLAND AS SET OUT ABOVE) 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 MANAGERS OR ANY OF THEM TO SUBSCRIBE FOR OR PURCHASE ANY OF THE NOTES IN ANY JURISDICTION WHERE SUCH ACTION WOULD BE UNLAWFUL AND NEITHER THIS 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 MANAGERS 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. 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 United Kingdom. References in this Prospectus to "**AS**", "**AUD**" and "**Australian Dollars**" are references to the lawful currency of Australia. References in this Prospectus to "**€**" and "**Euro**" are references to the single currency introduced at the third stage of the European Economic and Monetary Union pursuant to the Treaty Establishing the European Communities as amended from time to time.

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 Halifax brand or the United Kingdom 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 Halifax 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.

Disclosure of Interests

In addition to the interests described in this Prospectus, each of the Lead Managers, the Trustee and their respective related entities, associates, officers or employees (each a "**Relevant Entity**"):

- (a) may from time to time be a Noteholder or have other interests with respect to the Notes and they may also have interests relating to other arrangements with respect to a Noteholder or a Note;
- (b) may receive fees, brokerage and commissions or other benefits, and act as principal with respect to any dealing with respect to any Notes; and
- (c) may be involved in a broad range of transactions including, without limitation, banking, dealing in financial products, credit, derivative and liquidity transactions, investment management,

corporate and investment banking and research in various capacities in respect of the Notes, the Issuer, the Seller or any related entity, both on its own account and for the account of other persons.

Prospective investors should be aware that:

- (i) each Relevant Entity in the course of its business (including in respect of interests described above) may act independently of any other Relevant Entity or Transaction Party;
- (ii) to the maximum extent permitted by applicable law, the duties of each Relevant Entity in respect of the Notes are limited to the relevant contractual obligations set out in the Transaction Documents and, in particular, no advisory or fiduciary duty is owed to any person;
- (iii) a Relevant Entity may have or come into possession of information not contained in this Prospectus that may be relevant to any decision by a potential investor to acquire the Notes and which may or may not be publicly available to potential investors ("**Relevant Information**");
- (iv) to the maximum extent permitted by applicable law, no Relevant Entity is under any obligation to disclose any Relevant Information to any other Relevant Entity, to any Transaction Party or to any potential investor and this Prospectus and any subsequent conduct by a Relevant Entity should not be construed as implying that the Relevant Entity is not in possession of such Relevant Information; and
- (v) each Relevant Entity may have various potential and actual conflicts of interest arising in the ordinary course of its business, including in respect of the interests described above. For example, a Relevant Entity's dealings with respect to a Note, the Issuer or a Transaction Party may affect the value of a Note. These interests may conflict with the interests of a Noteholder, and the Noteholder may suffer loss as a result. To the maximum extent permitted by applicable law, a Relevant Entity is not restricted from entering into, performing or enforcing its rights in respect of the Transaction Documents or the interests described above and may otherwise continue or take steps to further or protect any of those interests and its business even where to do so may be in conflict with the interests of Noteholders, and the Relevant Entities may in so doing act without notice to, and without regard to, the interests of any such person.

Stabilisation

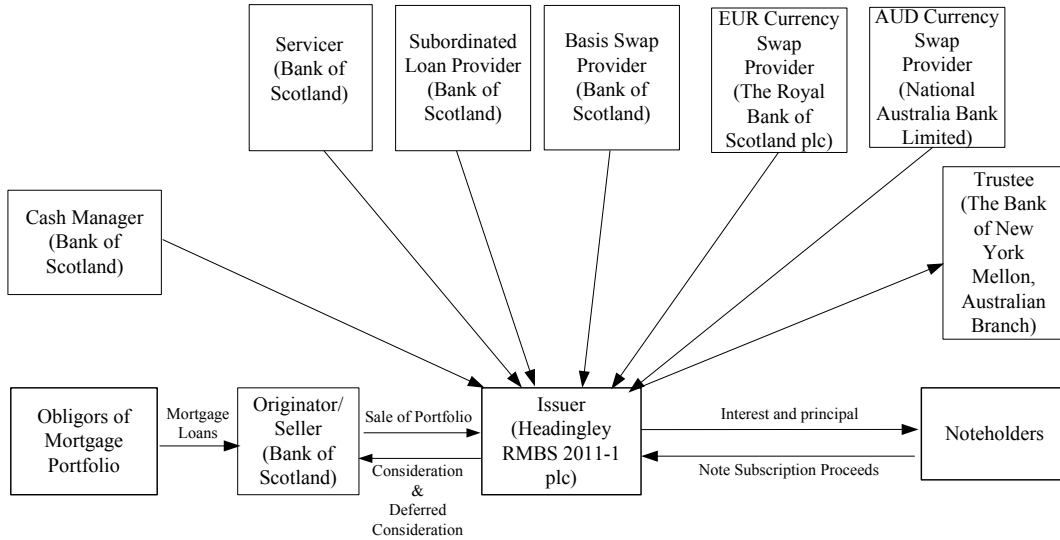
In connection with the issue of the European Notes, Lloyds TSB Bank plc (the "**Stabilising Manager(s)**") (or persons acting on behalf of the Stabilising Manager(s)) may over allot such European Notes (provided that the aggregate principal amount of such European Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the European Notes) or effect transactions with a view to supporting the price of such European Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant European Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date of the relevant European Notes and 60 days after the date of the allotment of the relevant European Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

CONTENTS

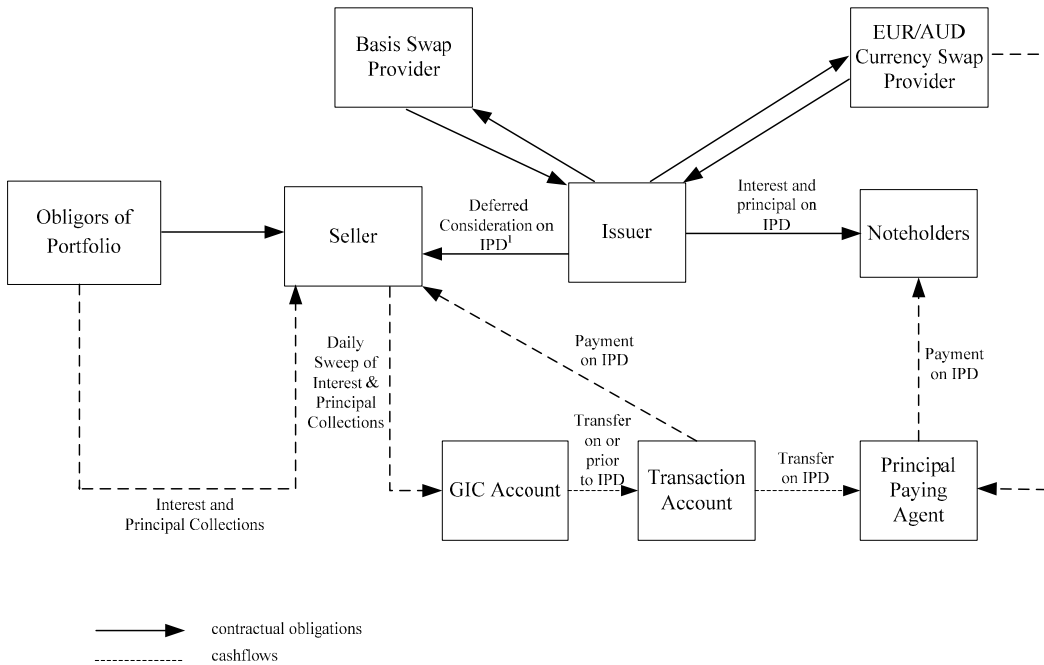
	Page
Diagrammatic Overview.....	1
Transaction Overview.....	3
Article 122A of the Capital Requirements Directive.....	32
Risk Factors	33
Weighted Average Life of the Notes.....	62
Use of Proceeds.....	64
Issuer	65
Holdings.....	67
Bank of Scotland.....	69
The Mortgage Portfolio	74
Sale of the Mortgage Portfolio under the Mortgage Sale Agreement	84
The Servicer	102
Key Structural Features	110
Cashflows and Cash Management.....	119
Description of the European Notes in Global Form	135
Description of the AUD Notes	140
Terms and Conditions of the Notes.....	142
Tax Treatment on the Notes	186
Subscription and Sale	190
Transfer Restrictions and Investor Representations.....	192
Listing and General Information	194
Glossary of Defined Terms.....	196

DIAGRAMMATIC OVERVIEW

DIAGRAMMATIC OVERVIEW OF THE TRANSACTION

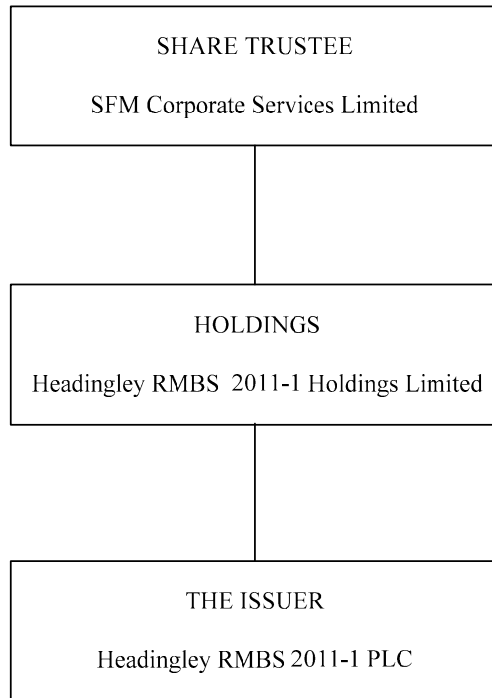


DIAGRAMMATIC OVERVIEW OF ON-GOING CASH FLOW



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 not purported to be complete 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	Headingley RMBS 2011-1 plc	35 Great St Helen's, London EC3A 6AP United Kingdom	N/A
Seller	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ United Kingdom	N/A
Servicer	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ United Kingdom	Servicing Agreement by the Issuer. See the section entitled " <i>The Servicer - Servicing of the Mortgage Loans</i> " for further information.
Cash Manager	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ United Kingdom	Cash Management Agreement by the Issuer and the Trustee. See the section entitled " <i>Sale of the Mortgage Portfolio under the Mortgage Portfolio Agreement</i> " and " <i>Cashflows and Cash Management</i> " for further information.
Subordinated Loan Provider	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ United Kingdom	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 United Kingdom	Basis Swap Agreement by the Issuer. See the section entitled " <i>Key Structural Features</i> " for further information.
AUD Currency Swap Provider	National Australia Bank Limited	Level 35 500 Bourke Street Melbourne Vic 3000 Australia	AUD Currency Swap Agreement by the Issuer. See the section entitled " <i>Key Structural Features</i> " for further information.

<u>Party</u>	<u>Name</u>	<u>Address</u>	<u>Document under which appointed/Further information</u>
EUR Currency Swap Provider	The Royal Bank of Scotland plc	135 Bishopsgate London EC2M 3YU United Kingdom	EUR Currency Swap Agreement by the Issuer. See the section entitled " <i>Key Structural Features</i> " for further information.
Account Bank	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ United Kingdom	Account Bank Agreement by the Issuer.
Trustee	The Bank of New York Mellon	Level 2, 35 Clarence Street Sydney NSW 2000, Australia	Trust Deed and Deed of Charge by the Issuer. See the Conditions for further information.
Principal Paying Agent	The Bank of New York Mellon	One Canada Square London E14 5AL United Kingdom	Agency Agreement by the Issuer.
Australian Paying Agent for AUD Notes	BTA Institutional Services Australia Limited	Level 2, 35 Clarence Street, Sydney NSW 2000 Australia	Australian Agency Agreement by the Issuer.
Agent Bank	The Bank of New York Mellon	One Canada Square London E14 5AL United Kingdom	Agency Agreement by the Issuer.
Australian Calculation Agent	BTA Institutional Services Australia Limited	Level 2, 35 Clarence Street, Sydney NSW 2000 Australia	Australian Agency Agreement by the Issuer.
Registrar for Sterling and EUR Notes	The Bank of New York Mellon (Luxembourg) S.A.	Vertigo Building – Polaris 204 reu Eugène Ruppert, L-2453 Luxembourg, Luxembourg	Agency Agreement by the Issuer.
Australian Registrar for AUD Notes	BTA Institutional Services Australia Limited	Level 2, 35 Clarence Street, Sydney NSW 2000 Australia	Australian Agency Agreement by the Issuer.
Transfer Agent for Sterling and EUR Notes	The Bank of New York Mellon	One Canada Square, London E14 5AL United Kingdom	Agency Agreement by the Issuer.
Corporate Services Provider	Structured Finance Management Limited	35 Great St Helen's, London EC3A 6AP United Kingdom	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	Bank of Scotland plc	The Mound, Edinburgh EH1 1YZ United Kingdom	N/A

<u>Party</u>	<u>Name</u>	<u>Address</u>	<u>Document under which appointed/Further information</u>
Arranger	Lloyds TSB Bank plc	10 Gresham Street, London EC2V 7AE United Kingdom	N/A
Lead Managers for the EUR Notes	Lloyds TSB Bank plc	10 Gresham Street, London EC2V 7AE United Kingdom	N/A
	Natixis	30, avenue Pierre Mendès- France 75013 Paris France	N/A
Lead Managers for the Sterling Notes	Lloyds TSB Bank plc	10 Gresham Street, London EC2V 7AE United Kingdom	N/A
Lead Managers for the AUD Notes	Lloyds TSB Bank plc, Australia Branch	Level 27 45 Clarence Street Sydney NSW 2000	N/A
	National Australia Bank Limited	Level 26 255 George Street Sydney NSW 2000	N/A
	Macquarie Bank Limited	Level 1 1 Martin Place Sydney NSW 2000	N/A

FULL CAPITAL STRUCTURE OF THE NOTES

	Class A1a	Class A1b	Class A2	Class A3	Class B	Class C
Currency	US\$	€	£	£	£	£
Sterling Equivalent (if relevant)¹	174,992,046	440,334,654	N/A	N/A	N/A	N/A
Initial Principal Amount	275,000,000	500,000,000	225,200,000	225,300,000	112,900,000	75,300,000
Credit Enhancement Features	Excess Available Investor Revenue, General Reserve Fund, Subordination of Class B Notes and Class C Notes.	Excess Available Investor Revenue, General Reserve Fund, Subordination of Class B Notes and Class C Notes.	Excess Available Investor Revenue, General Reserve Fund, Subordination of Class B Notes and Class C Notes.	Excess Available Investor Revenue, General Reserve Fund, Subordination of Class B Notes and Class C Notes.	Excess Available Investor Revenue, General Reserve Fund, Subordination of Class C Notes.	Excess Available Investor Revenue, General Reserve Fund.
Liquidity Support Features	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall, Liquidity Reserve Fund and Swap Termination Reserve Account	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall, Liquidity Reserve Fund and Swap Termination Reserve Account	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall, Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall, Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall, Liquidity Reserve Fund	General Reserve Fund, Available Investor Principal and Seller Principal applied to make up Revenue Shortfall, Liquidity Reserve Fund
Issue Price	100%	100%	100%	100%	100%	100%
Interest Rate	Three-Month BBSW (interpolation of two-month and three-month BBSW in respect of the First Interest Payment Date) + Margin	Three-Month EURIBOR (interpolation of two-month and three-month EURIBOR in respect of the First Interest Payment Date) + Margin	Three-Month Sterling LIBOR (interpolation of two-month and three-month Sterling LIBOR in respect of the First Interest Payment Date) + Margin	Three-Month Sterling LIBOR (interpolation of two-month and three-month Sterling LIBOR in respect of the First Interest Payment Date) + Margin	Fixed rate of 0.01%	Fixed rate of 0.01%
Margin/Step-Up Margin	1.50% per annum/1.75% per annum	1.25% per annum/1.50% per annum	1.45% per annum/1.95% per annum	1.55% per annum/2.30% per annum	N/A	N/A
Interest Accrual	ACT/365 (fixed)	ACT/360	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)	ACT/365 (fixed)
Interest Payment Dates	Interest will be payable quarterly in arrears on the Interest Payment Date falling on or around the 11 th of March, June, September and December each calendar year, commencing on the First Interest Payment Date.					
Business Day Convention	Following	Following	Following	Following	Following	Following
First Interest Payment Date	14 June 2011	14 June 2011	14 June 2011	14 June 2011	14 June 2011	14 June 2011
First Interest Period	The period from the Closing Date to 14 June 2011.					
Call Option Step-Up Date	11 March 2018	11 March 2018	11 March 2018	11 March 2018	11 March 2018	11 March 2018
Pre Enforcement Redemption profile (assuming Call)	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 Step-Up Date, the Notes will be redeemed in full on such date. Please refer to Condition 15 (<i>Final Redemption, Mandatory Redemption in</i>					

¹ Exchange rate at 1.571 (Class A1a) and 1.135 (Class A1b)

	Class A1a	Class A1b	Class A2	Class A3	Class B	Class C
Option exercised)	<i>part, Optional Redemption, Purchase 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 15 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation</i>).					
Post Enforcement Redemption Profile	Pass through redemption in accordance with the Post Enforcement Investor Payments Priorities. Please refer to Condition 15 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation</i>).					
Other Early Redemption in Full Events	Tax call. Please refer to Condition 15 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation</i>).					
Final Maturity Date	11 March 2051	11 March 2051	11 March 2051	11 March 2051	11 March 2051	11 March 2051
Form of the Notes	Registered Notes	Registered Notes	Registered Notes	Registered Notes	Registered Notes	Registered Notes
Application for Listing	London	London	London	London	London	London
ISIN	AU3FN0012803	XS0605183606	XS0605184919	XS0605185569	XS0605186021	XS0605187342
Common Code	061188126	060518360	060518491	060518556	060518602	060518734
Clearance/Settlement	Austraclear	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg	Euroclear/ Clearstream, Luxembourg
Minimum Denomination	A\$100,000	€100,000	£100,000	£100,000	£100,000	£100,000
Regulation	Reg S	Reg S	Reg S	Reg S	Reg S	Reg S
Commission	In respect of the Class A1a Notes, the total commission to be paid to the Class A1a Lead Managers shall be an amount equal to 0.25% of the Principal Amount Outstanding of the Class A1a Notes on the Closing Date	In respect of the Class A1b Notes, the total commission to be paid to the Class A1b Lead Managers shall be an amount equal to 0.25% of the Principal Amount Outstanding of the Class A1b Notes on the Closing Date	In respect of the Class A2 Notes, the total commission to be paid to the Class A2 Lead Managers shall be an amount equal to 0.25% of the Principal Amount Outstanding of the Class A2 Notes on the Closing Date	N/A	N/A	N/A

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 A Notes will rank *pro rata* and *pari passu* among themselves at all times.

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 other 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 cease 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 on such date (save that Principal Receipts may be applied as Seller Principal on such date up to the point that any Seller Principal Diversion Conditions cease to be satisfied) and each subsequent Interest Payment Date 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 11 (*Security*). The security granted by the Issuer includes:

- (a) a first fixed charge over the benefit of the Issuer in the Mortgage Loans (other than the Scottish 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 the Issuer Accounts and 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 Investor 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 13 (*Interest*).

Interest Deferral: Interest due and payable on each Class of Notes (other than payments of any Set Interest Amount on the Most Senior Class of Notes) may be deferred in accordance with Condition 13.11 (*Interest Accrual*).

Additional Interest: Interest Amounts deferred in accordance with Condition 13.11 (*Interest Accrual*) will also accrue interest and such Additional Interest may also be deferred under Condition 13.11(d).

Withholding Tax: None of the Issuer, the Trustee or any Agent will be obliged to gross-up payments to 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 15.1 (*Final Redemption*);
- (b) mandatory redemption in part on any Interest Payment Date, subject to the availability of Available Investor Principal, as fully set out in Condition 15.2 (*Mandatory Redemption in part*) and, the deferral arrangements set out in Condition 14 (*Swap Termination Deferred Principal*);
- (c) optional redemption exercisable by the Issuer in whole on the Step-Up Date and any Interest Payment Date thereafter up to, and including, the Final Maturity Date, as fully set out in Condition 15.3 (*Optional Redemption in whole*); and
- (d) optional redemption exercisable by the Issuer in whole for tax reasons, as fully set out in Condition 15.4 (*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 up to (but excluding) the date of redemption.

Event of Default:

As fully set out in Condition 19 (*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;
- non-payment by the Issuer of Set Interest Amounts on the Most Senior Class of Notes within 10 days following the due date;
- 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 or will become 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 16 (*Limited Recourse*).

Governing Law:

English law, other than in respect of the AUD Notes, which will be governed by, and construed in accordance with, the laws of New South Wales, Australia.

OVERVIEW OF RIGHTS OF NOTEHOLDERS

See the sections 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 Sterling Equivalent 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, pre-funded and/or secured 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 Sterling Equivalent 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 Sterling Equivalent Principal Amount Outstanding together with any accrued interest, subject to the Trustee being indemnified, pre-funded 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 Sterling Equivalent Principal Amount Outstanding of the relevant Class or Classes of Notes outstanding for the initial meeting, (other than a Reserved Matter (which must be proposed separately to each Class of Noteholders), which requires one or more persons holding or representing in aggregate not less than 75% of the Sterling Equivalent Principal Amount Outstanding of the relevant Class or Classes of Notes then	At an adjourned meeting one or more persons being or representing Noteholders of the relevant Class or Classes of Notes outstanding, whatever the Sterling Equivalent Principal Amount Outstanding of the Notes then outstanding held or represented by such person(s) (other than a Reserved Matter (which must be proposed separately to each Class of Noteholders), which requires one or more persons holding or representing not less than in aggregate 33 ¹ / ₃ % of the Sterling Equivalent Principal Amount Outstanding of the relevant Class

outstanding) or Classes of Notes then outstanding).

Required majority: Not less than 75% of votes cast

Written Resolution Not less than 90% of the Sterling Equivalent Principal Amount Outstanding of the relevant Class or Classes 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, 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 Matters, 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.

Amendments in respect of Reserved Matters require an Extraordinary Resolution of each Class of Notes then outstanding.

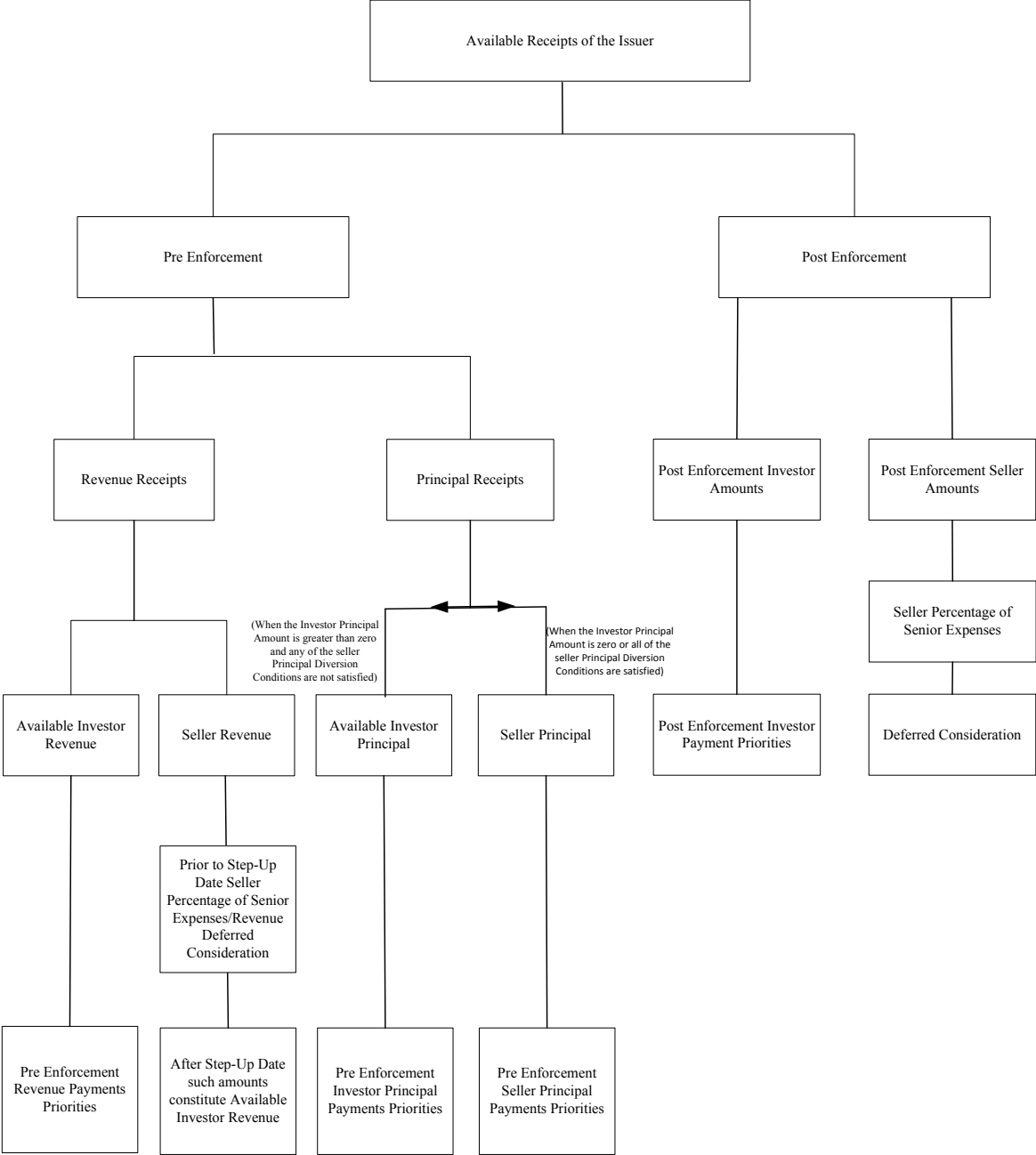
Seller as Noteholder: For the purposes of, *inter alia*, the right to attend and vote at any meeting of Noteholders, any Extraordinary Resolution in writing and any direction made by Noteholders, those Notes (if any) which are held by or on behalf of or for the benefit of the Seller or any holding company of the Seller or any subsidiary of such holding company, in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except where the Seller holds all the Notes of any Class and there is no other Class of Notes ranking *pari passu* with, or junior to, such Notes which are not wholly beneficially owned by the Seller.

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 interest of the Noteholders.

Provision of Information to the Noteholders: Information in respect of the underlying Mortgage Portfolio will be provided to the investors on an ongoing basis. See the section entitled "*Listing and General Information*" for further information.

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 approximately £1,254,026,700, the Investor Percentage will be approximately 90.909%, the Seller Principal Amount will be approximately £125,402,670, the Seller Percentage will be approximately 9.091%, the Minimum Seller Principal Amount will be approximately £42,762,311 and the Minimum Seller Percentage will be approximately 3.1%.

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 Sterling Equivalent Principal Amount Outstanding of the Notes.

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

- (a) as Principal Receipts are applied by the Issuer as Available Investor Principal in or towards redemption of the Notes on any Interest Payment Date; and
- (b) if the Seller makes any cash payment to the Issuer representing an amount of Capitalised Interest allocated to the Investor Principal Amount, to be applied by the Issuer as Available Investor Revenue on the immediately following Interest Payment Date in accordance with the Payments Priorities.

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 Cash Management*" and should not be construed as creating or purporting to create any proprietary interests or rights in rem in favour of the Seller or the Noteholders or other Secured Creditor in any of the Issuer's property.

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) (i) if the Investor Principal Amount is zero or (ii) if all of the Seller Principal Diversion Conditions are satisfied (until the Seller Principal Amount is equal to the Minimum Seller Principal Amount), in respect of Principal Deferred Consideration;
- (b) prior to and including the Step-Up Date, excess Seller Revenue (after application of Seller Revenue in or towards the Seller Percentage of Senior Expenses), in respect of Revenue Deferred Consideration; and
- (c) excess Available Investor Revenue (including, following the Step-Up Date, any Seller Revenue forming part thereof) (after application of Available Investor Revenue in accordance with the Pre Enforcement Investor 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: (i) from Post Enforcement Seller Amounts (after application of Post Enforcement Seller Amounts in or towards the Seller Percentage of Senior Expenses); and (ii) from Post Enforcement Investor Amounts 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 which shall, for the avoidance of doubt, form part of Available Investor Revenue for such purpose. The Issuer may use Seller Principal to fund Available Investor Revenue, to fund the Liquidity Reserve Fund and to pay Principal Deferred Consideration to the Seller in accordance with the Pre Enforcement Seller Principal Payments Priorities.

In summary, the term "Available Investor Revenue" will include the following:

- (a) all Investor Revenue received by the Issuer during the immediately preceding Calculation Period;
- (b) prior to and including the Step-Up Date, an amount of Seller Revenue equal to the Seller Percentage of the Senior Expenses and following the Step-Up Date, all Seller Revenue;
- (c) interest payable to the Issuer on the Issuer Accounts and income from any Authorised Investments;

- (d) amounts received by the Issuer under the Basis Swap Agreement (subject to certain exceptions as set out in full in the section entitled "*Cash Flows and Cash Management*" below);
- (e) amounts received by the Issuer or the Paying Agent on behalf of the Issuer under the Currency Swap Agreements (subject to certain exceptions as set out in full in the section entitled "*Cash Flows and Cash Management*" below);
- (f) any other net income of the Issuer received during the immediately preceding Calculation Period (other than, among other things, Principal Receipts, Seller Revenue, Early Repayment Charges, Third Party Amounts, Expenses Advance to the extent not utilised to pay the costs of issuance, Swap Tax Credits, amounts standing to the credit of the Swap Termination Reserve Accounts and other than on the First Interest Payment Date, the Initial General Reserve Advance) including any cash payments made by the Seller to the Issuer representing an amount of Capitalised Interest allocated to the Investor Principal Amount (for further information see section entitled "*Cash Flows and Cash Management*" below);
- (g) any amounts applied from the General Reserve Fund to make up a Revenue Shortfall;
- (h) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;
- (i) any amounts released from the Liquidity Reserve Revenue Sub-Ledger of the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced;
- (j) 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 Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Notes is 50% or more than the Sterling Equivalent Principal Amount Outstanding of that Class of Notes);
- (k) 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 Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Notes is 50% or more than the Sterling Equivalent Principal Amount Outstanding of that Class of Notes); and
- (l) 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.

In summary, the term "Available Investor Principal" will 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 any Mortgage Loans and their Related Security and recoveries received by the Issuer in relation to the enforcement of the relevant Mortgage Loan);
- (b) provided the Seller Principal Diversion Conditions are not satisfied on such Interest Payment Date, any amounts released from the Liquidity Reserve Principal Sub-Ledger of the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced; and
- (c) provided the Seller Principal Diversion Conditions are not satisfied on such Interest Payment Date, any Available Investor Revenue to be applied in reducing the debit balance on the Principal Deficiency Ledger.

Payments to Noteholders of Non-Sterling Notes in respect of interest payments:

Interest is due and payable on the Non-Sterling Notes on each Interest Payment Date. However, subject to the provisions set out below, the Issuer shall only be obliged to pay the relevant Set Interest Amount on the Non-Sterling Notes on each Interest Payment Date to the relevant Currency Swap Provider (who shall then pay the EUR or AUD floating amount due and payable under the relevant Currency Swap to the Principal Paying Agent or the Australian Paying Agent (as applicable) for the account of the Issuer) or, if there is no such Currency Swap Provider, the Principal Paying Agent or the Australian Paying Agent (as applicable), to fund payments of interest on the Non-Sterling Notes.

If a Currency Swap Agreement entered into in relation to a Class of Non-Sterling Notes has been terminated and no new replacement currency swap has been entered into then, on each Interest Payment Date prior to the delivery of an Enforcement Notice:

- (a) to the extent that the Set Interest Amount payable by the Issuer on the relevant Class of Non-Sterling Notes on such Interest Payment Date (once converted into the Applicable Currency at the Spot Rate by the Cash Manager), is insufficient to pay the Interest Amount due and payable on such Class of Notes on such Interest Payment Date, the shortfall (such amount being, a Swap Termination Deferred Interest Amount) shall be paid on such date *first*, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Interest Amounts and *second*, from Available Investor Revenue as a subordinated item in the Payments Priorities, with the payment of any remainder being deferred until such Interest Payment Date as there are Swap Termination Excess Amounts available for the relevant Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay Swap Termination Deferred Interest Amounts; and
- (b) to the extent that the Set Interest Amount payable by the Issuer on the relevant Class of Non-Sterling Notes on such Interest Payment Date (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is greater than the Interest Amount due and payable on such Class of Notes on such date, the excess (such amount being, a Swap

Termination Excess Interest Amount) shall be used to pay on such date *firstly*, any Swap Termination Deferred Interest Amounts and *secondly*, any Swap Termination Deferred Principal Amounts, due and payable in respect of that Class of Non-Sterling Notes, with any excess being transferred to the Swap Termination Reserve Account for such Class of Non-Sterling Notes where, subject to the terms of the Transaction Documents, it may be applied on subsequent Interest Payment Dates to pay any Swap Termination Deferred Amounts which may become due and payable on that Class of Non-Sterling Notes. See Condition 13 (*Interest*) for further information.

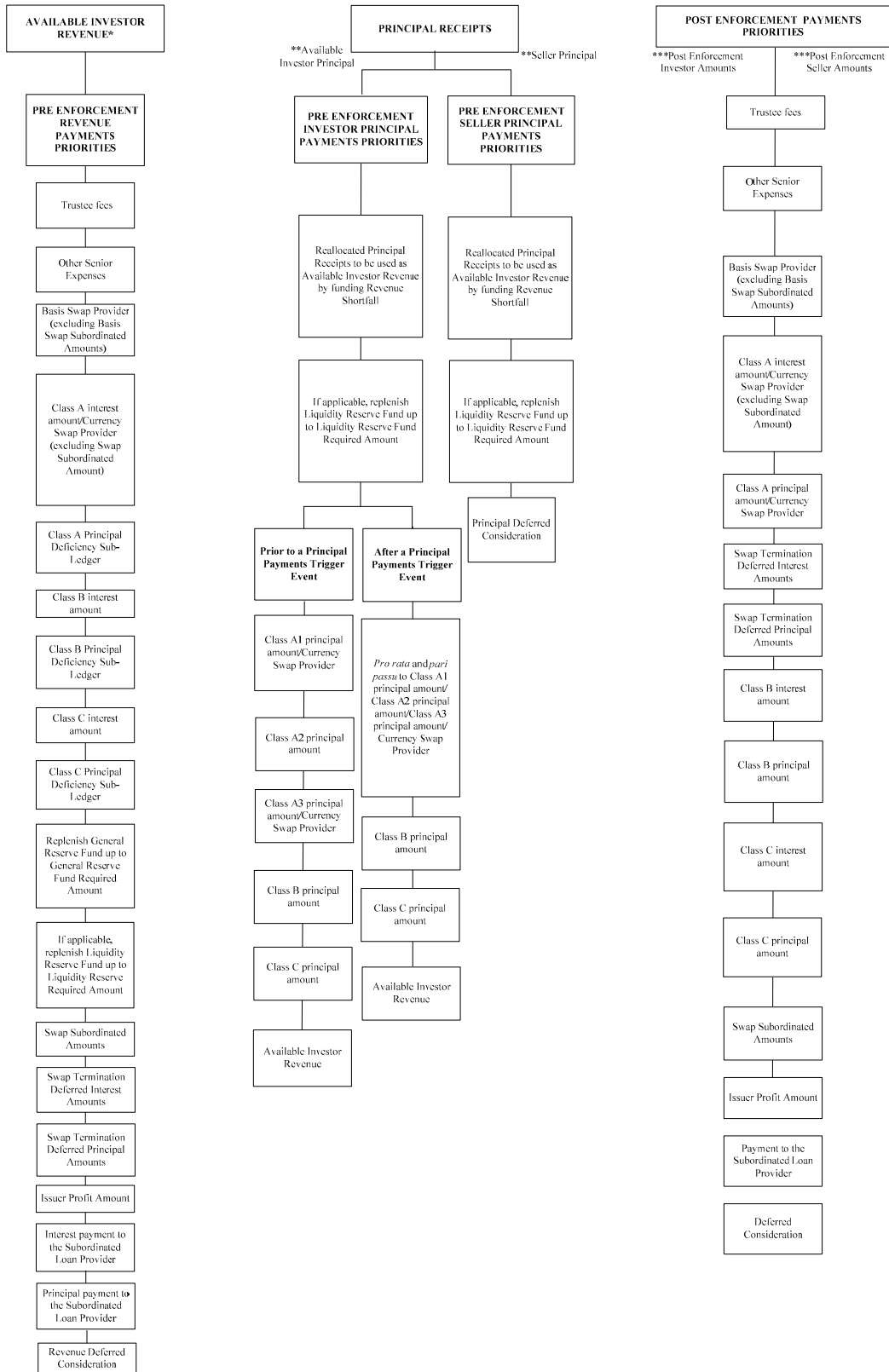
On each Interest Payment Date on or after the delivery of an Enforcement Notice, any Swap Termination Deferred Interest Amount remaining outstanding shall be paid in accordance with the Post Enforcement Investor Payments Priorities.

Payments to Noteholders of Non-Sterling Notes in respect of principal payments

Similar provisions apply to those set out in the section above entitled "*Payments to Noteholders of Non-Sterling Notes in respect of interest payments*" in respect of Swap Termination Deferred Principal Amounts and Swap Termination Excess Principal Amounts. See Condition 14 (*Swap Termination Deferred Principal*) for further information.

Overview of Payments Priorities:

Below is an overview of the Payments Priorities:



* Revenue Receipts will be allocated between Available Investor Revenue and Seller Revenue. Prior to and including the Step-Up Date, an amount of Seller Revenue will be applied as Available Investor Revenue to pay the Seller Percentage of Trustee fees and other Senior Expenses and the remainder

will be available to pay Revenue Deferred Consideration to the Seller. Following the Step-Up Date, Seller Revenue will form part of Available Investor Revenue and will be available to pay amongst other things the increased margin payable on the Notes.

** 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.

***Post-enforcement funds available will be allocated as either Post Enforcement Investor Amounts or Post Enforcement Seller Amounts – A portion of Post Enforcement Seller Amounts will be applied as Post Enforcement Investor Amounts to pay the Seller Percentage of Trustee fees and other Senior Expenses and the remainder will be available to pay Deferred Consideration to the Seller.

See the section entitled "*Key Structural Features – Cashflows and Cash Management*" for further information on the Payments Priorities.

Key Structural Features:

The credit enhancement, liquidity support and other key structural features of the transaction include, broadly, the following:

- availability of the General Reserve Fund to be used by the Issuer to cover Revenue Shortfalls. The General Reserve Fund will initially be funded by the Subordinated Loan Provider on the Closing Date up to an amount equal to £69,000,000 being the General Reserve Fund Required Amount (being 5.5 per cent. of the Investor Principal Amount as at the Closing Date) plus an additional amount for the purpose of paying Revenue Shortfalls on the First Interest Payment Date only. The General Reserve Fund will be 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;
- 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 credited to *firstly*, 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 Seller Principal Amount to mitigate the risk of Set-Off Losses in the Mortgage Portfolio and availability of Seller Revenue to be applied as Available Investor Revenue following the Step-Up Date to pay, amongst other things, the increased margin payable on the Notes;
- 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;
- availability of Currency Swaps provided by the Currency Swap Providers to swap: (a) the Sterling LIBOR based amounts calculated on the Sterling Equivalent Principal Amount Outstanding of the relevant Non-Sterling Notes for (i) the EURIBOR based interest payable in Euros on the EUR Notes, and (ii) the BBSW based interest payable in Australian Dollars on the AUD Notes; (b) Sterling principal amounts received under the Mortgage Loans and available to be used to redeem the relevant Non-Sterling Notes into (i) Euros in respect of the EUR Notes, and (ii) Australian Dollars in respect of the AUD Notes; and (c) the Euro proceeds of issuance in respect of the EUR Notes and the Australian Dollar proceeds of issuance in respect of the AUD Notes into Sterling for the purposes of paying the Initial Consideration in Sterling to the Seller;
- availability of amounts standing to the credit of the Swap Termination Reserve Accounts funded from Swap Termination Excess Amounts and early termination payments (following the termination of a Swap Agreement where no replacement Swap Provider has been appointed) and utilised to pay Swap Termination Deferred Amounts;
- 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 and senior costs and expenses of the structure and retain the Issuer Profit Amount; and
- any excess Available Investor Revenue (after application under the Pre Enforcement Investor Revenue Payments Priorities) will be applied on each Interest Payment Date as Revenue Deferred Consideration.

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. Available Investor Principal or Seller Principal and the Liquidity Reserve Fund will not be applied to (i) reduce any debit balance on 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 Notes is 50% or more than the Sterling Equivalent Principal Amount Outstanding of that Class of Notes.

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) funds held in the Liquidity Reserve Principal Sub-Ledger (but not the Liquidity Reserve Revenue Sub-Ledger) of 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 the Liquidity Reserve Principal Sub-Ledger (but not the Liquidity Reserve Revenue Sub-Ledger) of the 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 Sterling Equivalent Principal Amount Outstanding of the Class A Notes and allocated between the Class A Notes on a *pro rata* and *pari passu* basis.

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. The Seller (and where relevant, the Servicer) is obliged to transfer collections in respect of the Mortgage Loans in the Mortgage Portfolio to the GIC Account on the Business Day following the date of collection. 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 are governed by English law and each of the Scottish Loans and their Related Security are 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 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 and Wales or, as the case may be, first ranking standard securities over heritable or long lease properties in Scotland:

Type of Borrower	Prime			
Type of Mortgage	Repayment Loans or Interest-only Loans or a combination of both.			
Self-Certified Loans	No			
Non-Verified Income Loans	Yes			
Number of Mortgages	14,771			
	<u>Weighted average</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Simple average</u>
Outstanding Current Balance (£)	167,378.91	0.01	499,517.65	120,171.23
LTV Ratio at origination (%)	73.05	2.03	97.00	
Current LTV Ratio (%)	74.37	0.00	111.09	
Seasoning (months)	21.79	9.23	36.14	

Remaining Term (years)	19.80	0.25	34.75
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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
- (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 – The Mortgage Loans and their Related Security – Representations and Warranties*" 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.

The 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 2008 and no later than 31 March 2010;
- Final maturity date of each Mortgage Loan no later than 30 June 2041;
- No Borrower has the right to make further drawings under any Mortgage Loan and no Mortgage Loan is subject to cash backs; and
- 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 Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Representations and Warranties*" for further information.

Re-purchase of the Mortgage Loans:	<p>The Seller shall re-purchase the relevant Mortgage Loans and their Related Security in the following circumstances:</p> <ul style="list-style-type: none"> • Upon breach of Seller Asset Warranties (which are either not capable of remedy or if the Seller failed to remedy the relevant breach within 20 days of becoming aware of the breach)); • If certain determinations are made in respect of the Mortgage Loan by a court, or other competent authority or any ombudsman; and • Upon making Further Advances and/or Product Switches. <p>See the section entitled "<i>Transaction Overview - Overview of the Terms and Conditions of the Notes – Redemption</i>" and Condition 15 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation</i>).</p>
Consideration for repurchase:	<p>Consideration payable by the Seller in respect of 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.</p>
Perfection Events:	<p>See "<i>Perfection Events</i>" in the section entitled "<i>Transaction Overview – Triggers Table – Non-Rating Triggers Table</i>".</p> <p>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 "<i>Risk Factors - The Mortgages – Seller to Initially Retain Legal Title to the Mortgage Loan and Risks relating to Set-Off</i>".</p>
Delegation by Servicer:	<p>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 "<i>The Servicer – The Servicing Agreement - Right of delegation by the Servicer</i>" for further information.</p>

TRIGGERS TABLES

Rating Triggers Table

Transaction Party	Required Ratings	Possible effects of Ratings Trigger being breached include the following:
Basis Swap Provider	(i) Short term senior unsecured debt rating of at least A-1 by S&P and a long term rating of at least A by S&P, or (where the short term unsecured debt rating by S&P is less than A-1 or there is no short term rating) a long term rating of at least A+ by S&P; and (ii) short term, unsecured, unguaranteed and unsubordinated debt obligations rated at least P-1 and long-term, unsecured, unguaranteed and unsubordinated debt obligations rated at least A2 by Moody's (or, where no short term unsecured debt rating by Moody's is available and a long term rating is available at least A1 by Moody's).	The consequences of breach under the Basis Swap Agreement include a requirement to post collateral, replace the Basis Swap Provider or obtain a guarantee of the Basis Swap Provider's obligations.
Currency Swap Providers	(i) Short term senior unsecured debt rating of at least A-1 by S&P and a long term rating of at least A by S&P, or (where the short term unsecured debt rating by S&P is less than A-1 or there is no short term rating) a long term rating of at least A+ by S&P; and (ii) short term, unsecured, unguaranteed and unsubordinated debt obligations rated at least P-1 and long-term, unsecured, unguaranteed and unsubordinated debt obligations rated at least A2 by Moody's (or, where no short term unsecured debt rating by Moody's is available and a long term rating is available at least A1 by Moody's).	The consequences of breach under the Currency Swap Agreements include a requirement to post collateral, replace the Currency Swap Provider or obtain a guarantee of the Currency Swap Provider's obligations.
Account Bank	Short term senior unsecured debt rating of at least A-1 by S&P and a long term rating of at least A by S&P, or (where the short term unsecured debt rating by S&P is less than A-1 or there is no short term rating) a long term rating of at least A+ by S&P and short term, unsecured, unguaranteed and unsubordinated debt obligations rated at least P-1 by Moody's or such other ratings that are consistent with the then published criteria of the relevant Rating Agency as being the minimum	The consequences of breach under the Account Bank Agreement include a requirement to replace the Account Bank or obtain a guarantee of Account Bank's obligations.

	ratings that are required to support the then rating of the Most Senior Class of Notes.	
Seller	<p>Long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least Baa3 by Moody's and BBB- by S&P 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>Also see "<i>Liquidity Trigger Events</i>" below.</p>	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> ".
Collection Account Bank	Long-term, unsecured, unguaranteed and unsubordinated debt obligations rated at least Baa3 by Moody's and BBB by S&P or (if Bank of Scotland plc does not have a short term rating of at least A-2 by S&P) BBB+ by S&P, or such other ratings that are consistent with the then published criteria of Moody's or S&P as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes.	Under the Servicing Agreement, the Seller shall be required to transfer the Collection Account to a suitably rated account bank.
Servicer	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 Moody's as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes.	Under the Servicing Agreement, the consequences of breach include the appointment of a Back-Up Servicer, as set out in more detail in " <i>The Servicing Agreement – Back-Up Servicer</i> ".
Liquidity Trigger Event 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.	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 Moody's as being the minimum rating that is required to support the then rating of the Most Senior Class of Notes.	Following the occurrence of a Liquidity Trigger Event, the Liquidity Reserve Fund will be required to be funded from: (i) Available Investor Principal in accordance with the Pre Enforcement Principal Payments Priorities or Seller Principal in accordance with the Pre Enforcement Seller Principal Payments Priorities (as the case may be), and (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.
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Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Consequence of Trigger
Principal Payments Trigger Event	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> (a) the Step-Up Date; or (b) there is a debit balance on the Class B Principal Deficiency Sub-Ledger on any Interest Payment Date; or (c) the Seller Principal Amount is less than the Minimum Seller Principal Amount. 	<p>Following the occurrence of a Principal Payments Trigger Event, payments of principal on the Class A Notes, amongst themselves, will thereafter 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> <ul style="list-style-type: none"> (a) the Class A1 Notes and the Class A2 Notes have been redeemed in full; (b) no Principal Payments Trigger Event has occurred; (c) the Seller Principal Amount is greater than the Minimum Seller Principal Amount on such date (and at all times has been greater than the Minimum Seller Principal Amount on any date); (d) there is no debit balance on the Class C Principal Deficiency Sub-Ledger (and there has at no time been any debit balance on the Class C Principal Deficiency Sub-Ledger); (e) no Insolvency Event in relation to the Seller has occurred; and (f) no Enforcement Notice has been served by the Trustee on the Issuer. 	<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 Interest Payment Date, Principal Receipts will cease to be applied as Seller Principal (save that Principal Receipts may be applied as Seller Principal on such date up to the point that any Seller Principal Diversion Condition ceases to be satisfied), but will be applied as Available Investor Principal on such date and each subsequent Interest Payment Date 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> <ul style="list-style-type: none"> (a) perfection is required by an order of a court or regulatory authority; or (b) it being rendered necessary by law to take action to perfect legal title to the Mortgages; or (c) the Seller requesting perfection; or (d) Insolvency Event of the Seller. 	<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> <ul style="list-style-type: none"> (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 (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 (c) Insolvency Event of the Cash Manager. 	<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 Servicing Agreement</i>" for further information.</p>	<p>The occurrence of any of the following:</p> <ul style="list-style-type: none"> (a) Insolvency Event of the Servicer; or (b) default in payment or transfer 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 	<p>Substitute Servicer to be appointed, subject to approval by the Trustee</p>

	<p>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.</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	Quarterly in arrears on each Interest Payment Date
Cash Manager fees	0.025 per cent. each year (inclusive of VAT, if any) on the Sterling Equivalent Principal Amount Outstanding of the Notes	Ahead of all outstanding Notes	Quarterly in arrears on each Interest Payment Date
Other fees and expenses of the Issuer including Trustee and Agent fees	Estimated at £55,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrears on each Interest Payment Date
Expenses related to the admission to trading of the Notes	£8,850 (exclusive of any applicable VAT)	N/A	On or about the Closing Date

United Kingdom VAT is currently chargeable at 20%.

ARTICLE 122A OF THE CAPITAL REQUIREMENTS DIRECTIVE

Please refer to “Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes” in the section entitled “Risk Factors” for further information on the implications of Article 122a for certain investors in the Notes.

Retention statement

The Seller will, on an ongoing basis, retain a material net economic interest of at least 5 per cent. in the securitisation in accordance with Article 122a of Directive 2006/48/EC (as amended by Directive 2009/111/EC), referred to as the Capital Requirements Directive. As at the Closing Date, such interest will comprise an interest in the first loss tranche within the meaning of Article 122a(1)(d). Such retention requirement will be satisfied on the Closing Date by the Seller funding the General Reserve Fund in an amount at least equal to the General Reserve Fund Required Amount on such date by way of the Subordinated Loan. The Seller will confirm its ongoing retention of the net economic interest described above in the Monthly Investor Reports and any change to the manner in which such interest is held will be notified to Noteholders. The Seller has provided a corresponding undertaking with respect to the interest to be retained by it to the Lead Managers in the Subscription Agreement.

Investors to assess compliance

Each prospective investor that is required to comply with Article 122a (as implemented in each Member State of the European Economic Area) is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with Article 122a and none of the Issuer, the Arranger, the Lead Managers or the Transaction Parties makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. Prospective investors who are uncertain as to the requirements under Article 122a which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

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, receipts under the Basis Swap Agreement, the Currency Swap Agreements and, with respect to 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. 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 and other amounts payable by the Issuer to Transaction Parties 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 (plus, for the avoidance of doubt, amounts due and payable to the Seller as Deferred Consideration from the Post Enforcement Seller Amounts), 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 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 16 (*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 the Set Interest Amount on any Class of Notes (other than the Set Interest Amount then due and payable on the Most Senior Class of Notes), after having paid or provided for items of higher priority in the Pre Enforcement Payments Priorities, or to the extent the Issuer has paid the Set Interest Amount on a Class of Notes (including on the Most Senior Class of Notes) on an Interest Payment Date to the relevant Currency Swap Provider or Paying Agent (as applicable) and such entity has failed to make the equivalent payment in full to the relevant Paying Agent or the Noteholders respectively, on such date, then the amount of the shortfall or non-payment shall not be due and payable and the Issuer will under Condition 13.11 (*Interest Accrual*) defer payment of that shortfall or unpaid amount until the first Interest Payment Date thereafter on which funds are available to the Issuer to make such payments. See also the section entitled "*Swap Termination Deferred Interest Amounts*" within the "*Risk Factors*" section in respect of the deferral of interest where a shortfall arises as a result of the termination (without replacement) of a Currency Swap Agreement. See also the section headed "*Set Interest Amounts, Swap Termination Deferred Interest Amounts and Swap Termination Excess Interest Amounts*" for further information.

The deferral of Interest Amounts on the Notes shall not constitute an Event of Default. The payments of Set Interest Amounts by the Issuer to the relevant Currency Swap Provider or Paying Agent on the Most Senior Class of Notes cannot be deferred and, if they remain unpaid 10 days after the relevant due date, will trigger an Event of Default.

To the extent that there are insufficient funds available to the Issuer on the following Interest Payment Date to pay the deferred Interest Amounts, the deferral of interest 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 the 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

Subject to the swap termination deferrals mechanism set out in Conditions 13.11(c) (*Interest Accrual*) and 14 (*Swap Termination Deferred Principal*): (i) the Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes; and (ii) the Class C Notes are subordinated in right of payment of interest and principal to the Class A Notes and the Class B Notes, all as set out in "*Key Structural Features*". 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

Subject to the swap termination deferrals mechanism set out in Condition 14 (*Swap Termination Deferred Principal*), 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.

Basis and Currency 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 Seller's Standard Variable Rate or (as the case may be) 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;
- the risk of fluctuations in relation to the exchange rate between (i) Sterling and Euro (in respect of the EUR Notes) and (ii) Sterling and Australian Dollars (in respect of the AUD Notes), such that amounts received in Sterling in respect of the Mortgage Loans and available for application in satisfaction of interest payment obligations in respect of the EUR Notes and AUD Notes may, following conversion into Euros (in respect of the EUR Notes) and Australian Dollars (in respect of the AUD Notes), be insufficient to meet such payment obligations, which risk is mitigated but not obviated by the Currency Swaps;
- the risk of mismatch between the interest rate received from the Basis Swap Provider under the Basis Swap and the interest rate payable under the EUR Notes and AUD Notes, which risk is mitigated but not obviated by the Currency Swaps;
- 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 General Reserve Fund and the Liquidity Reserve Fund and (ii) (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.

Swap termination payments

If a Swap Agreement terminates, the Issuer may be obliged to pay a termination payment to the relevant Swap Provider. The amount of such termination payment will be based on the value of any benefit that would otherwise accrue to the Issuer as a result of terminating and replacing the relevant Swap Agreement. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the relevant Swap Agreement or that the Issuer, following termination of a Swap Agreement, 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 default or pursuant to a Swap Provider Downgrade Event, any termination payment in respect of the Basis Swap Agreement due from the Issuer will rank in priority to payments of interest due on the Class A Notes. Any termination payment or additional amount following termination payable by the Issuer in respect of the Currency Swap Agreements will, save where the relevant Currency Swap Provider has caused the Currency Swap Agreement to terminate by its default or pursuant to a Swap Provider Downgrade Event, rank *pari passu* with payments of Set Interest Amounts on the Class A Notes under the Pre Enforcement Investor Revenue Payments Priorities, ahead of the other Classes of Notes. Therefore, if the Issuer is obliged to make a termination payment to a Swap Provider or to pay any other additional amount as a result of the termination of the relevant Swap Agreement, this may reduce or otherwise adversely affect the amount of funds which the Issuer has available to make payments on the Notes of any Class.

If a Swap Agreement terminates, there can be no assurance that the Issuer will be able to enter into a replacement swap, or if one is entered into, there can be no assurance that the credit rating of the

replacement swap provider will be sufficiently high to prevent a downgrading of the then current ratings of one or more classes of the Notes by the Rating Agencies.

Swap Termination Deferred Interest Amounts

Prior to the delivery of an Enforcement Notice, in the event of the termination of a Currency Swap Agreement entered into in relation to a Class of Non-Sterling Notes, until such time (if any) as a replacement currency swap transaction is entered into, the relevant Class of Noteholders shall, on each Interest Payment Date (subject to the provisions below) receive in respect of interest, the lesser of:

- (a) the Interest Amount due and payable in respect of the relevant Class of Non-Sterling Notes on that Interest Payment Date; and
- (b) the aggregate of the Set Interest Amount payable in respect of the relevant Class of Non-Sterling Notes on such Interest Payment Date converted into the Applicable Currency at the relevant Spot Rate by the Cash Manager.

To the extent that the amount payable by the Issuer is determined under item (b), the shortfall between the amount due and payable under item (b) and the Interest Amount due and payable on the relevant Class of Non-Sterling Notes (such amounts being Swap Termination Deferred Interest Amounts) shall be paid on such date *first*, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Interest Amounts and *second*, from Available Investor Revenue as a subordinated item in the relevant Payments Priorities, with the payment of any remainder being deferred until such Interest Payment Date as there are Swap Termination Excess Amounts available for the relevant Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay Swap Termination Deferred Interest Amounts. To the extent that the amount payable by the Issuer under item (b) is greater than the Interest Amount due and payable in respect of the relevant Class of Non-Sterling Notes on such date, the excess (such amount being, a Swap Termination Excess Interest Amount) shall be used to pay on such date *firstly*, any Swap Termination Deferred Interest Amounts and *secondly*, any Swap Termination Deferred Principal Amounts, in each case due and payable in respect of that Class of Non-Sterling Notes, with any excess being transferred to the Swap Termination Reserve Account for such Class of Non-Sterling Notes to be applied on subsequent Interest Payment Dates to pay *firstly*, any Swap Termination Deferred Interest Amounts and *secondly*, any Swap Termination Deferred Principal Amounts, in each case then due and payable on that Class of Non-Sterling Notes or to purchase, on any date, a replacement currency swap agreement for such Class of Non-Sterling Notes.

Additional Interest that accrues on any Swap Termination Deferred Interest Amount under Condition 13.11(d) (*Interest Accrual*) shall also be met from funds held in the relevant Swap Termination Reserve Account or paid from Available Investor Revenue in accordance with the terms of the Payments Priorities.

Swap Termination Deferred Principal Amounts

In the event of the termination of a Currency Swap Agreement, until such time (if any) as a replacement currency swap transaction is entered into, on each Interest Payment Date prior to the delivery of an Enforcement Notice:

- (a) to the extent that the amount of Available Investor Principal available to the Issuer on such Interest Payment Date under the Payments Priorities to pay principal on a Class of Non-Sterling Notes, (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is less than the amount that would have been payable by the relevant Currency Swap Provider on such Interest Payment Date in respect of principal if the relevant Currency Swap Agreement had still been in full force and effect, the shortfall (such amounts being Swap Termination Deferred Principal Amounts) shall first be paid on such date *first*, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Principal Amounts and *second*, from Available Investor Revenue as a subordinated item in the Payments Priorities, with any remainder being deferred until such Interest Payment Date as there are any Swap Termination Excess Amounts available for that Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay such Swap Termination Deferred Principal Amounts; and

- (b) to the extent that the amount of Available Investor Principal available to the Issuer on such Interest Payment Date under the Payments Priorities to pay principal on a Class of Non-Sterling Notes (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is greater than the amount of funds that would have been payable by the relevant Currency Swap Provider on such Interest Payment Date in respect of principal if the relevant Currency Swap Agreement had still been in full force and effect, the excess (such amounts being Swap Termination Excess Principal Amounts) shall be used to pay on such date *firstly*, any Swap Termination Deferred Interest Amounts and *secondly*, any Swap Termination Deferred Principal Amounts, due and payable in respect of that Class of Non-Sterling Notes, with any excess being transferred to the Swap Termination Reserve Account for such Class of Non-Sterling Notes where, subject to the terms of the Transaction Documents, it may be applied on subsequent Interest Payment Dates to pay *firstly*, Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, in each case then due and payable on that Class of Non-Sterling Notes or to purchase, on any date, a replacement currency swap agreement for such Class of Non-Sterling Notes.

If a new currency swap agreement is entered into at a later date, no new Swap Termination Deferred Amounts or Swap Termination Excess Amounts will arise on or after such date and any then existing Swap Termination Deferred Amounts would fall to be paid under the relevant Payments Priorities.

On each Interest Payment Date on or after the delivery of an Enforcement Notice, any Swap Termination Deferred Amounts remaining outstanding shall be paid in accordance with the Post Enforcement Investor Payments Priorities.

Insolvency of Swap Provider

In the event of the insolvency of a Swap Provider, the Issuer will be treated as a general creditor of such Swap Provider. Consequently, the Issuer will be subject to the credit risk of such Swap Provider. To mitigate this risk, under the terms of the Basis Swap Agreement and the Currency Swap Agreements, in the event that the relevant ratings of the Basis Swap Provider or a Currency Swap Provider fail to meet the relevant required ratings, such Swap Provider will, in accordance with the terms of the relevant Swap Agreement, be required to elect to take certain remedial measures within the applicable time frame stipulated in such Swap Agreement (at its own cost) which may include providing collateral for its obligations under the relevant Swap Agreement, arranging for its obligations under the relevant Swap Agreement to be transferred to an entity with the relevant required ratings, or procuring another entity with the required ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant Swap Agreement or such other action that would result in the Rating Agencies continuing the then current rating of the Notes. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be available to the relevant Swap Provider or that another entity with the required ratings will be available to become a replacement swap provider, co-obligor or guarantor or that the relevant Swap Provider will be able to take the requisite other action.

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. 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 in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) 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 similar priorities of payment, stating that the anti-deprivation principle was not breached by such provisions.

In parallel proceedings in New York, 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 on the basis that the effect was 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". The English Supreme Court granted leave to appeal the Court of Appeal's decision. In New York however, whilst leave to appeal was granted, the case was settled before an appeal was heard. Notwithstanding the New York settlement, the appeal by one of the appellants, Lehman Brothers Special Financing Inc., against two of the respondents, Belmont Park Investments Pty and BNY Corporate Trustee Services Ltd, in the English courts was heard in March 2011 and the judgment is awaited. Therefore, concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision either in England or New York, may adversely affect the Issuer's ability to make payments on the Notes. 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.

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 and homeowner mobility. 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 Step-Up Date, the Issuer may, subject to certain conditions, redeem all of the Notes. In addition, on any Interest Payment Date the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer or a Swap Provider being required to make a Tax Deduction in respect of any payment in respect of the Notes or the Swap Agreements, respectively or the Issuer would be subject to United Kingdom corporation tax in an accounting period on an amount which materially exceeds the Issuer Profit Amount retained during that accounting period. See Condition 15.4 (*Optional Redemption in whole for taxation reasons*) 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 the Notes may be lowered. A qualification, downgrade or withdrawal of any of the ratings mentioned above may adversely impact the market 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 market 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 certain 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 each of the Secured Creditors (including the Noteholders), 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 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.

The Rating Agencies have indicated that they will no longer provide Ratings Confirmations as a matter of policy. To the extent that a Ratings 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 is experiencing disruptions resulting from reduced investor demand for such securities. 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 20.2 (*Directions to the Trustee*).

Bank of Scotland as Noteholder

Bank of Scotland will be the initial purchaser of the Class A3 Notes, the Class B Notes and the Class C Notes. For so long as any Notes are held by or on behalf of Bank of Scotland (or any holding company of Bank of Scotland or any subsidiary of such holding company), it will not be entitled to all of the rights to which the holders of such Notes are entitled (including, without limitation, voting rights), except where all the Notes of any Class are held by or on behalf of or for the benefit of Bank of Scotland (or any holding company of Bank of Scotland or subsidiary of such holding company) and there is no other Class of Notes ranking *pari passu* with, or junior to, such Notes which are not wholly beneficially owned by Bank of Scotland (or any holding company of Bank of Scotland or subsidiary of such holding company).

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 Mortgage Portfolio under the Mortgage Sale Agreement*", below).

The Issuer has not applied 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 Mortgage 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 (or analogous rights in Scotland) 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 (see "*Risk Factors – Set-Off risk may adversely affect the value of the Portfolio or any part thereof*" below); 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.

Set-off risk may adversely affect the value of the Mortgage Portfolio or any part thereof

As described above, the sale by the Seller to the Issuer of English Loans will be given effect by an assignment, with each sale of Scottish Loans being given effect by the Scottish Declaration of Trust. As a result, legal title to the English Loans and the Scottish Loans and their Related Security sold by the Seller to the Issuer will remain with the Seller until the occurrence of certain trigger events under the terms of the Mortgage Sale Agreement. Therefore, the rights of the Issuer may be subject to "transaction set-off," being the direct rights of the Borrowers against the Seller, including rights of set-off (or analogous rights in Scotland) which occur in relation to transactions or deposits made between the Borrowers and the Seller existing prior to notification to the Borrowers of the assignment or assignation (as appropriate) of the Mortgage Loans.

By way of example, set-off rights may arise if the Seller fails to make to a Borrower a Further Advance having agreed to do so.

The relevant Borrower may set off any claim for damages (or exercise analogous rights in Scotland) arising from the Seller's breach of contract against the Seller's (and, as equitable assignee of or holder of the beneficial interest in the Mortgage Loans and the Mortgages in the Mortgage Portfolio, the Issuer's) claim for payment of principal and/or interest under the relevant Mortgage Loan as and when it becomes due. These set-off claims will constitute transaction set-off, as described in the immediately preceding risk factor.

The amount of any such claim against the Seller will, in many cases, be the cost to the Borrower of finding an alternative source of funds (although, in respect of a Scottish Loan, it is possible, though regarded as unlikely, that the Borrower's rights of set-off could extend to the full amount of the additional drawing). The Borrower may obtain a mortgage loan elsewhere, in which case the damages awarded could be equal to any difference in the borrowing costs together with any direct losses arising from the Seller's breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees).

If the Borrower is unable to obtain an alternative mortgage loan, he or she may have a claim in respect of other indirect losses arising from the Seller's breach of contract where there are special circumstances communicated by the Borrower to the Seller at the time the Borrower entered into the Mortgage Loan or which otherwise were reasonably foreseeable. A Borrower may also attempt to set off an amount greater than the amount of his or her damages claim (or exercise analogous rights in Scotland) against his or her mortgage payments. In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the Mortgage Portfolio and/or the ability of the Issuer to make payments under the Notes.

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, on any Interest Payment Date, any of the Seller Principal Diversion Conditions cease to be satisfied, Principal Receipts will be applied as Available Investor Principal on such date (save that Principal Receipts may be applied as Seller Principal on such date up to the point that any Seller Principal Diversion Condition ceases to be satisfied) and each subsequent Interest Payment Date, which will be applied 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. 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 and Third Party Credit Risk

Issuer reliance on other third parties

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Swap Providers have 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 Transfer Agent, the Registrar, the Australian Registrar, the Agent Bank and the Australian Calculation Agent 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 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 rating by 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 a substitute servicer with sufficiently appropriate experience of servicing the Mortgage Loans would be found who would be willing, able and authorised under the FSMA 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 and at any time after the service of an 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 19 (*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. of the Sterling Equivalent Principal Amount Outstanding of the Most Senior Class of Notes then outstanding and it shall have been indemnified, pre-funded 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 Swap Providers) 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 S&P 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 (see section entitled "*Risk Factors – Meetings of Noteholders, modification and waiver*" below).

The applicable rating criteria may also change over time which could have an impact on the ratings of the Notes.

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.

Other factors in Borrowers' personal or financial circumstances may affect the ability of Borrowers to repay the Mortgage Loans. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Mortgage Loans. In addition, 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. In addition, once possession has been obtained, a reasonable period must be allowed for marketing the property, to discharge obligations to take reasonable care to obtain a proper price. If obtaining possession of properties and arranging a sale 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*" 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 homes 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 the United Kingdom. If the residential property market in the United Kingdom 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 or a particular region experiences a natural disaster, 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 Mortgage Portfolio – Sale of the Mortgage Portfolio under the Mortgage Sale Agreement – Geographical Spread*".

The United Kingdom recorded negative GDP growth during the course of 2009 and recorded small positive growth in the first half of 2010. During the second half of 2008 and continuing in 2009, the United Kingdom 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 and the beginning of 2010 but began to decline again towards the end of 2010. 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 Mortgage Loans as and when they fall due. 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. However, the Seller recommends that the Borrower has a suitable repayment mechanism in place in relation to the Mortgage Loan but does not require proof of any such repayment mechanism and does not take security over any investment policies taken out by Borrowers. The Seller also recommends that the Borrower takes out term life assurance cover in relation to the Mortgage Loan, although the Seller again does not take security over such policies.

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. Moreover, as no security is taken on such policies, there is no guarantee that (even if such proceeds were sufficient) the proceeds of such policies will be applied on payment of the relevant Mortgage Loan. 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 is described under the section entitled "*The Mortgage Portfolio — The Mortgage Loans - Insurance Policies*" below. As the Seller does not verify if building insurance has been taken out by a Borrower, the Seller cannot be certain that a Borrower has taken out or maintained building insurance or that any such cover would be sufficient to cover any loss and/or that the Seller's interest has been advised to the insurer. No assurance can therefore be given that the Issuer will always receive the benefit of any claims made under any applicable buildings insurance contracts. This could adversely affect the Issuer's ability to redeem the Notes.

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 under the Mortgage Sale Agreement – Representations and Warranties*" below for a summary of these.

None of the Trustee, the Arranger, the Lead Managers 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 (save that the Issuer has obtained a review of the Standard Documentation and a limited review of a small sample of Mortgage Loans) 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, in Scotland, a first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection

with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person.

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. Subject to certain exemptions, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The Issuer is not and does not propose to be an authorised person under FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The Issuer does not require authorisation to carry on the regulated activity of administering Regulated Mortgage Contracts because the Mortgage Loans are administered pursuant to the Servicing Agreement by the Servicer, which has the required FSA authorisation and permission. If the Servicing 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 servicer having the required FSA authorisation and permission.

Given that the Issuer will not itself be an authorised person under the FSMA, in the event that an agreement for a Mortgage Loan is varied, such that a new contract is entered into and that contract constitutes a Regulated Mortgage Contract then the arrangement of, advice on, administration of and entering into of such variation would need to be carried out by an entity such as the Seller or Servicer or a replacement servicer (as appropriate) having the required FSA authorisation and permission. Please also see details of the repurchase mechanism for Mortgage Loans on which a Further Advance or Product Switch is to be made as set under the heading "*Repurchase by Seller*".

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.

If 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 (including the rules in MCOB), and may set off the amount of the claim (or exercise analogous rights in Scotland) against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such set-off in relation to a loan in the Mortgage Portfolio 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 Regulated Mortgage 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 and 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. Furthermore, a court order under Section 126 of the CCA will still be necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a Regulated Mortgage Contract to the extent that the credit agreement would, apart from the exemption referred to above, be regulated by the CCA or be treated as such.

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 Mortgage 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 and the Trustee will 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". All Mortgage

Loans and Further Advances in the Mortgage Portfolio have been originated by the Seller on or after 28 January 2008 and are intended to be Regulated Mortgage Contracts under FSMA.

In June 2010, the FSA 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.

Proposed changes to United Kingdom mortgage regulation

In November 2009, the UK Government launched a consultation on mortgage regulation, which sets out proposals to extend the scope of FSA regulation to include buy-to-let mortgages and introduce a regulated activity of managing Regulated Mortgage Contracts which is intended to protect consumers when mortgage loans are sold. The consultation followed the announcements on mortgage regulation made in the July 2009 "Reforming financial markets" consultation paper, which set out the Government's proposals for reform of the financial system.

In its follow-up paper "Mortgage regulation: summary of responses", published in March 2010, the Treasury acknowledged an industry concern that the proposed regulated activity of managing Regulated Mortgage Contracts was drawn too widely and could potentially extend to include the activities of special purpose vehicles (such as the Issuer) used in the wholesale mortgage markets. On 26 January 2011, the Treasury announced revised proposals on the sale of mortgage books. In a related impact assessment, the Treasury has indicated that rather than creating a new regulated activity of 'managing' a Regulated Mortgage Contract, the definition of the existing regulated activity of 'administering' Regulated Mortgage Contracts will be extended to cover unregulated mortgage holders who exercise specified rights (such as changing interest rates) under mortgage contracts. This is considered to be the most effective way to ensure consumer protection without affecting lenders' ability to securitise their mortgage loans. However, until the Statutory Instruments introducing the Treasury's proposals are published, it is not certain what effect the expansion of the regulated activity of administering Regulated Mortgage Contracts would have on the Seller, the Issuer and/or the Servicer and their respective businesses and operations. The Statutory Instruments are expected to be published during the course of 2011.

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, each relevant Mortgage Loan falls within the scope of regulation under FSMA and therefore outside the scope of regulation under the CCA.

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 if a Perfection Event has occurred and the Issuer obtains legal title to such Mortgage Loan until the Issuer obtains a CCA licence.

EU initiatives on Mortgage Credit

The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 including, amongst other things, an assessment of the regulation of early

repayment charges, pre contract disclosure and interest rate restrictions. The European Commission has stated that, in its view, it is too early to decide on whether a mortgage directive would be appropriate.

However, the European Commission is expected to present policy measures on responsible lending and borrowing (applicable to all consumer credit markets) in 2011. Until any such legislative measures or proposals are published, it is not certain what effect the adoption and implementation of any measures resulting from the White Paper process or the European Commission consultation on responsible lending and borrowing would have on the Mortgage Loans, 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 on the Notes when due.

Repossessions policy

A new protocol for mortgage possession cases in England and Wales came into force on 19 November, 2008 (the "**Pre-Action Protocol**") and sets out the steps that judges will expect any lender to take before starting a claim. In response to this, a number of mortgage lenders have confirmed that they will delay the initiation of repossession action for at least three (or, in the case of some lenders, six) 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. In addition, the Mortgage Repossession (Protection of Tenants etc) Act 2010 (the "**Repossession Act 2010**") came into force in England and Wales in October, 2010. The act introduces new powers for courts hearing a mortgage repossession case where the property is occupied by unauthorised tenants, including powers to delay a repossession order and suspend a warrant of eviction on application by an unauthorised tenant.

As noted above, amendments to Chapter 13 of MCOB, which came into force on 25 June 2010 prevent, in relation to Regulated Mortgage Contracts: (a) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term or a product switch and (b) automatically capitalising a payment shortfall. Formerly, these were the subject of non-binding guidance only.

The Pre-Action Protocol and MCOB requirements for mortgage possession cases and the Repossession Act 2010 may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and a lower repayment rate on the Notes.

Consultation Paper on the power of sale and residential property

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.

Home Owner and Debtor Protection (Scotland) Act 2010

The Scottish Parliament has recently passed the Home Owner and Debtor Protection (Scotland) Act 2010 (the "**Home Owner and Debtor Protection Act**"), Part 1 of which came into effect on 30 September 2010 and 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 Home Owner and Debtor Protection Act amends the provisions of the Conveyancing and Feudal Reform (Scotland) Act 1970 and Mortgage Rights (Scotland) Act 2001 which permitted a heritable creditor to proceed to sell the secured property where the notice period specified in a calling up notice or notice of default served in respect of the relevant standard security had expired without challenge (or where a challenge had been made, for example, under the Mortgage Rights (Scotland) Act 2001, but not upheld). In terms of the Home Owner and Debtor Protection Act the heritable creditor requires a court order to exercise its power of sale, unless the borrower has surrendered the property voluntarily. The practical effect of the Home Owner and Debtor Protection Act is that the ability of the Seller as heritable creditor in respect 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 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999 as amended (the "UTCCR"), together with (in so far as applicable) the Unfair Terms in Consumer Contracts Regulations 1994, 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.

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 UTCCR.

Whilst the OFT and FSA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Mortgage Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. 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.

The guidance issued by the FSA and OFT has changed over time and it is possible that it may change in the future. No assurance can be given that any such changes in guidance on the UTCCR, will not have a material adverse effect on the Seller, the Issuer, the Servicer and their respective businesses and operations.

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 member 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.

Financial Ombudsman Service

Under the FSMA, the FOS is required to make decisions on, *inter alia*, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the FOS's opinion, would be fair and reasonable in all circumstances of the case, taking into account, *inter alia*, law and guidance. Complaints brought before the FOS for consideration must be decided on a case by case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the FOS. As the FOS is required to make decisions on the basis of, *inter alia*, the principles of fairness, and may order a money award to the Borrower, it is not possible to predict how any decision of the FOS would affect the Seller, the Issuer and/or the Servicer and their respective business and operations.

Implementation of, and amendments to, the Basel II framework may affect the regulatory capital and liquidity treatment of the Notes

The regulatory capital framework published by the Basel Committee on Banking Supervision (the "**Basel Committee**") in 2006 (the "**Basel II Framework**") has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Notes for investors who are or may become subject to capital adequacy requirements that follow the framework.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as Basel III), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and the European Commission's corresponding proposals to implement the changes (through amendments to the Capital Requirements Directive known as "**CRD IV**") are expected to be presented in March 2011. The changes approved by the Basel Committee may

have an impact on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

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.

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 provisions of the Insolvency Act allow 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, such provisions should apply to the floating charge created by the Issuer and assignment by way of security in favour of the Trustee. However, as this is partly a question of fact, were it not possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent.

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

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

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 Transaction Documents do not permit the Trustee to exert sufficient control over the Charged Property. 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. There is no equivalent concept of recharacterisation of fixed security as floating charges under Scots law.

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 United Kingdom 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 United Kingdom-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 United Kingdom 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.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

European Monetary Union

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 Sterling Notes may become payable in Euro; (ii) applicable provisions of law may allow or require the Sterling 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 Sterling 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.

Clearing and Settlement

Euroclear and Clearstream, Luxembourg - Book-Entry Interests

Unless and until Definitive Notes are issued in exchange for Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of the Sterling Notes and EUR 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 Sterling Notes and EUR Notes to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

A nominee for the Common Safekeeper, in the case of the EUR Notes, and the Common Depositary, in the case of the Sterling Notes, will be considered the registered holder of the Sterling Notes and EUR 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 Sterling Notes and the EUR 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 Transfer 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.

Austraclear

The Issuer will procure that the AUD Notes are accepted for clearance through the Austraclear System. It is expected that the AUD Notes will be lodged into the Austraclear System by registering Austraclear as the holder of record. When the AUD Notes are lodged into the Austraclear System, Austraclear will become the sole registered holder and legal owner of the AUD Notes and will hold those AUD Notes in accordance with the Austraclear Regulations.

While the AUD Notes remain in the Austraclear System all payments and notices required of the Issuer in relation to the AUD Notes will be directed to Austraclear as the registered holder and all dealings and payments in relation to the AUD Notes within the Austraclear System will be governed by the Austraclear Regulations.

Accountholders acquire rights against Austraclear in relation to those AUD Notes as beneficial owners and Austraclear is required to deal with the AUD Notes in accordance with the directions and instructions of the Accountholders. Accordingly, each beneficial owner of an AUD Note must rely on the Austraclear Regulations and, if such person is not an Accountholder, on the procedures of, and contractual arrangement in respect of, the nominee through which such person holds its interest, to exercise any right in respect of an AUD Note.

Each of the persons shown in the records of the Austraclear System as having an interest in AUD Notes must look solely to the Austraclear System for such person's share of each payment made by the Issuer to Austraclear and to any other rights arising under the AUD Notes, subject to and in accordance with the Austraclear Regulations. Unless and until such AUD Notes are uplifted from the Austraclear System and registered in the name of an Accountholder, such person has no claim directly against the Issuer in respect of payments by the Issuer and such obligations of the Issuer will be discharged by payment to or as directed by Austraclear in accordance with the Austraclear Regulations.

There can be no assurances that the Austraclear Regulations or any other procedures or contractual arrangements will be sufficient to enable beneficial owners of the AUD Notes to exercise their rights or vote on any requested action on a timely basis or to ensure the timely exercise of remedies under the Conditions, the Deed Poll and the Trust Deed.

In addition, where Austraclear is registered as the holder of AUD Notes that are lodged in the Austraclear System, Austraclear may, in its absolute discretion, instruct the Australian Registrar to transfer or "uplift" the AUD Notes to the person in whose Security Record (as defined in the Austraclear Regulations) those AUD Notes are recorded without any consent or action of such transferee and, as a consequence, remove those AUD Notes from the Austraclear System.

None of the Issuer, the Trustee, any Paying Agent, the Australian Registrar or any of their agents will have any responsibility for the performance by Austraclear or any Accountholders of their respective obligations under the Austraclear Regulations or the applicable rules, procedures and contractual arrangements governing their operations.

Lack of physical form

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 resell 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 and in accordance with the rules and regulations of any applicable clearing system.

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
 - (ii) is requested in writing by the Issuer as necessary or desirable to reflect the then current rating criteria of any Rating Agency provided that 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 and further provided that any such certificate given by or on behalf of the Issuer 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 and the Trustee shall not be liable or responsible for any losses to any person, howsoever caused, as a result of taking or omitting to take any action whatsoever in relation to any such certificate, or otherwise;
 - (iii) (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, save that the prior written consent of a Swap Provider (such consent not to be unreasonably withheld) shall also be required in respect of any Swap Reserved Matter relating to such Swap Provider;
- (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 Sterling Equivalent 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 waive any proposed breach or breach relating to a Reserved Matter unless each Class of Notes, has by Extraordinary Resolution, so authorised its exercise). Amendments in respect of a Reserved Matter require an Extraordinary Resolution of each Class of Notes then outstanding.

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.

Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Lead Managers, the Arranger, the Seller, or any of the Transaction Parties makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Closing Date or at any time in the future.

In particular, investors should be aware of Article 122a of the Capital Requirements Directive (and any implementing rules in relation to a relevant jurisdiction) which applies, in general, to newly issued securitisations after 31 December 2010. Article 122a restricts an EU regulated credit institution and consolidated group affiliates thereof from investing in a securitisation unless the originator, sponsor or original lender in respect of that securitisation has explicitly disclosed to the EU regulated credit institution or consolidated group affiliate thereof (as applicable) that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in that securitisation as contemplated by Article 122a. Article 122a also requires an EU regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, the notes it has acquired and the underlying exposures and that procedures have been established for such due diligence to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122a may result in the imposition of a penal capital charge with respect to the investment made in the securitisation by the relevant investor.

Article 122a applies in respect of the Notes so investors which are EU regulated credit institutions (or consolidated group affiliates thereof) should therefore make themselves aware of the requirements of Article 122a (and any implementing rules in relation to a relevant jurisdiction) in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any investor reports provided in relation to the transaction for the purpose of complying with Article 122a and none of the Issuer, Bank of Scotland plc (in its capacity as the Seller, the Servicer or the Cash Manager) nor the Arranger, Lead Managers or any Transaction Party makes any representation that the information described above is sufficient in all circumstances for such purposes.

There remains considerable uncertainty with respect to Article 122a and it is not clear what will be required to demonstrate compliance to national regulators. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non compliance with Article 122a and any implementing rules in a relevant jurisdiction should seek guidance from their regulator. Similar requirements to those set out in Article 122a are expected to be implemented for other EU regulated investors (such as certain types of investment fund managers, insurance and reinsurance undertakings) in the future.

Article 122a of the Capital Requirements Directive and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

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 United Kingdom 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 United Kingdom 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 United Kingdom 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 FOS). 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 United Kingdom 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 has required 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 protected deposits for the purposes of facilitating compensation by the FSCS in the event of a failure. In the event that the Lloyds Banking Group or Bank of Scotland Group failed 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.

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 FOS'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.

Australian Anti-Money Laundering and Counter-Terrorism Financing Regime

On December 12, 2006 the Australian Government enacted the Anti-Money Laundering and Counter-Terrorism Financing Act (Cth) of Australia ("**AML/CTF Act**") which replaces Australian Financial Transactions Reports Act 1988. The AML/CTF Act makes a number of significant changes to Australia's anti-money laundering and counter-terrorism financing regulation.

Under the AML/CTF Act, if an entity has not met its obligations under the AML/CTF Act, that entity will be prohibited from providing a designated service which includes:

- (a) opening or providing an account, allowing any transaction in relation to an account or receiving instructions to transfer money in and out of the account;
- (b) making loans to a borrower or allowing a transaction to occur in respect of that loan in certain circumstances;
- (c) providing a custodial or depositary service;
- (d) issuing, dealing, acquiring, disposing of, cancelling or redeeming a security; and
- (e) exchanging one currency for another.

These obligations will include undertaking customer identification procedures before a designated service is provided and receiving information about international and domestic institutional transfers of funds. Until these obligations have been met an entity will be prohibited from providing funds or services to a party or making any payments on behalf of a party. The AML/CTF Act also includes additional obligations in respect of conducting ongoing customer due diligence and reporting of suspicious and other transactions. The obligations placed upon an entity could affect the services of an entity or the funds it provides and ultimately may result in a delay or decrease in the amounts received in respect of the AUD Notes.

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 Step-Up Date, in the first scenario, or the Issuer does not exercise the Call Option on or after the Step-Up 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 5% and 25% per annum (inclusive of scheduled and unscheduled payments) indicated in the table below;
- (e) there is no debit balance on any of the sub-ledgers of the Principal Deficiency Ledger on any Interest Payment Date;
- (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;
- (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 31 March 2011.

Constant Payment Rate of the Notes

	Assuming the Issuer exercises the Call Option on the Step-Up Date					
	Possible Average Life of Class A1a Notes (years)	Possible Average Life of Class A1b 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)
5%	3.53	3.53	6.95	6.95	6.95	6.95
8%	2.56	2.56	6.52	6.95	6.95	6.95
10%	2.15	2.15	5.76	6.95	6.95	6.95
15%	1.52	1.52	4.09	6.74	6.95	6.95
20%	1.17	1.17	3.13	5.69	6.95	6.95
25%	0.94	0.94	2.50	4.57	6.53	6.95

	<u>Assuming the Issuer does not exercise the Call Option on the Step-Up Date</u>					
5%	3.76	3.76	10.57	10.57	16.77	19.31
8%	2.56	2.56	7.58	9.17	13.45	16.33
10%	2.15	2.15	5.88	8.47	11.75	14.36
15%	1.52	1.52	4.09	7.36	10.52	14.04
20%	1.17	1.17	3.13	5.70	8.22	11.12
25%	0.94	0.94	2.50	4.57	6.67	9.04

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 Step-Up 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 £638,700,000, €500,000,000 and A\$275,000,000 being, in aggregate, an amount in Sterling equal to £1,254,026,700.

The Issuer will use the gross proceeds of the Notes (after exchanging on the Closing Date the gross proceeds of the Non-Sterling Notes for Sterling proceeds under the relevant Currency Swap Agreement) principally to pay the Initial Consideration payable by the Issuer for the Mortgage Portfolio to be acquired from the Seller on the Closing Date.

ISSUER

The Issuer was incorporated in England and Wales on 30 October 2009 (registered number 7061476) 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 as a data controller under the Data Protection Act 1998 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, Structured Finance Management Limited, 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. The registered address of the Corporate Service Provider is 35 Great St Helen's London, EC3A 6AP, United Kingdom, which is also the business address for each of the directors of Structured Finance Management Limited.

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
Claudia Wallace	35 Great St Helen's London, EC3A 6AP	Director

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

Name	Business address	Principal activities/business occupation
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
Jocelyn Coad	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 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 4 January 2010 (registered number 7115487) 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, United Kingdom. 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
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director

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

Name	Business Address	Principal activities/business occupation
Jocelyn Coad	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.

The short term senior unsecured and unguaranteed obligations of Bank of Scotland are as at the date of this Prospectus rated P-1 by Moody's, A-1 by S&P and F1+ by Fitch and the long-term senior, unsecured and unguaranteed obligations of Bank of Scotland are as at the date of this Prospectus rated Aa3 by Moody's, A+ by S&P and AA- by Fitch.

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.

On 31 December 2010, Bank of Scotland (Ireland) Limited ("**BOSI**") was merged into Bank of Scotland by virtue of a merger by absorption of a wholly-owned subsidiary pursuant to the Companies (Cross-Border Mergers) Regulations 2007. As a consequence of the merger, all the assets and liabilities of BOSI were transferred to Bank of Scotland and BOSI was dissolved without going into liquidation.

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 and regulatory 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

There has been extensive scrutiny of the Payment Protection Insurance ("**PPI**") market in recent years.

In October 2010, the UK Competition Commission ("**Competition Commission**") confirmed its decision to prohibit the active sale of PPI by a distributor to a customer within 7 days of a sale of credit. This followed the completion of its formal investigation into the supply of PPI services (other than store card PPI) to non-business customers in the UK in January 2009 and a referral of the proposed prohibition to the Competition Appeal Tribunal. Following an earlier decision to stop selling single premium PPI products, Lloyds Banking Group ceased to offer PPI products to its customers in July 2010.

On 1 July 2008, the Financial Ombudsman Service ("**FOS**") referred concerns regarding the handling of PPI complaints to the Financial Services Authority ("**FSA**") as an issue of wider implication. On 29 September 2009 and 9 March 2010, the FSA issued consultation papers on PPI complaints handling. The FSA 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. The FSA published its Policy Statement on 10 August 2010, setting out a new set of rules for PPI complaints handling and redress which had to be implemented by 1 December 2010.

On 8 October 2010, the British Bankers Association ("**BBA**"), the principal trade association for the UK banking and financial services sector, filed an application for permission to seek judicial review against the FSA and the FOS. The BBA is seeking an order quashing the FSA Policy Statement and an order quashing the decision of the FOS to determine PPI sales in accordance with the guidance published on its website in November 2008. The Judicial Review hearing was held in late January 2011 and the judgment (which may be subject to appeal) is expected shortly.

This legal challenge has affected the implementation of the Policy Statement, since the challenge has called into question the standards to be applied when assessing PPI complaints. As a result of that challenge, a large number of complaints cannot be decided until the outcome of the legal challenge is clear and implemented.

The ultimate impact on Lloyds Banking Group of the FSA's complaints handling policy (if implemented in full) and the FOS's most recent approach to PPI complaints could be material to Lloyds Banking

Group's financial position, although the precise effect can only be assessed once the legal proceedings have been finally determined and the steps Lloyds Banking Group may be required to take identified and implemented. In addition, it is not practicable to quantify the potential financial impact of the implementation of the Policy Statement given the material uncertainties around, for example, applicable time periods, the extent of application of root cause analysis, the treatment of evidence and the ultimate emergence period for complaints, driven in large part by the activities of the claims management companies, all of which will significantly affect complaints volumes, uphold rates and redress costs. No provision has been made in the Lloyds Banking Group 2010 accounts to reflect implementation of the FSA's complaints handling policy in its current form.

Following concerns expressed by the FSA, it announced in its statement on 29 September 2009 that several firms had agreed to carry out reviews of past sales of single premium loan protection insurance. Lloyds Banking 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. The ultimate impact on Lloyds Banking Group of any review could be material but can only be known at the conclusion of these discussions.

Customer goodwill payments provision

Lloyds Banking Group has been in discussion with the FSA regarding the application of an interest variation clause in certain Bank of Scotland variable rate mortgage contracts where the wording in the offer documents received by certain customers had the potential to cause confusion. The relevant mortgages were written between 2004 and 2007 by Bank of Scotland under the 'Halifax' brand. In February 2011, Lloyds Banking Group reached agreement with the FSA in relation to initiating a customer review and contact programme and making goodwill payments to affected customers. In order to make these goodwill payments, Bank of Scotland has applied for a Voluntary Variation of Permission to carry out the customer review and contact programme to bring it within section 404F(7) of FSMA 2000. Lloyds Banking Group has made a provision of £500 million in relation to this programme within its 2010 accounts which is expected to fully cover the payments. None of the Mortgage Loans in the Mortgage Portfolio are affected by the above.

Other legal actions

In the 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 (which may include class action lawsuits brought on behalf of customers, shareholders or other third parties), 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 a 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 in respect of 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 "*The Mortgage Portfolio – 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

The Mortgage Loans in the Mortgage Portfolio are one of the following:

- 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 Mortgage Loans must be made in Sterling and the majority of the payments are made by direct debit instruction (DDR) through the UK direct debit system from a bank or building society account.

Types of loan and interest rate setting

The Mortgage Loans in the Mortgage Portfolio are one of the following:

- a "**Fixed Rate Loan**", which is subject to a fixed rate of interest;
- a "**Tracker Rate Loan**", which is subject to a variable interest rate other than the Standard Variable Rate. The interest rate will be set at a fixed margin above or below, or the same rate as, the base rate set by the Bank of England;
- a "**Discounted Variable Rate Loan**", which is subject to an interest rate set at a fixed margin below the Standard Variable Rate;
- a "**Variable Rate Loan**", which is subject to the variable base rate of interest (the "**Standard Variable Rate**"), which is administered, at the discretion of the Seller, by reference to the general level of interest rates and competitive forces in the United Kingdom mortgage market; and
- a combination of these options.

The Tracker Rate Loans, Fixed Rate Loans and the Discounted Variable Rate Loans will be known as the "**Special Rate Loans**". Each of the rates offered under the Special Rate Loans are for a predetermined period, usually between one and five years, at the commencement of the Mortgage Loan (the "**Product Period**"), although certain Tracker Rate Loans will remain so for the entire term of the mortgage. At the end of the Product Period the rate of interest charged will either (a) move to another interest rate type for a predetermined period; or (b) revert to the Standard Variable 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.

On Tracker Rate Loans, the Seller has a contractual provision allowing it to, *inter alia*, vary the tracker rate margin at any time where such variation would be to the Borrower's advantage. The Seller may also vary the margin payable on such loans to the Borrower's disadvantage, but only if the tracker base rate (as calculated by reference to the Bank of England base rate) is below 3 per cent. per annum. The changes that the Seller may make to the tracker rate margin may be more or less than the amount by which the Bank of England base rate has fallen and would effectively enable the Seller to introduce a minimum interest rate. All relevant Borrowers are given advance notification of any such variation. A Borrower with a Tracker Rate Loan which is subject to an Early Repayment Charge may, within three months of a variation which is disadvantageous, repay that Mortgage Loan without having to pay an Early Repayment Charge. If the Seller makes a change in the tracker rate margin to the borrower's disadvantage while the base rate is below 3 per cent. and it subsequently increases to 3 per cent. or above, the changed margin will continue to apply (unless the tracker rate margin is changed again). The features that apply to a particular Mortgage Loan are specified in the Mortgage Conditions (as varied from time to time) and mortgage offer.

The FSA in December 2008 were reported as stating that, in their view, the ability to change a tracker rate margin could be unfair and that, in particular, they believe that the right of the Seller to change the tracker rate margin in the circumstances referred to above was unfair.

The Seller confirmed in December 2008 that it would pass on the benefit of any future Bank of England base rate reduction to all existing customers (meaning that it would not change the tracker rate margin in the circumstances referred to above).

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.

The Seller may change the interest rate, by giving the Borrowers notice, on any part of the Mortgage Loan, unless otherwise agreed in the mortgage offer and subject to certain restrictions set forth in the mortgage offer. The Seller may also change the Borrower's Monthly Payments, the repayment period and the accounting period by giving the Borrower's notice. In the case of Special Rate Loans, the Seller may cancel the special rate under certain circumstances specified in the mortgage offer.

Except in limited circumstances as set out in the section entitled "*The Servicing Agreement – Undertakings by the Servicer*", the Servicer is responsible for setting the Standard Variable Rate on the Mortgage Loans in the Mortgage Portfolio. The Mortgage Conditions applicable to all of the Mortgage Loans subject to Standard Variable Rate provide that the Standard Variable Rate may only be varied in accordance with a number of reasons that are specified in the Mortgage Conditions. These reasons include:

- to reflect changes in the cost of funds used by the Seller in its mortgage lending business;
- to reflect a change in the rates of interest charged by other mortgage lenders;
- to reflect changes in the way the Seller administers its mortgage accounts;
- to reflect any regulatory requirements or guidance or any change in the law or decision or recommendation by a court or an ombudsman; or
- to reflect changes to the way that the property over which the Mortgage is granted is used or occupied.

If applicable, the Servicer will also be responsible for setting any variable margins in respect of Tracker Rate Loans. However, in maintaining, determining or setting these variable margins, except in the limited circumstances as set out in the section entitled "*The Servicing Agreement – Undertakings by the Servicer*" below, the Servicer has undertaken to maintain, determine or set the variable margins at a level which is not higher than the variable margins set in accordance with the Seller's policy from time to time.

Early Repayment Charges

The Borrower may be required to pay an Early Repayment Charge if certain events occur during the predetermined Product Period and the mortgage offer states that the Borrower is liable for Early Repayment Charges. These events include a full or partial unscheduled repayment of principal or an agreement between the Seller and the Borrower to switch to a different mortgage product. If all or part of the principal owed by the Borrower, other than the scheduled Monthly Payments, is repaid before the end of the Product Period, the Borrower will be liable to pay to the Seller all or part of the Early Repayment Charge based on the amount of principal borrowed at the outset of the mortgage (if a mortgage is redeemed in part, then a proportionate part of the Early Repayment Charge set out in the mortgage offer is payable). If the Borrower has more than one product attached to the mortgage, the Borrower may choose under which product the principal should be allocated.

The Seller currently permits Borrowers to repay up to 20 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 Seller currently has a policy not to charge the Early Repayment Charge in certain circumstances, for example, if the repayment is due to the death of the Borrower.

If the Seller changes the Borrower's interest rate, for a valid reason not specified in the Mortgage Conditions, to the Borrower's disadvantage and the loan is subject to an Early Repayment Charge, the Borrower may repay the mortgage debt in full within three months of receiving notice of the change without being charged the Early Repayment Charge.

The Issuer has agreed to pay back to the Seller any Early Repayment Charges received on the Mortgage Loans, 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 the Net Revenue.

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

Incentives

At the point of origination of the Mortgage Loans in the Mortgage Portfolio, the Seller may have offered some Borrowers incentives such as cashback, free valuations and payment of legal fees. The Seller has given a representation and warranty that there will be no Mortgage Loans in the Mortgage Portfolio under which the Seller has not satisfied its obligation under any such incentive.

Overpayments, Underpayments and Payment Holidays

All Mortgage Loans are subject to a range of options, that give the Borrower greater flexibility in the timing and amount of payments under each Mortgage Loan. The Mortgage Loans may offer one or more of the features described below, subject to certain conditions and financial limits:

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

Underpayments – where Borrowers have previously overpaid, they may reduce their Monthly Payments below the amount of the applicable Monthly Payment or make an irregular underpayment. Borrowers are not permitted to make Underpayments that exceed the total of previous Overpayments less the total of previous Underpayments.

Payment Holidays – Borrowers may apply for a break from making monthly payments, up to a maximum of six months; approval of such application and the determination of such period are at the discretion of the Seller.

Overpayments and Underpayments

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.

Borrowers may underpay to the extent of previous Overpayments. Missed payments or Underpayments are rolled up and added to the Current Balance of the Mortgage, and must be repaid over the remaining life of the Mortgage unless it is otherwise agreed by the Seller and the Borrower to extend the Mortgage Term.

Payment holidays

In order to qualify, the Mortgage cannot be more than one monthly payment in arrears when the Payment Holiday is applied for and no payment arrangement may be either currently in force or have been in force within the last six months. Additionally, at least three months must have elapsed since the date of the Initial Advance to the Borrower and the Borrower cannot have arranged without the consent of the Seller to let the Property. Further, the total debt accumulated must not exceed 90 per cent. of the value of the Property and must comply with the Seller's normal lending limits.

Furthermore, the Borrower can neither be currently applying for, or in receipt of, income support, nor in receipt of amounts to pay the Mortgage under a mortgage repayments insurance policy at the time of the application. The Borrower may not borrow any further money from the Seller during the course of the Payment Holiday.

The Seller may exercise discretion in the application of the above qualifying criteria for Borrowers with short-term financial difficulties.

Payments of interest deferred under the Payment Holiday programme ("**Capitalised Interest**") 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 Seller will provide the Borrower with a new scheduled Monthly Payment based on the new amount owed. The Borrower may make Overpayments (subject to terms and conditions) to pay off their debt sooner. The Payment Holiday does not include any insurance premiums.

The increase in the Current Balance of the Mortgage Loan due to the Capitalised Interest will be allocated between the Investor Principal Amount and the Seller Principal Amount based on the Investor Percentage and the Seller Percentage respectively as calculated on the previous Calculation Date. Prior to an Insolvency Event occurring in respect of the Seller, on each Interest Payment Date, the Seller shall make a cash payment to the Issuer in an amount equal to the Investor Percentage of the Capitalised Interest in respect of those Mortgage Loans that are subject to Payment Holidays. Following such payment:

- (i) the Seller Principal Amount will increase by an amount equal to the amount paid to the Issuer in respect of the Investor Percentage of the Capitalised Interest and the Issuer Principal Amount will decrease by a corresponding amount; and
- (ii) the Issuer will apply the proceeds of the amount paid by the Seller as Available Investor Revenue on the immediately following Interest Payment Date in accordance with the Payments Priorities.

If an Insolvency Event occurs in respect of the Seller, then the Seller may continue to make payments to the Issuer in an amount equal to the Investor Percentage of the Capitalised Interest in the same manner and for the same purpose described above, but it is not obliged to do so.

Further drawings

The Seller has given a representation and warranty that no Borrower has the right to make further drawings under any Mortgage Loan.

Further advances

The Seller may exercise its discretion to make a Further Advance following a request from an existing borrower.

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 in limited circumstances. 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 derives its mortgage-lending business under the Halifax brand: through its branch network throughout the United Kingdom, through intermediaries, through internet applications and from telephone sales. All the Mortgage Loans in the Mortgage Portfolio were originated by the Seller under the Halifax brand.

Right-to-buy scheme

Mortgages in the Mortgage Portfolio may be extended to Borrowers in connection with the purchase by those Borrowers of Mortgage Properties from local authorities or certain other landlords (each, a "**landlord**") under the "right-to-buy" schemes governed by the Housing Act 1985 (as amended by the Housing Act 2004) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001). Properties sold under these schemes are sold by the landlords at a discount to market value calculated in accordance with the Housing Act 1985 (as amended) or (as applicable) the Housing (Scotland) Act 1987 (as amended). A purchaser under these schemes must, if he sells the property within three years (or in cases where the right to buy was exercised in relation to properties in England and Wales after 18 January 2005, five years) (the "**RTB Disposal Period**"), repay a proportion of the discount he received or, in England and Wales only, the resale price (the "**resale share**") to the landlord.

The landlord obtains a statutory charge (or, in Scotland, a standard security) over the property in respect of the contingent liability of the purchaser under the relevant scheme to repay the resale share. In England and Wales, the statutory charge ranks senior to other charges, including that of any mortgage lender, unless (i) the mortgage lender has extended the mortgage loan to the purchaser for the purpose of enabling him to exercise the right to buy or for "approved purposes" under the scheme (including refinancing loans made for the purpose of enabling the exercise of the right to buy and repair works to the property) and is an approved lending institution for the purposes of the Housing Act 1985 or (ii) the relevant local authority issues a deed of postponement postponing its statutory charge to that of a mortgage lender. In the case of loans made for approved purposes, the statutory charge is only postponed if the relevant landlord agrees to the postponement but the relevant legislation obliges the landlord to agree to the postponement. However, in practice the lender will need to provide evidence to the relevant landlord as to whether the loan was made for approved purposes. In Scotland, where the landlord secures the contingent liability to repay the resale share, the standard security will, notwithstanding the usual statutory ranking provisions, have priority immediately after any standard security granted in security of a loan either to purchase or improve the relevant property plus interest on that loan and expenses and, if the landlord consents, a standard security over the relevant property securing any other loan.

The Seller is an approved lending institution under the Housing Act 1985. The Seller will, in the Mortgage Sale Agreement, warrant that all Mortgages or standard securities originated by it were made to the person exercising the right to buy for that purpose or, in England and Wales, another approved purpose or in Scotland, improving the relevant property (save where a deed of postponement has been entered into by the relevant landlord) and have (or the Seller has the evidence necessary to ensure that the Mortgages will have) priority over any statutory charge or standard security in favour of the relevant landlord, save in cases where the loan is made at a time where there is not more than one year remaining of the RTB Disposal Period (in which case, the Seller's view is that if it has to enforce, it is likely that the RTB Disposal Period will have expired by the time it sells the relevant property so the statutory charge or standard security will have ceased to subsist) or where adequate insurance is in place.

The Seller usually obtains the relevant landlord's approval for loans for "approved purposes" retrospectively rather than in advance of making a loan because of the delays inherent in seeking that approval. Until that approval is given, the relevant advance ranks (in England and Wales) behind the statutory charge.

Amendments to the Housing Act 1985 introduced by the Housing Act 2004 give the relevant landlord a right of first refusal should the relevant property be disposed of within the first ten years following the exercise of the right to buy (when the right to buy is exercised after 18 January 2005). The consideration payable by the relevant landlord is the value of the property determined, in the absence of agreement between the landlord and the owner, by the district valuer. This right of first refusal may add to the time it takes to dispose of a property where the Seller enforces its security, and the district valuer may determine that the value of the property is lower than that the Seller believes is available in the market.

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 applicable at the time the Mortgage Loan was offered, which included some or all of the criteria set out in this section.

(a) Type of property

Properties may be either freehold or the Scottish equivalent or leasehold. In the case of leasehold properties, the Seller currently requires the lease to have a minimum unexpired term of 70 years at the point of sale, although this was previously 30 years and may have been, or may be, reduced to 10 years at the point of sale 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 prior to the date of origination of the loan and if a Further Advance is made, an additional valuation will be obtained at such time.

(b) Term of loan

The maximum term available is 40 years for all loans, although the longest remaining term of a Mortgage Loan in the Mortgage Portfolio is 30.5 years. A Borrower may request an increase to the term of a Mortgage Loan and the Seller may, at its discretion, agree to such request, subject to the following:

- the consent of any subsequent lender or guarantor;
- in the case of all leasehold properties, there being a minimum of 70 years (or 10 years in certain circumstances) of the lease unexpired at the point of term extension;

and

- the approval of the valuer, where the valuer has previously recommended a term which is shorter than the proposed new term.

The term of a Mortgage Loan may be extended up to a maximum of 40 years from the point of term extension, subject to the Borrower's age (see Age of applicant below).

(c) Age of applicant

All Borrowers are aged 18 or over and the maximum age limit at the end of the mortgage term is 75. If the term of the mortgage extends into the Borrower's retirement, or the Borrower is already retired, the Seller will have considered the Borrower's ability to support the Mortgage Loan.

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

For the Mortgage Loans in the Mortgage Portfolio, the Seller has lent up to a maximum of 97 per cent. of the improved valuation of the property (the original valuation plus the increase in value deriving from any improvements).

All current lending (with the exception of loans secured against properties being occupied for the first time in their current state) for new purchases is based on a maximum of 90 per cent. of the lower of the purchase price or valuation. For example, if the value of a property was £100,000 and the purchase price was £95,000, the maximum that the Seller would lend is £85,500 (90 per

cent. of £95,000). In the case of mortgage loans secured against properties being occupied for the first time in their current state, lending is based on a maximum of 80 per cent. of value provided that this does not exceed 100 per cent. of the purchase price. So, if the value of such property was £100,000 and the purchase price was £95,000, the maximum that the Seller would lend is £80,000.

(e) High Lending Charges

Borrowers are required to pay "higher lending charges" to the Seller for each mortgage account where the LTV ratio, based on the aggregate of the outstanding principal balance of the relevant mortgage loan(s) at origination (excluding any capitalised high lending charges and/or booking fees and/or valuation fees) exceeds a certain specified percentage.

If the LTV ratio exceeds the specified percentage applicable at origination, the Borrower pays high lending charges based on the difference between the actual LTV ratio and a 75 per cent. LTV ratio.

(f) Status of applicant(s)

The maximum aggregate loan amount under a mortgage account is determined by the application of an affordability model. This model delivers an individualised result that reflects the applicant's net income, existing credit commitments and burden of family expenditure. The model also calculates the full debt servicing cost at a stressed rate of interest before comparing this cost to the net disposable income that the applicant has available. 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. The Seller maintains rules on the amount of variable income (overtime, bonus, commission) that it will allow into the model and as a general rule will allow no more than 60 per cent. of these items. Benefit payments are allowed (including tax credits) as these quite often compensate for the taxation and National Insurance deductions that would normally cause lower levels of income to fall below minimum wage levels. This model returns "answers" of zero up to amounts that would equate to over five times income. Regardless, the Seller maintains a general policy rule that it will not lend more than an amount equal to five times income. Any decision to lend more than an amount equal to five times income will be made by an underwriter to exceed this rule after fully assessing the risk to the Seller.

In cases where a single Borrower is attempting to have the Seller take a secondary income into account, the Seller will consider the sustainability of the Borrower's work hours, the similarity of the jobs and/or skills, the commuting time and distance between the jobs, the length of employment at both positions and whether the salary is consistent with the type of employment. The Seller will determine, after assessing the above factors, if it is appropriate to use both incomes. If so, both incomes will be used as part of the normal income calculation.

When there are two applicants, the Seller adds joint incomes together for the purpose of calculating the applicants' total income. The Seller may at its discretion consider the income of one additional applicant as well, but only a maximum rate of one times that income.

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, stability of employment and career progression, availability of living allowances and/or mortgage subsidy from the employer, employer's standing, regularity of overtime, bonus or commission (up to a maximum of 60 per cent. of the income), credit commitments, quality of security (such as type of property, repairs, location or saleability) and the increase in income needed to support the loan.

(g) Credit history

A credit search was carried out in respect of all Borrowers and each Borrower may have been 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.

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 premiums 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.

Halifax policies

If the buildings insurance is purchased by the Borrower through the Seller, the Seller will arrange the insurance through Halifax General Insurance Services Limited. The premiums paid by the Borrower will be calculated on a number of factors including, for example, the location of the Borrower's residence, the type, age and use of the Borrower's property and the Borrower's past claims history. The Borrower may have the option of paying the premium as a lump sum or over a 12-month period. The Seller will arrange for cover to be provided from the date the purchase contracts for a property are exchanged or concluded; if the Borrower already owns the property, cover will start on the date that the Borrower's mortgage is completed.

The Borrower must ensure that nothing occurs which reduces the risk coverage or the amount of the sum insured, increases the premiums or the excess, prevents or hinders any claim from being settled in full or renders the insurance invalid. On newly originated loans, the solicitors, licensed conveyancers or, in Scotland, qualified conveyancers should advise the customer in writing of the need to ensure that adequate insurance cover is in place and must take steps to confirm this is the case in accordance with (in the case of English loans) the requirements of the CML Lenders' Handbook for England & Wales and (in the case of Scottish loans) the CML's Lender's Handbook for Scotland.

The buildings insurance available through the Seller does not cover the contents of the Borrower's home. Contents insurance can be arranged by the Seller at the same time through Halifax General Insurance Services Limited on a combined policy. Halifax General Insurance

Services Limited does not underwrite the buildings or contents insurance itself, rather it acts as a broker and administrator for such policies. All new business or contents insurance is underwritten by St Andrew's Insurance plc ("**St Andrew's Insurance**").

In the event of a claim, the buildings are insured up to the full cost of rebuilding the property in the same form as before the damage occurred, including the costs of complying with local authority and other statutory requirements, professional fees and related costs. Standard policy conditions apply. Amounts paid under the insurance policy are generally utilised to fund the reinstatement of the property or, on very rare occasions, are otherwise paid to the Seller to reduce the amount of the Mortgage Loan(s). In the latter circumstance, all insurance cover will be removed.

In the Servicing Agreement, the Seller, acting in its capacity as the Servicer, has also agreed to deal with claims under the Halifax policies in accordance with its normal procedures.

Borrower-arranged buildings insurance

A Borrower may elect not to take up a Halifax policy or a Borrower who originally had a Halifax policy may elect to insure the property with an independent insurer. The Seller requires that any Borrower-arranged insurance policy be drawn in the joint names of the Seller and all of the applicants and be maintained in their joint names for the duration of the mortgage. If this is not possible, for example because the property is leasehold and the lease provides for the landlord to insure, the Borrower must arrange for the Seller's interest to be noted on the landlord's policy. The Seller also requires that the sum insured be for an amount not less than the full reinstatement value of the property and be reviewed annually, that the Borrower inform the Seller of any damage to the property that occurs and that the Borrower make a claim under the insurance for any damages covered by it unless the Borrower makes good the damage.

Properties in possession cover

When a mortgaged property is taken into possession by the Seller, the Seller will arrange appropriate insurance cover through a policy with Halifax General Insurance Services Limited (HGISL), HGISL will only offer cover if the mortgaged property is deemed an acceptable insurable risk based on its then current policy. The Seller may claim under such policy for any damage occurring to the mortgaged property while in the Seller's possession.

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. The summary does not purport to be complete 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
- (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;
- (b) excess Seller Revenue will be applied as Revenue Deferred Consideration on each Interest Payment Date prior to and including the Step-Up Date after application of Seller Revenue in or towards the Seller Percentage of Senior Expenses; and
- (c) excess Available Investor Revenue (including, following the Step-Up Date, any amounts of Seller Revenue forming part thereof) will be applied as Revenue Deferred Consideration on each Interest Payment Date in accordance with the Pre Enforcement Investor Revenue Payments Priorities.

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

- (a) excess Post Enforcement Seller Amounts will be applied as Deferred Consideration on each Interest Payment Date after application of Post Enforcement Seller Amounts in or towards the Seller Percentage of Senior Expenses; and
- (b) excess Post Enforcement Investor Amounts will be applied as Deferred Consideration in accordance with the Post Enforcement Investor 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**" will be satisfied on or at any date on which:

- (a) the Class A1 Notes and the Class A2 Notes have been redeemed in full;
- (b) no Principal Payments Trigger Event has occurred;
- (c) the Seller Principal Amount is greater than the Minimum Seller Principal Amount on such date (and at all times has been greater than the Minimum Seller Principal Amount on any date);
- (d) there is no debit balance on the Class C Principal Deficiency Sub-Ledger (and there has at no time been any debit balance on the Class C Principal Deficiency Sub-Ledger);
- (e) an Insolvency Event of the Seller has not occurred; and
- (f) no Enforcement Notice has been served by the Trustee on the Issuer.

At any time prior to the occurrence of an Insolvency Event in respect of the Seller, the Seller may, but is not obliged to, increase the Seller Percentage by repurchasing Mortgage Loans selected on a random basis for reasons which may include, but are not limited to, the risk of Set-Off Losses in the Mortgage Portfolio, provided the Rating Agencies have indicated that the then current rating of the Notes would not be adversely affected by such repurchase. The provisions of Clause 14 (*Breach of Seller Asset Warranties*) and Clause 16 (*Mortgage Loan Reassignment*) of the Mortgage Sale Agreement will apply to any repurchase under the Mortgage Sale Agreement.

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 assignment in equity 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 approximately 9.091% and approximately £125,402,670 respectively and the Investor Percentage and the Investor Principal Amount are expected to be approximately 90.909% and approximately £1,254,026,700 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 to be applied: (A) prior to and including the Step-Up Date, in or towards the Seller Percentage of Senior Expenses (such amount being included in Available Investor Revenue) with any excess to be applied as Revenue Deferred Consideration; and (B) following the Step-Up Date, as Available Investor Revenue in accordance with the Pre Enforcement Investor 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 may only apply Principal Receipts (i) as Available Investor Principal in accordance with the Pre Enforcement Investor Principal Payments Priorities on an Interest Payment Date until the Investor Principal Amount is equal to zero (for the avoidance of doubt, such Principal Receipts may be applied to reduce the Investor Principal Amount to zero) or (ii) as Seller Principal in payment of 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 or until any of the other Seller Principal Diversion Conditions cease to be satisfied.

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

- (a) Principal Receipts (which includes proceeds of the repurchase of any Mortgage Loan by the Seller) 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) Cash payments made by the Seller to the Issuer representing an amount of Capitalised Interest allocated to the Investor Principal Amount, to be applied by the Issuer as Available Investor Revenue on the immediately following Interest Payment Date in accordance with the Payments Priorities (which will increase the Seller Percentage and decrease the Investor Percentage);
- (c) 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
- (d) 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 approximately 3.1% and approximately £42,762,311, respectively. On each Calculation Date on which the Seller Principal Diversion Conditions are satisfied, 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 an assignment taking effect in equity 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 Seller requesting perfection by serving notice in writing on the Issuer and the Trustee;
- (c) the occurrence of an Insolvency Event of the Seller; or
- (d) 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 (d) 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 unsecured, unguaranteed and unsubordinated debt obligations rating of at least Baa3 by Moody's or BBB by S&P, 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, the Trustee, nor any of the Agents 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 and is denominated in pounds sterling;
- (b) each Mortgage Loan in the Mortgage Portfolio was made no earlier than 1 January 2008 and no later than 31 March 2010;
- (c) the final maturity date of each Mortgage Loan is no later than June 2041;
- (d) no Mortgage Loan has an outstanding principal balance of more than £500,000;

- (e) for each Mortgage Loan in the Mortgage Portfolio, the Seller has lent up to a maximum of 97 per cent. of the improved valuation of the property (the original valuation plus the increase in value deriving from any improvements);
- (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 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 Borrower has the right to make further drawings under any Mortgage Loan;
- (k) no Mortgage Loan is subject to any cash backs and the Seller is under no obligation to make Further Advances to any Borrower;
- (l) no Mortgage Loan has been made to a Borrower who is an employee of the Seller;
- (m) at least two monthly payments have been made in respect of each Mortgage Loan;
- (n) 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;
- (o) 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;
- (p) each Mortgage Loan and its related Mortgage was executed substantially on the terms of the Standard Documentation without any material variation thereto;
- (q) each Asset Agreement is a regulated mortgage contract as defined by Article 61(3)(a) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and subject to the provisions of MCOB;
- (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) prior to the taking of each mortgage (other than a remortgage), the Seller (a) instructed its solicitor, licensed conveyancer or (in Scotland) qualified conveyance 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;

- (u) to the best of the Seller's knowledge, 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;
- (v) 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;
- (w) so far as the Seller is aware 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;
- (x) each Mortgage Loan and its related Mortgage 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;
- (y) 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;
- (z) 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;
- (aa) 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;
- (bb) to the best of the Seller's knowledge, at least 40% of the Property was used, or was intended to be used, as or in connection with a dwelling by the relevant Borrower at the time of the contract for the Mortgage Loan was entered into;
- (cc) no Mortgage Loan is a "home purchase plan" as defined in the FSA Handbook;
- (dd) interest on each Mortgage Loan is payable monthly;
- (ee) each Mortgage in respect of a RTB Loan was made to a Borrower for the purposes of exercising the right to buy or (in England or Wales) for another approved purpose or (in Scotland) for improving the relevant property (save where a deed of postponement has been entered into by the relevant landlord) and has (or the Seller has the evidence necessary to ensure that the relevant Mortgage will have) priority over any statutory charge or standard security granted in favour of the relevant landlord save in cases where the Mortgage is originated at a time where there is no more than one year remaining of the RTB Disposal Period or where adequate insurance is in place;
- (ff) each Property constitutes a separate dwelling unit (subject to limited case by case exceptions) and is either freehold, leasehold or (in Scotland) heritable or held under a long lease; and
- (gg) each Mortgage Loan and its related Mortgage is subject to the laws of England and Wales or, in the case of a Mortgage Loan secured upon a Scottish Property, the laws of Scotland.

Repurchase by the Seller

The Seller will be required to repurchase any Mortgage Loan sold pursuant to the Mortgage Sale Agreement if a Mortgage Loan and its Related Security does not materially comply on the Closing Date with any Seller Asset Warranty made by the Seller in relation to that Mortgage Loan and/or its Related Security and such breach is not capable of remedy, or if capable of remedy, is not remedied by the Seller within 20 days of the Seller becoming aware of the breach. Upon the expiry of the 20 day period referred to above the Issuer shall deliver a Mortgage Loan Reassignment Notice requiring the Seller to repurchase the relevant Mortgage Loan within 20 days of receipt of the Mortgage Loan Reassignment Notice.

The Seller will also be required to repurchase a Mortgage Loan sold pursuant to the Mortgage Sale Agreement and its Related Security upon the Seller making any Further Advance and/or any Product Switch with respect to such Mortgage Loan. Upon notification of the Further Advance and/or Product Switch by the Cash Manager the Issuer shall deliver a Mortgage Loan Reassignment Notice requiring the Seller to repurchase the relevant Mortgage Loan within 20 days of receipt of the Mortgage Loan Reassignment Notice .

The Seller is also required to repurchase a Mortgage Loan sold pursuant to the Mortgage Sale Agreement and its Related Security if a court or other competent authority or any ombudsman makes any determination in respect of that Mortgage or its Related Security that:

- any term which relates to the setting and/or variation of the interest rate and the recovery of interest under the Standard Documentation applicable to that Mortgage Loan and its Related Security is unfair; or
- the Standard Variable Rate or any other discretionary interest rate or margin payable under any Mortgage Loan (subject to any caps, discounts and fixed rates) may not be set by any successors or assigns of the Seller or those deriving title from the Seller and, at any time on or after such determination by the court, competent authority or ombudsman, the Standard Variable Rate or other discretionary interest rate or margin of the Seller, as applicable, shall be below or shall fall below the standard variable rate of interest set by such successors or assigns or those deriving title from them; or
- the interest payable under any Mortgage Loan is to be set by reference to an interest rate other than that set or purported to be set by either the Servicer or the Issuer as a result of the Seller having more than one variable rate; or
- there has been any breach of or non observance or non compliance with any obligation, undertaking, covenant or condition on the part of the Seller relating to the interest payable by or applicable to a Borrower under any Mortgage Loan.

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, in each case, increase the Seller Percentage in consideration of a pro rata increase in the amount of Principal Deferred Consideration due and payable to the Seller.

The price to be paid by the Seller to repurchase a Mortgage Loan in any circumstances will be the Repurchase Price. The mechanism for repurchase is set out in the Mortgage Sale Agreement.

Governing Law

The Mortgage Sale Agreement and any non-contractual obligations arising out or in connection with the Mortgage Sale Agreement will be governed by English law, other than certain aspects of it in relation to Scottish Loans and their Related Security which will be governed by Scots 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 6 January 2011 (the "Reference Date"). The Mortgage Portfolio as at the Reference Date consisted of 14,505 Mortgage Accounts originated by Bank of Scotland under the "Halifax Brand" between 1 January 2008 and 31 March 2010 and secured over properties located in England, Wales and Scotland. The aggregate Current Balance of the Mortgage Loans in the Mortgage Portfolio as at the Reference Date was £1,743,083,696.91. 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 mortgage accounts	% of total
£0 - <£25,000.....	£8,256,617.30	0.47%	469	3.23%
£25,000 - <£50,000.....	£58,540,320.30	3.36%	1,517	10.46%
£50,000 - <£75,000.....	£154,863,947.80	8.88%	2,455	16.93%
£75,000 - <£100,000.....	£215,000,544.98	12.33%	2,467	17.01%
£100,000 - <£125,000.....	£235,351,224.14	13.50%	2,109	14.54%
£125,000 - <£150,000.....	£213,604,449.26	12.25%	1,561	10.76%
£150,000 - <£175,000.....	£190,310,052.50	10.92%	1,178	8.12%
£175,000 - <£200,000.....	£157,261,489.35	9.02%	842	5.80%
£200,000 - <£225,000.....	£129,604,577.67	7.44%	613	4.23%
£225,000 - <£250,000.....	£91,196,375.66	5.23%	387	2.67%
£250,000 - <£275,000.....	£74,467,112.25	4.27%	285	1.96%
£275,000 - <£300,000.....	£52,102,362.73	2.99%	181	1.25%
£300,000 - <£350,000.....	£63,806,590.11	3.66%	198	1.37%
£350,000 - <£400,000.....	£44,281,585.55	2.54%	120	0.83%
£400,000 - <£450,000.....	£32,683,253.89	1.88%	77	0.53%
£450,000 - <£500,000.....	£21,753,193.44	1.25%	46	0.32%
>=£500,000.....	-	0.00%	-	0.00%
Total	£1,743,083,696.91	100.00%	14,505	100.00%

Largest balance	£499,517.65
Smallest balance	£0.01
Weighted average balance	£167,378.91
Average balance	£120,171.23

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 Property securing the Mortgage Loans in that Mortgage Account 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
0% - <5%	£129,518.41	0.01%	13	0.09%
5% - <10%	£1,994,988.64	0.11%	83	0.57%
10% - <15%	£5,250,770.18	0.30%	185	1.28%
15% - <20%	£9,131,634.74	0.52%	254	1.75%
20% - <25%	£15,871,453.65	0.91%	327	2.25%
25% - <30%	£19,448,938.62	1.12%	364	2.51%
30% - <35%	£28,074,643.13	1.61%	437	3.01%
35% - <40%	£32,772,250.42	1.88%	436	3.01%
40% - <45%	£42,589,783.09	2.44%	522	3.60%
45% - <50%	£52,431,523.30	3.01%	570	3.93%
50% - <55%	£65,795,307.43	3.77%	664	4.58%
55% - <60%	£96,692,708.40	5.55%	860	5.93%
60% - <65%	£85,418,182.05	4.90%	732	5.05%
65% - <70%	£89,341,937.55	5.13%	745	5.14%
70% - <75%	£229,890,545.04	13.19%	1,637	11.29%
75% - <80%	£191,808,693.68	11.00%	1,417	9.77%
80% - <85%	£149,697,421.62	8.59%	1,054	7.27%
85% - <90%	£313,816,151.84	18.00%	2,122	14.63%
90% - <95%	£292,033,800.97	16.75%	1,927	13.29%
95% - <97%	£20,143,898.58	1.16%	151	1.04%
97% - <100%	£749,545.60	0.04%	5	0.03%
100%+	-	0.00%	-	0.00%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%
Highest LTV		97.00%		
Weighted average LTV		73.05%		
Lowest LTV		2.03%		

Current LTV ratios

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 Property securing the Mortgage Loans in that Mortgage Account at the same date.

Range of current LTV ratios	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
0% - <5%	£471,003.05	0.03%	45	0.31%
5% - <10%	£2,631,353.86	0.15%	121	0.83%
10% - <15%	£6,554,927.64	0.38%	225	1.55%
15% - <20%	£11,659,803.92	0.67%	287	1.98%
20% - <25%	£16,671,071.78	0.96%	338	2.33%
25% - <30%	£23,757,892.56	1.36%	406	2.80%
30% - <35%	£31,025,298.71	1.78%	445	3.07%
35% - <40%	£37,518,122.97	2.15%	473	3.26%
40% - <45%	£43,741,913.13	2.51%	510	3.52%
45% - <50%	£62,237,776.63	3.57%	626	4.32%
50% - <55%	£72,274,744.05	4.15%	711	4.90%
55% - <60%	£84,513,228.75	4.85%	736	5.07%
60% - <65%	£94,141,026.77	5.40%	773	5.33%
65% - <70%	£127,694,269.79	7.33%	994	6.85%
70% - <75%	£191,290,452.73	10.97%	1,397	9.63%
75% - <80%	£158,578,650.23	9.10%	1,124	7.75%
80% - <85%	£165,523,724.83	9.50%	1,201	8.28%
85% - <90%	£156,722,184.40	8.99%	1,154	7.96%
90% - <95%	£172,578,018.41	9.90%	1,179	8.13%
95% - <97%	£89,660,230.64	5.14%	531	3.66%
97% - <100%	£67,351,762.89	3.86%	451	3.11%
100%+	£126,486,239.20	7.26%	778	5.36%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%
Highest LTV	111.09%			
Weighted average LTV	74.37%			
Lowest LTV	0.00%			

Geographical spread

The following table shows the distribution of Mortgage Properties securing the Mortgage Loans throughout England, Wales and Scotland as at the Reference Date. No such properties are situated outside England, Wales or Scotland. The Seller's Lending Criteria and current credit scoring tests do not take into account the geographical location of the Property securing a Mortgage Loan.

Region	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
East Anglia	£44,798,043.37	2.57%	379	2.61%
East Midlands	£77,089,280.11	4.42%	793	5.47%
Greater London	£325,269,546.29	18.66%	1,707	11.77%
North	£63,920,324.63	3.67%	715	4.93%
North West	£133,780,908.24	7.67%	1,439	9.92%
Scotland	£205,075,435.82	11.77%	2,223	15.33%
South East	£445,643,642.99	25.57%	2,917	20.11%
South West	£137,235,701.22	7.87%	1,122	7.74%
Wales	£51,663,017.71	2.96%	537	3.70%
West Midlands	£119,028,548.16	6.83%	1,152	7.94%
Yorks And Humber	£139,084,540.54	7.98%	1,516	10.45%
Other	£494,707.84	0.03%	5	0.03%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

Seasoning of Mortgage Loans

The following table shows the number of months since the date of origination of the Original 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
0 to <6	£-	0.00%	-	0.00%
6 to <12	£236,709,854.80	13.58%	2,048	14.12%
12 to <18	£328,700,162.06	18.86%	3,199	22.05%
18 to <24	£383,895,951.18	22.02%	3,656	25.21%
24 to <30	£558,855,031.25	32.06%	4,202	28.97%
30 to <36	£234,160,547.64	13.43%	1,392	9.60%
36 to <42	£762,149.99	0.04%	8	0.06%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

Maximum seasoning	36.14
Weighted average seasoning	21.79
Minimum seasoning	9.23

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
<5	£36,325,002.22	2.08%	450	3.10%
5 to <10	£139,798,492.07	8.02%	1,493	10.29%
10 to <15	£203,397,320.48	11.67%	1,975	13.62%
15 to <20	£368,914,073.07	21.16%	3,035	20.92%
20 to <25	£713,786,215.79	40.95%	5,339	36.81%
25 to <30	£271,666,374.34	15.59%	2,137	14.73%

Years to maturity	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
30 to <40	£9,196,218.95	0.53%	76	0.52%
35+	-	0.00%	-	0.00%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

Maximum remaining term	34.75
Weighted average remaining term	19.80
Minimum remaining term	0.25

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	£1,029,901,301.16	59.09%	8,451	58.26%
Remortgage	£713,182,395.75	40.91%	6,054	41.74%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

Weighted average balance for purchase	£168,136.19
Weighted average balance for remortgage	£166,285.34

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 mortgage accounts	% of total
Detached	£477,956,880.77	27.42%	3,133	21.60%
Semi-detached	£513,153,451.78	29.44%	4,644	32.02%
Terraced	£503,152,281.02	28.87%	4,671	32.20%
Other	£248,821,083.35	14.27%	2,057	14.18%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

Weighted average balance Detached	£205,560.65
Weighted average balance Semi-detached	£149,317.77
Weighted average balance Terraced	£148,046.21

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
Repayment	£921,895,081.28	52.89%	9,102	62.75%
Interest Only	£821,188,615.63	47.11%	5,403	37.25%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%
Weighted average balance Repayment	£136,335.91			
Weighted average balance Interest Only	£202,228.87			

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	£1,721,291,832.06	98.75%	14,293	98.54%
Other	£21,791,864.85	1.25%	212	1.46%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

The following three tables have been prepared on the basis of the type of Mortgage Loan applicable to each Mortgage Account's primary product holding. In addition to the primary product holding, a Mortgage Account may have other active product holdings, which may or may not be of the same type as the primary product holding.

Distribution of types of loans

The following table shows the distribution of types of loans as at the Reference Date.

Type of loan	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
Discounted variable rate loans	£3,321,663.61	0.19%	16	0.11%
Fixed rate loans	£904,153,086.87	51.87%	8,405	57.95%
Tracker rate loans	£564,921,457.30	32.41%	4,467	30.80%
Standard variable rate loans	£270,687,489.13	15.53%	1,617	11.15%
Totals	£1,743,083,696.91	100.00%	14,505	100.00%

Distribution of Fixed Rate Loans

The following tables shows the distribution of Fixed Rate Loans by their fixed rate of interest as at the Reference 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 the Standard Variable Rate or some other rate as specified in the Offer Conditions.

Fixed rate %	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
0 - 3.99	£37,249,367.95	4.12%	358	4.26%
4 - 4.99	£291,725,021.66	32.27%	3,088	36.74%
5 - 5.99	£274,612,740.72	30.37%	2,441	29.04%
6 - 6.99	£248,962,830.38	27.54%	2,062	24.53%
7+	£51,603,126.15	5.71%	456	5.43%
Totals	£904,153,086.87	100.00%	8,405	100.00%

Year in which fixed rate period ends	Aggregate outstanding current balance	% of total	Number of mortgage accounts	% of total
2011	£392,037,656.44	43.36%	3,452	41.07%
2012	£229,401,633.91	25.37%	2,269	27.00%
2013	£123,560,590.08	13.67%	1,025	12.20%
2014	£134,326,798.62	14.86%	1,393	16.57%
2015	£3,907,744.46	0.43%	50	0.59%
2016	£1,531,405.18	0.17%	19	0.23%
2017	£275,163.46	0.03%	4	0.05%
2018	£9,557,835.22	1.06%	79	0.94%
2019+	£9,554,259.49	1.06%	114	1.36%
Totals	£904,153,086.87	100.00%	8,405	100.00%

CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

The United Kingdom 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 PPR Rates

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

Quarter	Industry PPR rate for the quarter (%)	12-month rolling average (%)	Quarter	Industry PPR rate for the quarter (%)	12-month rolling average (%)
December 1998	15.00	14.24	March 2005	17.96	21.50
March 1999	12.32	14.41	June 2005	21.32	21.10
June 1999	15.96	14.85	September 2005	24.29	21.10
September 1999	17.55	15.21	December 2005	24.61	22.04
December 1999	16.47	15.57	March 2006	22.27	23.12
March 2000	13.62	15.90	June 2006	23.37	23.64
June 2000	15.31	15.73	September 2006	24.95	23.80
September 2000	15.97	15.34	December 2006	24.87	23.87
December 2000	15.67	15.14	March 2007	23.80	24.25
March 2001	15.38	15.58	June 2007	24.84	24.61
June 2001	18.23	16.31	September 2007	25.48	24.74
September 2001	20.25	17.39	December 2007	23.55	24.42
December 2001	20.06	18.48	March 2008	19.56	23.36
March 2002	18.75	19.32	June 2008	20.88	22.37
June 2002	21.10	20.04	September 2008	20.15	21.03
September 2002	23.63	20.89	December 2008	15.33	18.98
December 2002	22.89	21.59	March 2009	12.91	17.32
March 2003	21.24	22.22	June 2009	11.39	14.95
June 2003	22.43	22.55	September 2009	12.77	13.10
September 2003	24.03	22.65	December 2009	11.99	12.27
December 2003	24.87	23.14	March 2010	9.60	11.44
March 2004	21.22	23.14	June 2010	10.60	11.24
June 2004	22.93	23.26	September 2010	11.30	10.87
September 2004	24.27	23.32	December 2010	10.96	10.62
December 2004	20.85	22.32			

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

Repossession Rate

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

Year	Repossessions (%)	Year	Repossessions (%)	Year	Repossessions (%)
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	2010	0.32
1993	0.58	2002	0.11		

Source: Council of Mortgage Lenders.

House Price to Earnings Ratio

The following table shows the ratio for each year since 1994 of the average house price compared to the average annual income of borrowers in the United Kingdom.

Year	Average Annual Earnings (£)	Average House Price (£)	House Price to Earnings Ratio
1994	22,288	64,787	2.91
1995	23,114	65,644	2.84
1996	24,740	70,626	2.85
1997	26,086	76,103	2.92
1998	27,317	81,774	2.99
1999	29,864	92,521	3.10
2000	31,193	101,550	3.26
2001	33,967	112,835	3.32
2002	36,277	128,265	3.54
2003	38,538	155,627	4.04
2004	39,873	180,248	4.52
2005	43,690	190,760	4.37
2006	50,789	204,813	4.03
2007	53,617	223,405	4.17
2008	54,527	227,765	4.18
2009	53,975	226,064	4.19

Source: Department for Communities and Local Government

House prices and incomes vary throughout England, Wales and Scotland. The table below summarises the average house price and the average income of borrowers for each region for the year ended 31 December 2009 in order to produce a house price to earnings ratio for each region.

Region	Average Annual Earnings (£)	Average House Price (£)	House Price to Earnings Ratio
North	44,286	159,790	3.61
North West	46,816	174,626	3.73
Yorkshire & Humberside	45,849	176,040	3.84
East Midlands	45,133	172,415	3.82
West Midlands	46,633	184,900	3.97
East Anglia	48,439	198,177	4.09
London	75,119	338,120	4.50
South East	60,200	269,320	4.47
South West	50,557	220,404	4.36
Wales	43,404	165,659	3.82
Scotland	47,955	174,433	3.64

Source: Department for Communities and Local Government

HOUSE PRICE INDEX

United Kingdom residential property prices, as measured by the Nationwide House Price Index and the Halifax Price Index (collectively the "**Housing Indices**"), have generally outperformed the United Kingdom Retail Price Index in the recent past. (Nationwide is a United Kingdom building society and Halifax is a brand name of Bank of Scotland, a United Kingdom bank.)

The United Kingdom 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 late 2009.

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	4.9	.	.	184.8	23.3
1989	115.2	7.8	.	.	223.1	20.7
1990	126.1	9.5	.	.	223.2	0.0
1991	133.5	5.9	107.1	.	220.5	(1.2)
1992	138.5	3.7	103.0	(3.8)	208.1	(5.6)
1993	140.7	1.6	102.1	(0.8)	202.1	(2.9)
1994	144.1	2.4	103.5	1.3	203.1	0.5
1995	149.1	3.5	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	10.9	221.7	6.3
1998	162.9	3.4	129.8	10.1	233.7	5.4
1999	165.4	1.5	141.7	9.2	250.5	7.2
2000	170.3	3.0	160.0	12.9	275.1	9.8
2001	173.3	1.8	177.0	10.6	298.6	8.5
2002	176.2	1.7	211.8	19.7	350.6	17.4
2003	181.3	2.9	253.0	19.4	429.1	22.4
2004	186.7	3.0	296.3	17.1	507.6	18.3
2005	192.0	2.8	311.4	5.1	536.6	5.7
2006	198.1	3.2	331.4	6.4	581.3	8.3
2007	206.6	4.3	361.8	9.2	635.9	9.4
2008	214.8	4.0	337.4	(6.7)	585.9	(7.9)
2009	213.7	(0.5)	312.4	(7.4)	524.6	(10.5)
2010	223.6	4.6	330.7	5.9	539.6	2.9

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

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

$(X-Y)/Y$ where X is equal to the current year's index value and Y is equal to the index value of the previous year.

The figures for the Nationwide House Price Index are the average of the published monthly indices for that year (monthly indices not available for the period prior to 1991).

Quarterly House Price Index

Quarter	Retail Price Index		Nationwide House Price Index (SA)*		Halifax House Price Index (SA)*	
	Index	% annual change	Index	% annual change	Index	% annual change
March 2007	203.0	4.5	353.8	9.5	623.5	11.3
June 2007	206.3	4.4	360.1	10.2	639.4	11.2
September 2007	207.1	3.9	365.1	9.3	646.5	11.1
December 2007	209.8	4.2	367.8	6.8	638.8	5.4
March 2008	211.1	4.0	361.8	2.3	630.0	1.0
June 2008	215.3	4.4	345.7	(4.0)	597.6	(6.5)
September 2008	217.4	5.0	327.3	(10.3)	564.0	(12.8)
December 2008	215.5	2.7	313.5	(14.8)	534.6	(16.3)
March 2009	210.9	(0.1)	302.4	(16.4)	517.7	(17.8)
June 2009	212.6	(1.3)	305.1	(11.7)	510.6	(14.6)
September 2009	214.4	(1.4)	317.0	(3.1)	523.6	(7.2)
December 2009	216.9	0.6	324.2	3.4	540.4	1.1
March 2010	219.3	4.0	329.3	8.9	543.8	5.0
June 2010	223.5	5.1	334.0	9.5	542.4	6.2
September 2010	224.5	4.7	331.0	4.4	536.8	2.5
December 2010	227.0	4.7	326.6	0.8	531.8	(1.6)

Source: Office for National Statistics, Nationwide Building Society and Lloyds Banking Group.
*Seasonally adjusted.

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

$(X-Y)/Y$ 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. 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, 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 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 Variable Rate Loans, the Servicer sets the Standard Variable Rate and the margin applicable to any Tracker Rate Loan on behalf of the Issuer, except in the limited circumstances as set out in the Servicing Agreement. In the case of some Mortgage Loans that are not payable at the Standard Variable Rate, for example Fixed Rate Loans, the Borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the Borrower's Mortgage Conditions. After that period ends, and unless the Servicer sends an offer of and the Borrower accepts another option with an incentive, interest will be payable at the Standard Variable Rate. In addition, some other types of Mortgage Loans are payable or may change so as to become payable by reference to other rates not under the control of the Servicer, such as rates set by the Bank of England, which rates may also include a fixed or variable rate margin set by the Servicer on behalf of the Issuer.

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 Standard Variable 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 payable in the month that they are due. The Servicer is responsible for collecting payments made 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. All amounts which are paid to the Collection Account will be held on trust by the Seller for the Issuer by way of 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 or through a Halifax branded banking 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 – The Servicer's Arrears and default procedures*" below will be taken.

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. Other changes are driven by the Seller reviewing its procedures and amending them to reflect current trading conditions.

The Servicer's Arrears and default procedures

The Servicer regularly provides 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. 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 the FSA's principles of Treating Customers Fairly in each case. Mortgage collection is conducted through payment collection departments located in Leeds and Romford. The Servicer adheres to the Ministry of Justice's Pre-Action Protocol for Possession Claims and 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 deferral 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.

The Servicer may provide additional assistance to Borrowers in arrears who are deemed to be financially vulnerable and have very limited income, or where their position is proven to be untenable against their current income, based on parameters set within the relevant policy.

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 Servicer'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 Servicer, such as whether the Borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the decision of the 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. The summary does not purport to be complete 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 will consent 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 determine and set the Standard Variable Rate and any variable margin applicable in relation to any Tracker Rate Loan in relation to the Mortgage Loans, except in the limited circumstances described in this paragraph (b), when the Issuer will be entitled to do so. It will not at any time, without the prior consent of the Issuer, set or maintain:
 - (i) the Standard Variable Rate at a rate which is higher than (although it may be lower than or equal to) the then prevailing Seller's variable base rate which applies to Mortgage Loans beneficially owned by the Seller outside the Mortgage Portfolio;
 - (ii) a margin in respect of any Tracker Rate Loan which, where the Offer Conditions for that Mortgage Loan provide that the margin shall be the same as the margin applicable to all other Mortgage Loans having the same Offer Conditions in relation to interest rate setting, is higher or lower than the margin then applying to those loans beneficially owned by the Seller outside the Mortgage Portfolio; and
 - (iii) a margin in respect of any other Tracker Rate Loan which is higher than the margin which would then be set in accordance with the Seller's policy from time to time in relation to that Mortgage Loan;

In particular, the Servicer shall determine on each Calculation Date following a debit to the General Reserve Ledger and continuing until the debit balance is eliminated having regard to:

- (A) the revenue which the Issuer would expect to receive during the next succeeding Interest Period;
- (B) the Standard Variable Rate, any variable margins applicable in relation to any Tracker Rate Loans and the variable mortgage rates in respect of the Mortgage Loans which the Servicer proposes to set under the Servicing Agreement; and
- (C) the other resources available to the Issuer including the General Reserve Fund, the Liquidity Reserve Fund (if any) and the Basis Swap Agreement;

whether the Issuer would receive an amount of revenue during the relevant Interest Period which, when aggregated with the funds otherwise available to the Issuer, is less than the amount which is the aggregate of (a) the Set Interest Amounts which will be payable in respect of the Class A Notes on the Interest Payment Date falling at the end of such Interest Period and (b) the expenses of the Issuer which rank in priority thereto (the amount (if any) by which it is less being the "**Interest Shortfall**").

If the Servicer determines that there would be an Interest Shortfall in the foregoing amounts, it will give written notice to the Issuer and the Trustee within one Business Day of such determination, of the amount of the Interest Shortfall and the Standard Variable Rate and/or any variable margins applicable in relation to any Tracker Rate Loans which would, in the Servicer's opinion, need to be set in order for no Interest Shortfall to arise, having regard to the date(s) on which the change to the Variable Rate Loans and any variable margins would take effect and at all times acting in accordance with the standards of a Reasonable, Prudent Mortgage Lender as regards the competing interests of Borrowers with Standard Variable Rate loans and Borrowers with Tracker Rate Loans. If the Issuer notifies the Servicer that, having regard to the obligations of the Issuer, the Standard Variable Rate and/or any variable margins should be increased, the Servicer will take all steps which are necessary to increase the Standard Variable Rate and/or any variable margins, including publishing any notice which is required in accordance with the Mortgage Terms.

The Issuer may terminate the authority of the Servicer to determine and set the Standard Variable Rate and any variable margins on the occurrence of a Servicer Event as defined under the section entitled "*The Servicer – The Servicing Agreement - Removal or resignation of the Servicer*" below, in which case the Issuer will set the Standard Variable Rate and any variable margins itself in accordance with this paragraph (b) above;

- (c) to notify Borrowers when required of any change in interest rates;
- (d) to notify Borrowers of any change in their Monthly Payments;
- (e) to keep records and accounts on behalf of the Issuer in relation to the Mortgage Loans and their Related Security;
- (f) to keep records for all taxation purposes and VAT;
- (g) to keep the customer files and title deeds relating to the Mortgage Loans in safe custody and maintain records necessary to enforce each Mortgage;
- (h) 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;
- (i) to assist the Cash Manager in the preparation of the Monthly Investor Report and the calculation of the Available Investor Revenue, Available Investor Principal, Seller Revenue and Seller Principal on each Calculation Date;
- (j) to provide the Rating Agencies with 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; and
- (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.

For the avoidance of doubt, any action taken by the Servicer to set the Standard Variable Rate and any variable margins applicable in relation to any Tracker Rate Loans which are lower than that of the competitors of the Seller will be deemed to be in accordance with the standards of a Reasonable, Prudent Mortgage Lender.

Compensation of the Servicer

The 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 of the Current Balance of all the Mortgage Loans in the Mortgage Portfolio as at close of business on the last day of the immediately preceding Calculation Period. 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 (prior to the delivery of an Enforcement Notice and with the consent of the Trustee) or the Trustee (following the delivery of an Enforcement Notice) 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 and the Trustee.

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 Security 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. If not terminated earlier, 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 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 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 Moody's 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 or a substitute 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 residential mortgage 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.

Replacement of Collection Account Bank

If Bank of Scotland plc in its capacity as Collection Account Bank ceases to have a long-term rating by Moody's of at least Baa3 or a long term rating by S&P of at least BBB or (if Bank of Scotland plc does not have a short term rating of at least A-2 by S&P) BBB+, the Seller is obliged, under the terms of the Servicing Agreement, to find a suitably rated replacement collection account bank or take such other remedial measures provided the Rating Agencies confirm that such measures will not adversely affect the then current ratings of the Notes, in each case within thirty (30) days of the ratings downgrade.

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: (i) 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; and (ii) to control the amortisation of the Class A3 Notes if prepayment rates are high by providing for Principal Receipts to be applied as Seller Principal on satisfaction of the Seller Principal Diversion Conditions.
- The GIC Account earns interest at a specified rate.
- A Subordinated Loan is provided by the Subordinated Loan Provider to: (i) fund the General Reserve Fund on the Closing Date up to the General Reserve Fund Required Amount (the General Reserve Advance), such amount to be used to pay Revenue Shortfalls on each Interest Payment Date; (ii) fund the General Reserve Fund on the Closing Date up to an additional amount of £3,500,000 (the Initial General Reserve Advance) to be utilised to pay Revenue Shortfalls on the First Interest Payment Date only; and (iii) to meet the costs in connection with the issuance of the Notes (the Expenses Advance) and repayment of the Subordinated Loan is subordinated to payments on the Notes.
- The Issuer will enter into the Basis Swap Agreement 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.
- The Issuer will enter into the Currency Swap Agreements to swap (i) the LIBOR payments calculated on the Sterling Equivalent Principal Amount Outstanding of the relevant Non-Sterling Notes for the EURIBOR based interest payable in Euros in respect of the EUR Notes and the BBSW based interest payable in Australian Dollars in respect of the AUD Notes, (ii) the Sterling principal amounts received from the Borrowers on the Mortgage Loans and available to be used to redeem the relevant Non-Sterling Notes for the Euro principal redemption amounts payable in respect of the EUR Notes and the Australian Dollar amounts payable in respect of the AUD Notes, and (iii) the Euro proceeds of issuance in respect of the EUR Notes and the Australian Dollar proceeds of issuance in respect of the AUD Notes into Sterling for the purposes of paying the Initial Consideration in Sterling to the Seller.
- Swap Termination Deferred Amounts may be funded on any Interest Payment Date by amounts standing to the credit of the Swap Termination Reserve Account for the relevant Class of Non-Sterling Notes.

Each of these factors is considered in more detail below.

Credit Support for the Notes 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 (s) (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 Revenue Deferred Consideration 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 – Basis Risk for the Notes*" below) and the performance of the Mortgage Portfolio.

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: (i) Principal Losses on the Mortgage Portfolio; and (ii) using Available Investor Principal, Seller Principal or 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 (k) (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 Receipts, 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 and/or Seller Principal 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 may not be applied to pay interest on a Class of Notes if the debit balance of the sub-ledger of the Principal Deficiency Ledger in respect of that Class of Notes is 50% or more of the Sterling Equivalent Principal Amount Outstanding of the relevant Class of Notes and the Liquidity Reserve Fund will only be available while a Liquidity Trigger Event is continuing.

The Principal Deficiency Ledger will be debited on each Interest Payment Date by an amount equal to the amount of any Available Investor Principal, Seller Principal and monies held in the Liquidity Reserve Principal Sub-Ledger (but not the Liquidity Reserve Revenue Sub-Ledger) of the Liquidity Reserve Fund applied to fund a Revenue Shortfall arising on that Interest Payment Date.

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

Subordination of the junior Classes of Notes

Payments of interest on the Notes 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, subject only to the swap termination deferrals mechanism set out in Condition 13.11(c) (*Interest Accrual*).

Payments of principal on the Notes will be made in Sequential Order at all times, subject only to the swap termination deferrals mechanism set out in Condition 14 (*Swap Termination Deferred Principal*). In

addition, on or 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, which rank *pro rata* and *pari passu* amongst themselves, *second*, to the Class A2 Notes, which rank *pro rata* and *pari passu* amongst themselves and, *third*, to the Class A3 Notes, which rank *pro rata* and *pari passu* amongst themselves) 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 or any other Seller Principal Diversion Conditions ceases to be satisfied.

Deferral of interest payments on the Notes

On each Interest Payment Date interest shall be due and payable on each Class of Notes.

Any shortfall in payments of Interest Amounts on a Class of Notes (other than the Set Interest Amount in respect of the Most Senior Class of Notes) that arises as a result of the Issuer not having sufficient funds to pay the relevant Set Interest Amount on such Class of Notes, or any non-payment of interest that arises to the extent that the Issuer has paid the Set Interest Amount on a Class of Notes (including on the Most Senior Class of Notes) on an Interest Payment Date to the relevant Currency Swap Provider or Paying Agent (as applicable) and such entity has failed to make the equivalent payment in full to the relevant Paying Agent or the Noteholders respectively, will be deferred until the Interest Payment Date on which the Issuer has sufficient funds to pay such shortfall or non-payment and the Interest Amount scheduled to be paid on such Interest Payment Date for that Class of Notes will be increased to take account of any such deferral. Payments of Set Interest Amounts by the Issuer on the Most Senior Class of Notes cannot be deferred and, if they remain unpaid 10 days following the relevant Interest Payment Date, will trigger an Event of Default.

Any shortfall in payments of Interest Amounts on a Class of Non-Sterling Notes that arises as a result of the Currency Swap Agreement entered into in relation to such Class of Notes having been terminated and no replacement swap provider appointed (such amounts being Swap Termination Deferred Interest Amounts) shall be paid *first*, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Interest Amounts and *second*, from Available Investor Revenue as a subordinated item in the Payments Priorities, with any remainder being deferred until such Interest Payment Date (if any) as there are Swap Termination Excess Amounts available for the relevant Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay such Swap Termination Deferred Interest Amounts (see section "*Key Structural Features – Cashflows and Cash Management- Set Interest Amounts, Swap Termination Deferred Interest Amounts and Swap Termination Excess Interest Amounts*" for further information.)

The deferral process will continue until the Final Maturity Date of the Notes or such earlier date as the Notes are redeemed in full, at which point, all such deferred amounts (including interest thereon) will become due and payable. Until such date, the deferral of an Interest Amount (other than a Set Interest Amount on the Most Senior Class of Notes) will not constitute an Event of Default. However, if there is insufficient money available to the Issuer to pay interest on any Class of Notes, then the relevant Noteholders may not receive all Interest Amounts.

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 any Swap Termination Reserve Accounts, the Reserve Ledgers and any Swap Collateral Accounts (if applicable).

Deferral of Swap Termination Deferred Principal Amounts

Any Swap Termination Deferred Principal Amounts that arise as a result of the Currency Swap Agreement entered into in relation to a Class of Non-Sterling Notes having been terminated and no replacement swap provider being appointed, shall be paid *first*, from any Swap Termination Excess

Amounts for such Class of Notes available to pay Swap Termination Deferred Principal Amounts and *second*, from Available Investor Revenue as a subordinated item in the Payments Priorities, with any remainder being deferred until the next Interest Payment Date on which there are Swap Termination Excess Amounts available for the relevant Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay such Swap Termination Deferred Principal Amounts (see section entitled "*Cashflows and Cash Management – Application of Principal Receipts prior to service of an Enforcement Notice – Swap Termination Deferred Principal Amounts and Swap Termination Excess Principal Amounts*" for further information).

The deferral process will continue until the Final Maturity Date of the Notes or such earlier date as the Notes are redeemed in full, at which point, all such deferred amounts will become due and payable. Until such date, the deferral of a Swap Termination Deferred Principal Amount will not constitute an Event of Default. However, if there is insufficient money available to the Issuer to pay principal on any Class of Notes, then the relevant Noteholders may not receive all payments of principal.

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 Principal Sub-Ledger (but not the Liquidity Reserve Revenue Sub-Ledger) 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 A Notes. 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, Seller Principal and/or monies in the Liquidity Reserve Principal Sub-Ledger (but not the Liquidity Reserve Revenue Sub-Ledger) of 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 Sterling Equivalent 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 Investor 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 Sterling Equivalent Principal Amount Outstanding of the Notes issued on the Closing Date. This over-collateralisation, representing approximately 9.091% 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: (i) mitigate Set-Off Losses on the Mortgage Portfolio during the term of the transaction; and (ii) to control the amortisation of the Class A3 Notes if prepayment rates are high by providing for Principal Receipts to be applied as Seller Principal on satisfaction of the Seller Principal Diversion Conditions, 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 when 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 at least a variable rate of interest on sums in the GIC Account of 0.25 per cent. per annum below LIBOR for three-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 the Account Bank has: (i) a short term senior unsecured debt rating of at least A-1 by S&P and a long term rating of A by S&P, or (where the short term unsecured debt rating by S&P is less than A-1 or there is no short term rating) a long term rating of at least A+ by S&P; and (ii) short term, unsecured, unguaranteed and unsubordinated debt obligations rated at least P-1 by Moody's 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. 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**"). 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 up to the General Reserve Required Amount (the "**General Reserve Fund Advance**"), which will be utilised to pay Revenue Shortfalls on any Interest Payment Date (b) fund the General Reserve Fund on the Closing Date in an additional amount equal to £3,500,000 to be utilised to pay Revenue Shortfalls on the First Interest Payment Date only (the "**Initial General Reserve Advance**"); and (c) 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 £76,500,000.

The Subordinated Loan will bear interest until repaid at a rate of three-month LIBOR 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 and the Initial General Reserve 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: (i) 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 and (ii) the Initial General Reserve Advance is not utilised to make up any Revenue Shortfall on the First Interest Payment Date, 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 (or under a Currency Swap Agreement). 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 Fixed Rate Loan Balance in respect of the applicable Calculation Period, the weighted average interest rate applicable to those Fixed Rate Loans during the relevant Calculation Period, as notified to the Basis Swap Provider by the Cash Manager and the number of days in respect of the applicable Calculation Period divided by 365;
 - (ii) the product of the Average Tracker Rate Loan Balance in respect of the applicable Calculation Period, the weighted average Bank of England base rate applicable to those Tracker Rate Loans during the relevant Calculation Period, as notified to the Basis Swap Provider by the Cash Manager and the number of days in respect of the applicable Calculation Period divided by 365; and
 - (iii) the product of the Average Variable Rate Loan Balance in respect of the applicable Calculation Period, the weighted average of the Halifax standard variable rate during the relevant Calculation Period, as notified to the Basis Swap Provider by the Cash Manager 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 Fixed Rate Loan Balance in respect of the Calculation Period, LIBOR plus a spread and the number of days in the applicable Calculation Period divided by 365;
 - (ii) the product of the Average Tracker Rate Loan Balance in respect of the Calculation Period, LIBOR minus a spread and the number of days in the applicable Calculation Period divided by 365; and
 - (iii) the product of the Average Variable Rate Loan Balance in respect of the Calculation Period, LIBOR plus a spread and the number of days in the applicable Calculation Period divided by 365.

The Currency Swap Agreements

The payments made by the Basis Swap Provider under the Basis Swap Agreement will be denominated in Sterling and based on interest rates derived from LIBOR, but payments in respect of the EUR Notes will be denominated in Euros and calculated on the basis of EURIBOR and payments in respect of the AUD Notes will be denominated in AUD and calculated on the basis of BBSW. In order to hedge this exposure, the Issuer will enter into the Currency Swap Agreements. As with the Basis Swap Agreement, the

Currency Swap Agreements will be in the form of a transaction subject to a 1992 ISDA Master Agreement (including a Schedule and Credit Support Annex thereto).

Pursuant to the EUR Currency Swap, on the Closing Date, the Issuer will pay to the EUR Currency Swap Provider an amount in EUR equal to the subscription amount paid in respect of the EUR Notes and the EUR Currency Swap Provider will pay to the issuer an amount in Sterling equal to the subscription amount paid in respect of the EUR Notes converted into Sterling at an agreed exchange rate.

Pursuant to the AUD Currency Swap, on the Closing Date, the Issuer will pay to the AUD Currency Swap Provider an amount in AUD equal to the subscription amount paid in respect of the AUD Notes and the AUD Currency Swap Provider will pay to the Issuer an amount in Sterling equal to the subscription amount paid in respect of the AUD Notes converted into Sterling at an agreed exchange rate.

On each subsequent Interest Payment Date:

EUR Currency Swap

- (a) the Issuer will pay to the EUR Currency Swap Provider an amount in Sterling equal to the product of the Principal Amount Outstanding of the EUR Notes converted into Sterling at the agreed exchange rate, LIBOR plus a margin and the number of days in the applicable Calculation Period divided by 365, provided that the margin will increase after the Step-Up Date;
- (b) the EUR Currency Swap Provider will pay to the Issuer an amount in EUR equal to the product of the Principal Amount Outstanding of the EUR Notes, EURIBOR plus a margin and the number of days in the applicable Calculation Period divided by 360 provided that the margin will increase after the Step-Up Date;
- (c) the Issuer will pay to the EUR Currency Swap Provider an amount in Sterling equal to the amount available for redemption of the EUR Notes on the relevant Interest Payment Date in accordance with the applicable Payments Priorities; and
- (d) the EUR Currency Swap Provider will pay to the Issuer the amount referred to in paragraph (c) above converted into Euros at the agreed exchange rate.

AUD Currency Swap

- (a) the Issuer will pay to the AUD Currency Swap Provider an amount in Sterling equal to the product of the Principal Amount Outstanding of the AUD Notes converted into Sterling at the agreed exchange rate, LIBOR plus a margin and the number of days in the applicable Calculation Period divided by 365, provided that the margin will increase after the Step-Up Date;
- (b) the AUD Currency Swap Provider will pay to the Issuer an amount in AUD equal to the product of the Principal Amount Outstanding of the AUD Notes, BBSW plus a margin and the number of days in the applicable Calculation Period divided by 365, provided that the margin will increase after the Step-Up Date;
- (c) the Issuer will pay to the AUD Currency Swap Provider an amount in Sterling equal to the amount available for redemption of the AUD Notes on the relevant Interest Payment Date in accordance with the applicable Payments Priorities; and
- (d) the AUD Currency Swap Provider will pay to the Issuer the amount referred to in paragraph (c) above converted into Australian Dollars at the agreed exchange rate.

Ratings Downgrade

If, at any time following the Closing Date, the short term or long-term, unsecured and unsubordinated debt obligations of any Swap Provider or any guarantor, as applicable, are downgraded by a Rating Agency below the required ratings specified in the relevant Swap Agreement for the relevant Swap Provider, such 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 relevant Swap Agreement.

Termination of the Swap Agreements

Each of the Swap Agreements may be terminated in, *inter alia*, the following circumstances (each, a "Swap Early Termination Event"):

- (a) at the option of one party to the swap, if there is a failure by the other party to pay any amounts due and payable in accordance with the terms of the relevant Swap Agreement and any applicable grace period has expired;
- (b) service by the Trustee of an Enforcement Notice on the Issuer pursuant to Condition 19 (*Events of Default*);
- (c) upon the occurrence of an insolvency of the relevant Swap Provider or certain insolvency events with respect to the Issuer (as set out in the relevant Swap Agreement) or the merger of the relevant Swap Provider without an assumption of its obligations under the relevant Swap Agreement;
- (d) upon the occurrence of a Tax Event, Tax Event Upon Merger or an Illegality (as defined in the relevant Swap Agreement);
- (e) if the relevant Swap Provider is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the relevant swap agreement and described above in the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support - Ratings Downgrade*";
- (f) if optional redemption of the Notes in whole (and not in part) occurs pursuant to Condition 15.4 (*Optional Redemption in whole for taxation reasons*);
- (g) if the Pre Enforcement Payments Priorities or the Post Enforcement Investor 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 relevant Swap Provider), such that Issuer's obligations to such Swap Provider under the relevant Swap Agreement are further contractually subordinated to the Issuer's obligations to any other Secured Creditor; and
- (h) if any Transaction Document is amended without the relevant Swap Provider's prior written consent, such that such Swap Provider would, immediately after such amendment, be required to pay more or receive less under the relevant 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 relevant Swap Provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in Australian Dollars, in the case of the AUD Currency Swap Agreement or EUR, in the case of the EUR Currency Swap Agreement. The amount of any termination payment will be based on the market value of the terminated swap based on market quotations of the cost of entering into a 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 prior to its scheduled termination date by its own default or pursuant to a Swap Provider Downgrade Event (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. Except where a Currency Swap Provider has caused a Currency Swap Agreement to terminate prior to its scheduled termination date by its own default or pursuant to a Swap Provider Downgrade Event (pursuant to which a Currency Swap Subordinated Amount is due), any termination payment in respect of the relevant Currency Swap Agreement due by the Issuer to the relevant Currency

Swap Provider will rank *pari passu* with payments of Set Interest Amounts on the Class A Notes under the Pre Enforcement Investor Revenue Payments Priorities.

In the event that any of the Basis Swap or the Currency Swaps is terminated prior to its scheduled termination date, 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 swap in respect of the Notes. Such replacement swap must be entered into on terms acceptable to the Rating Agencies, the Issuer and the Trustee with a replacement 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.

The Issuer will apply any termination payment it receives from a termination of any Swap Agreement (including, for the avoidance of doubt, any net amount due to the Issuer under such Swap Agreement in respect of an early termination date designated thereunder and discharged by way of application of the relevant amount of the Swap Collateral held by the Issuer in the relevant Swap Collateral Account in accordance with the relevant Swap Agreement) to purchase a replacement swap (as described above). If, following the termination of any Swap Agreement, a replacement swap is not found, such termination payment shall be deposited in the Swap Termination Reserve Account for the relevant Class of Notes and applied to purchase any replacement swap entered into at a future date or to pay Swap Termination Deferred Interest Amounts and then Swap Termination Deferred Principal Amounts on such Class of Notes. Following the application of a termination payment to purchase a replacement swap, any excess amount of the termination payment remaining will constitute Available Investor Revenue. 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 related terminated swap(s). If a replacement swap provider has not been appointed, any termination payment due under the terminated swap to the relevant Swap Provider shall be made in accordance with the Payments Priorities.

Taxation

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

Each of the Swap Providers 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 relevant Swap Agreement. The imposition of withholding taxes on payments made by the relevant Swap Provider under the relevant Swap Agreement will constitute a Tax Event or a Tax Event Upon Merger (each as defined in the relevant Swap Agreement) and will give the relevant Swap Provider the right to terminate the relevant Swap Agreement subject to the terms thereof.

Governing Law

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

Payments by the Cash Manager

All payments referred to in this Prospectus expressed to be made by the Issuer in respect of the Swap Agreements are to be carried out by the Cash Manager on behalf of the Issuer and pursuant to the Cash Management Agreement.

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 amounts that are the Seller Revenue and the Investor Revenue, each as defined below. An amount of Seller Revenue equal to the Seller Percentage of the Senior Expenses will be applied as Available Investor Revenue on each Interest Payment Date falling prior to and including the Step-Up Date with any remaining Seller Revenue being paid to the Seller as Revenue Deferred Consideration. Following the Step-Up Date, all Seller Revenue will form part of Available Investor Revenue. 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, the Cash Manager will determine the Post Enforcement Seller Amounts and Post Enforcement Investor Amounts, each as defined below. An amount of the Post Enforcement Seller Amounts equal to the Seller Percentage of the Senior Expenses will be applied as Post Enforcement Investor Amounts, with any remaining Post Enforcement Seller Amounts being paid to the Seller as Deferred Consideration. The Post Enforcement Investor Amounts will be applied in accordance with the Post Enforcement Investor 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 immediately preceding 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 Third Party Amounts due from time to time under the Mortgage Loans;
- (b) recoveries of interest (excluding Capitalised Arrears, if any) from defaulting Borrowers under Mortgage Loans being enforced;
- (c) recoveries of interest (excluding Capitalised Arrears, if any) 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 the 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, an amount equal to the aggregate of (without double-counting) the Seller Percentage of the Net Revenue collected during the immediately preceding Calculation Period.

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) prior to and including the Step-Up Date, an amount of Seller Revenue equal to the Seller Percentage of the amounts payable by the Issuer at items (a) to (d) of the Pre Enforcement Investor Revenue Payments Priorities on the relevant Interest Payment Date and following the Step-Up Date, all Seller Revenue;
- (c) 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;
- (d) all amounts received by the Issuer under the Basis Swap Agreement, or any replacement basis swap agreement, on such Interest Payment Date (excluding Swap Collateral posted under the Basis Swap Agreement, save to the extent that any net amount due to the Issuer under the Basis Swap Agreement in respect of the early termination date designated thereunder is discharged by way of application of the relevant amount of the Swap Collateral held by the Issuer in the relevant Swap Collateral Account in accordance with the Basis Swap Agreement) other than:
 - (i) any early termination payment received by the Issuer from the Basis Swap Provider to the extent utilised to acquire, at any time, a new basis swap; and
 - (ii) Replacement Swap Premium paid by a replacement basis swap provider to the extent utilised to pay any termination payment on the Basis Swap;
- (e) all amounts received by the Issuer under the Currency Swap Agreements or any replacement currency swap agreement on such Interest Payment Date (excluding Swap Collateral posted under a Currency Swap Agreement, save to the extent that any net amount due to the Issuer under a Currency Swap Agreement in respect of any early termination date designated thereunder is discharged by way of application of the relevant amount of such Swap Collateral held by the Issuer in the relevant Swap Collateral Account in accordance with the relevant Currency Swap Agreement) other than:
 - (i) any payments that are used to redeem principal of the Non-Sterling Notes on such Interest Payment Date;
 - (ii) any early termination payment received by the Issuer from a Currency Swap Provider and either transferred to the relevant Swap Termination Reserve Account or to the extent utilised to acquire, at any time, a replacement currency swap; and
 - (iii) Replacement Swap Premium paid by a replacement currency swap provider to the extent utilised by the Issuer to pay any termination payment on a Currency Swap;
- (f) other net income of the Issuer received during the immediately preceding Calculation Period (other than: (i) Principal Receipts; (ii) Seller Revenue; (iii) Early Repayment Charges; (iv) Third Party Amounts; (v) the Expenses Advance to the extent not utilised to pay the costs of issuance; (vi) Swap Tax Credits; (vii) amounts held in the Swap Termination Reserve Accounts (other than any funds released from a Swap Termination Reserve Account upon the appointment of a replacement currency swap provider for the relevant Class of Notes or redemption in full of the relevant Class of Notes, provided there are no outstanding Swap Termination Deferred Amounts for such Class of Note); and (viii) other than on the First Interest Payment Date, the Initial

General Reserve Advance), including any cash payments made by the Seller to the Issuer representing an amount of Capitalised Interest allocated to the Investor Principal Amount;

- (g) 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;
- (h) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;
- (i) any amounts released from the Liquidity Reserve Revenue Sub-Ledger of the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced;

plus

- (j) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (i) above being insufficient to pay or provide for items (a) to (k)) 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 cover such Revenue Shortfall;

plus

- (k) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (j) above being insufficient to pay or provide for items (a) to (k)) 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);

plus

- (l) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (k) above being insufficient to pay or provide for items (a) to (k)) 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 cover 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).

Definition of Set Interest Amount

"**Set Interest Amount**" means, on each Interest Payment Date:

- (a) in respect of the AUD Notes, the amounts calculated as being due by the Issuer to the AUD Currency Swap Provider under the AUD Currency Swap on such Interest Payment Date in exchange for which the AUD Currency Swap Provider would pay an amount equal to the interest due and payable to the AUD Noteholders on such Interest Payment Date (excluding, for the avoidance of doubt, any payments with respect to the principal of the AUD Notes that might be due on such Interest Payment Date) or, if the AUD Currency Swap Agreement has been terminated, the amount that would have been payable by the Issuer on such Interest Payment Date if it had not been so terminated;
- (b) in respect of the EUR Notes, the amounts calculated as being due by the Issuer to the EUR Currency Swap Provider under the EUR Currency Swap on such Interest Payment Date in exchange for which the EUR Currency Swap Provider would pay an amount equal to the interest due and payable to the EUR Noteholders on such Interest Payment Date (excluding, for the avoidance of doubt, any payments with respect to the principal of the EUR Notes that might be due on such Interest Payment Date) or, if the EUR Currency Swap Agreement has been terminated, the amount that would have been payable by the Issuer on such Interest Payment Date if it had not been so terminated; and
- (c) in respect of the Sterling Notes, the interest due and payable on such Notes under the terms and conditions of the Notes.

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 Notes. On the Closing Date, the General Reserve Fund Required Amount will be £69,000,000 and the General Reserve Fund will be funded to an amount of £72,500,000 from the Subordinated Loan, the difference being the amount of the Initial General Reserve Advance. The Initial General Reserve Advance will be paid into the General Reserve Fund on Closing as the Issuer is expected to draw on this reserve on the Interest Payment Date immediately following the Closing Date to cover any Revenue Shortfalls on the First Interest Payment Date. Revenue Shortfalls may arise on the First Interest Payment Date due to a mismatch between the Calculation Period for the Mortgage Loans and the Interest Period for the Notes. To the extent the Initial General Reserve Advance is not required to make up any Revenue Shortfall on the First Interest Payment Date, 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 provided (and to the extent that) the General Reserve Fund is not reduced below the General Reserve Fund Required Amount as a result of such payment.

Following the Closing Date, the General Reserve Fund 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.

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 to fund a Revenue Shortfall determined in respect of such date.

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 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, Available Investor Principal or Seller Principal (as applicable) may be applied on such Interest Payment Date to make up 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 Notes is 50% or more than the Sterling Equivalent Principal Amount Outstanding of that Class of Notes.

If 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) and (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) (when the Seller Principal Diversion Conditions are not satisfied) Available Investor Principal at item (b) of the Pre Enforcement Investor Principal Payments Priorities or (when the Seller Principal Diversion Conditions are satisfied) from Seller Principal at item (b) of the Pre Enforcement Seller Principal Payments Priorities; and (ii) (if insufficient funds are available therefrom), Available Investor Revenue at item (m) of the Pre Enforcement Investor Revenue 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 Notes if and to the extent that the amount debited to the sub-ledger of the Principal Deficiency Ledger for that Class of Notes is 50% or more than the Sterling Equivalent Principal Amount Outstanding of that Class of Notes.

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 to fund a Revenue Shortfall 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, such excess amounts will be applied using, *firstly*, funds in the Liquidity Reserve Revenue Sub-Ledger and *secondly*, funds in the Liquidity Reserve Principal Sub-Ledger and will be treated as Available Investor Revenue (in respect of funds released from the Liquidity Reserve Revenue Sub-Ledger) or Available Investor Principal (in respect of funds released from the Liquidity Reserve Principal Sub-Ledger) on the following Interest Payment Date.

On any date on which the Notes are redeemed in whole, or if a Liquidity Trigger Event is no longer continuing, the Liquidity Reserve Fund Required Amount will reduce to zero and the monies released from the Liquidity Reserve Fund will form part of Available Investor Principal (in respect of funds released from the Liquidity Reserve Principal Sub-Ledger) or Available Investor Revenue (in respect of funds released from the Liquidity Reserve Revenue Sub-Ledger) on the immediately 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.

Set Interest Amounts, Swap Termination Deferred Interest Amounts and Swap Termination Excess Interest Amounts

Interest shall be due and payable on each Class of Notes on each Interest Payment Date. However, in respect of the Non-Sterling Notes, the Issuer shall only be obliged (subject to the provisions below) to pay the relevant Set Interest Amount on each Class of Non-Sterling Notes to the relevant Currency Swap Provider (who shall then pay the EUR or AUD (as applicable) floating amounts due and payable to the Issuer under the relevant Currency Swap to the Principal Paying Agent or the Australian Paying Agent (as applicable) for the account of the Issuer) or, if there is no such Currency Swap Provider, to the Principal Paying Agent or the Australian Paying Agent (as applicable) (converted to the relevant currency at the Spot Rate by the Cash Manager on such Interest Payment Date) to be used to fund payments of interest on such Notes.

To the extent the Issuer has insufficient funds on an Interest Payment Date to pay the Set Interest Amount on any Class of Notes (other than the Most Senior Class of Notes) on such date, or to the extent that the Issuer has paid the Set Interest Amount on a Class of Notes (including on the Most Senior Class of Notes) on an Interest Payment Date to the relevant Currency Swap Provider or Paying Agent (as applicable) and such entity has failed to make the equivalent payment in full to the relevant Paying Agent or the Noteholders respectively, the shortfall or non-payment 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 the Conditions) to fund the payment of such amounts to the extent of such available funds in accordance with the Payments Priorities and the Interest Amount scheduled to be paid on such Interest Payment Date for that Class of Notes will be increased to take account of any such deferral. However, payments of Set Interest Amounts on the Most Senior Class of Notes cannot be deferred and a failure by the Issuer to pay such amounts within 10 days following the due date will constitute an Event of Default.

In the event of a termination of a Currency Swap Agreement in relation to a Class of Non-Sterling Notes, until such time (if any) as a replacement currency swap transaction is entered into, on each Interest Payment Date prior to the delivery of an Enforcement Notice:

- (a) to the extent that the Set Interest Amount payable by the Issuer on the relevant Class of Non-Sterling Notes on such Interest Payment Date (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is insufficient to pay the Interest Amount due and payable on such Class of Notes on such Interest Payment Date, the shortfall (such amounts being "Swap Termination Deferred Interest Amounts") shall be paid on such date first, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Interest Amounts and second, from Available Investor Revenue as a subordinated item in the Payments Priorities, with the payment of any remainder being deferred until such Interest Payment Date as there are Swap Termination Excess Amounts available for the relevant Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay Swap Termination Deferred Interest Amounts; and
- (b) to the extent that the Set Interest Amount payable by the Issuer on the relevant Class of Non-Sterling Notes on such Interest Payment Date (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is greater than the Interest Amount due and payable on such Class of Notes on such Interest Payment Date, the excess (such amounts being "Swap Termination Excess Interest Amounts") shall be used to pay on such date firstly, Swap Termination Deferred Interest Amounts and secondly, Swap Termination Deferred Principal Amounts, due and payable in respect of that Class of Non-Sterling Notes, with any excess being transferred to the Swap Termination Reserve Account for that Class of Non-Sterling Notes where, subject to the terms of the Transaction Documents, it may be applied on subsequent Interest Payment Date to pay firstly Swap Termination Deferred Interest Amounts and secondly, Swap Termination Deferred Principal Amounts, on that Class of Non-Sterling Notes.

If a new currency swap agreement is entered into at a later date, no new Swap Termination Deferred Interest Amounts or Swap Termination Excess Interest Amounts will arise on or after such date and any then existing Swap Termination Deferred Interest Amounts would fall to be paid under the relevant Payments Priorities.

On each Interest Payment Date on or after the delivery of an Enforcement Notice, any Swap Termination Deferred Interest Amounts remaining outstanding shall be paid in accordance with the Post Enforcement Investor Payment Priorities.

The Set Interest Amounts in respect of the Non-Sterling Notes represent the quarterly payments required to be made by the Issuer under the Currency Swap Agreements (or, if a Currency Swap Agreement has been terminated, and no replacement swap has been entered into in its place, which would have been required to be paid by the Issuer if such Currency Swap Agreement had not been terminated). As no currency swap agreements will be entered into in respect of the Sterling Notes, the Set Interest Amount in respect of a Class of Sterling Notes is equal to the interest due and payable on each Interest Payment Date on such Class of Sterling Notes.

The deferral process will continue until the Final Maturity Date of the Notes or (if earlier) the date on which the Notes are redeemed in whole in accordance with Condition 15 (*Final Redemption, Mandatory*

Redemption in part, Optional Redemption, Purchase and Cancellation), at which point, all such deferred amounts (including interest thereon) will become due and payable. Until such date, the deferral of an Interest Amount (other than a Set Interest Amount on the Most Senior Class of Notes) will not constitute an Event of Default.

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) will apply all amounts standing to the credit of any Issuer Account (including the General Reserve Fund, the Liquidity Reserve Fund) 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 Seller Revenue prior to the service of an Enforcement Notice

On each Interest Payment Date prior to and including the Step-Up Date and prior to the service of an Enforcement Notice, the Cash Manager, on behalf of the Issuer, shall apply an amount of Seller Revenue equal to the Seller Percentage of the Senior Expenses as Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities with any remaining Seller Revenue being paid to the Seller as Revenue Deferred Consideration.

On each Interest Payment Date following the Step-Up Date and prior to the service of an Enforcement Notice, the Cash Manager, on behalf of the Issuer, shall apply all Seller Revenue as Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue 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**"), save that amounts payable under items (a) to (d) below may be paid when due if required:

- (a) *first*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof 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, Deed of Charge 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 any remuneration then due and payable to the Agent Bank, the Australian Calculation Agent, the Registrar, the Australian Registrar, the Transfer Agent 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 or the Australian Agency Agreement, together with (if payable) VAT thereon as provided therein;
- (c) *third*, in or towards payment *pro rata* and *pari passu* according to the respective amounts thereof 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; and

- (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;
- (d) *fourth*, in or towards payment 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 (p) below));
- (e) *fifth*, 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 (n) below);
- (f) *sixth*, in or towards payment *pro rata* and *pari passu* according to the respective amounts due of :
 - (i) any interest due and payable on the Class A1a Notes (other than Swap Termination Deferred Interest Amounts) and any Additional Interest relating thereto; provided that, for the purposes of making such payment, the Issuer shall pay such amounts to the AUD Currency Swap Provider or, if there is no AUD Currency Swap Agreement, to the Australian Paying Agent, for the account of the noteholders, and following such payments any Swap Termination Excess Interest Amounts relating thereto shall be used to pay Swap Termination Deferred Amounts on the Class A1a Notes with any remainder being transferred to the relevant Swap Termination Reserve Account;
 - (ii) any interest due and payable on the Class A1b Notes (other than Swap Termination Deferred Interest Amounts) and any Additional Interest relating thereto; provided that, for the purposes of making such payment the Issuer shall pay such amounts to the EUR Currency Swap Provider or, if there is no EUR Currency Swap Agreement, to the Principal Paying Agent, for the account of the noteholders, and following such payments any Swap Termination Excess Interest Amounts relating thereto shall be used to pay Swap Termination Deferred Amounts on the Class A1b Notes with any remainder being transferred to the relevant Swap Termination Reserve Account;
 - (iii) any interest due and payable on the Class A2 Notes and any Additional Interest relating thereto to the Principal Paying Agent, for the account of the noteholders, *pro rata* and *pari passu* according to the respective amounts due;
 - (iv) any interest due and payable on the Class A3 Notes and any Additional Interest relating thereto to the Principal Paying Agent, for the account of the noteholders, *pro rata* and *pari passu* according to the respective amounts due;
 - (v) any other amounts due and payable to the Currency Swap Providers (other than any Currency Swap Subordinated Amounts due and payable under item (n) below and payments payable to the relevant Currency Swap Provider for the purposes of exchanging the principal amounts due and payable to the Noteholders of the Non-Sterling Notes under item (c) of the Pre-Enforcement Investor Principal Payments Priorities);
- (g) *seventh*, 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);
- (h) *eighth*, any interest due and payable on the Class B Notes and Additional Interest relating thereto to the Principal Paying Agent, for the account of the noteholders;

- (i) *ninth*, 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);
- (j) *tenth*, any interest due and payable on the Class C Notes and Additional Interest relating thereto to the Principal Paying Agent, for the account of the noteholders;
- (k) *eleventh*, 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);
- (l) *twelfth*, other than on the final Interest Payment Date, to credit the General Reserve Ledger up to the General Reserve Fund Required Amount;
- (m) *thirteenth*, if a Liquidity Trigger Event has occurred and is continuing, towards crediting the Liquidity Reserve Revenue Sub-Ledger of the Liquidity Reserve Fund to the extent that the amount standing to the credit of the Liquidity Reserve Fund is less than the Liquidity Reserve Fund Required Amount, after taking into account any 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);
- (n) *fourteenth*, towards payment *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Basis Swap Agreement and the relevant Currency Swap Agreement to the Basis Swap Provider and the relevant Currency Swap Provider, respectively, of any Swap Subordinated Amounts;
- (o) *fifteenth*, in or towards payment, *pro rata* and *pari passu* of any Swap Termination Deferred Interest Amounts due and payable on each Class of Notes and any Additional Interest thereon to the relevant Paying Agent (to the extent not satisfied under item (f) above, item (c) in the Pre Enforcement Investor Principal Payments Priorities or from amounts credited to the relevant Swap Termination Reserve Account);
- (p) *sixteenth*, in or towards payment, *pro rata* and *pari passu* of any Swap Termination Deferred Principal Amounts due and payable on each Class of Notes to the relevant Paying Agent (to the extent not satisfied under item (f) above, item (c) in the Pre Enforcement Investor Principal Payments Priorities or from amounts credited to the relevant Swap Termination Reserve Account);
- (q) *seventeenth*, in or towards payment to the Issuer of the Issuer Profit Amount to be credited to the Issuer Profit Ledger of the Transaction Account and to be retained by the Issuer as profit in respect of the business of the Issuer;
- (r) *eighteenth*, in or towards payment of interest due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (s) *nineteenth*, in or towards payment of principal due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (t) *twentieth*, the excess (if any) to be applied as Revenue Deferred Consideration.

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/or 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 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 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.

For the avoidance of doubt, if available Principal Receipts are applied as Seller Principal in accordance with paragraph (b) above on an Interest Payment Date, and then on such Interest Payment Date the Seller Principal Diversion Conditions have ceased to be satisfied, available Principal Receipts will be applied as Available Investor Principal on such Interest Payment Date (save that Principal Receipts may be applied as Seller Principal on such date up to the point that any Seller Principal Diversion Condition ceases to be satisfied) and each Interest Payment Date thereafter regardless of whether the Seller Principal Diversion Conditions are again satisfied on such following Interest Payment Dates.

Definition of Principal Receipts, Available Investor Principal and Seller Principal

"Principal Receipts" means (a) any payment in respect of principal received in respect of any Mortgage Loan (including payments of arrears, Capitalised Arrears, Capitalised Interest and capitalised expenses), (b) any payment pursuant to any insurance policy (including any Buildings Policies) in respect of a Mortgaged Property in connection with a Mortgage Loan in the Mortgage Portfolio, (c) recoveries of principal on redemption (including partial redemption) of such Mortgage Loan, (d) recoveries of principal from defaulting Borrowers on enforcement of such Mortgage Loan (including the proceeds of sale of the relevant property) (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) provided the Seller Principal Diversion Conditions are not satisfied on such Interest Payment Date, any amounts released from the Liquidity Reserve Principal Sub-Ledger of the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced; and
- (c) provided the Seller Principal Diversion Conditions are not satisfied on such Interest Payment Date, 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.

Swap Termination Deferred Principal Amounts and Swap Termination Excess Principal Amounts

In the event of a termination of a Currency Swap Agreement in relation to a Class of Non-Sterling Notes, until such time (if any) as a new currency swap transaction is entered into, on each Interest Payment Date prior to the delivery of an Enforcement Notice:

- (a) to the extent that the amount of Available Investor Principal available to the Issuer on such Interest Payment Date under the Payments Priorities to pay principal on a Class of Non-Sterling Notes (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is less than the amount of funds that would have been payable by the relevant Currency Swap Provider on such Interest Payment Date in respect of principal if the relevant Currency Swap Agreement had still been in full force and effect, the shortfall (such amounts being **"Swap Termination Deferred Principal Amounts"** and together with the Swap Termination Deferred Interest Amounts, the **"Swap Termination Deferred Amounts"**) shall be paid on such date *first*, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Principal Amounts and *second*, from Available Investor Revenue as a subordinated item in the relevant Payments Priorities, with any remainder being deferred until such Interest Payment Date as there are any Swap Termination Excess Amounts available for that Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay Swap Termination Deferred Principal Amounts; and
- (b) to the extent that the amount of Available Investor Principal available to the Issuer on such Interest Payment Date under the Payments Priorities to pay principal on a Class of Non-Sterling Notes (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is greater than the amount of funds that would have been payable by the relevant Currency Swap Provider on such Interest Payment Date in respect of principal if the relevant Currency Swap Agreement had still been in full force and effect, the excess (such amounts being **"Swap Termination Excess Principal Amounts"** and together with any Swap Termination Excess Interest Amounts and any termination payment received by the Issuer and deposited in the relevant Swap Termination Reserve Account, **"Swap Termination Excess Amounts"**) shall be used to pay on such date *firstly*, Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, on that Class of Non-Sterling Notes, with any excess being transferred to the Swap Termination Reserve Account for that Class of Non-Sterling Notes where subject to the terms of the Transaction Documents it may be applied on subsequent Interest Payment Dates to pay *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, on that Class of Non-Sterling Notes.

If a new currency swap agreement is entered into at a later date, no new Swap Termination Deferred Principal Amounts or Swap Termination Excess Principal Amounts will arise on or after such date and any then existing Swap Termination Deferred Principal Amounts would fall to be paid under the relevant Payments Priorities.

On each Interest Payment Date on or after the delivery of an Enforcement Notice, any Swap Termination Deferred Principal Amounts remaining outstanding shall be paid in accordance with the Post Enforcement Investor Payments Priorities.

The deferral process will continue until the Final Maturity Date of the relevant Class of Non-Sterling Notes or (if earlier) the date on which such Notes are redeemed in whole in accordance with Condition 15 (*Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation*), at which point, all such deferred amounts (including interest thereon) will become due and payable. Until such date, the deferral of an Interest Amount (other than a Set Interest Amount on the Most Senior Class of Notes) will not constitute an Event of Default.

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 *pro rata* and *pari passu* according to the respective amounts due:
 - (i) the Class A1a Notes (other than in respect of any Swap Termination Deferred Principal Amounts), such payment to be made to the AUD Currency Swap Provider or, if there is no AUD Currency Swap Provider, to the Australian Paying Agent, and following such payments any Swap Termination Excess Principal Amounts relating thereto shall be used to pay any Swap Termination Deferred Amounts on the Class A1a Notes with any remainder being transferred to the relevant Swap Termination Reserve Account; and
 - (ii) the Class A1b Notes (other than in respect of any Swap Termination Deferred Principal Amounts), such payment to be made to the EUR Currency Swap Provider or, if there is no EUR Currency Swap Provider, to the Principal Paying Agent, and following such payments any Swap Termination Excess Principal Amounts relating thereto shall be used to pay any Swap Termination Deferred Amounts on the Class A1b Notes with any remainder being transferred to the relevant Swap Termination Reserve Account,in each case 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, such payment to be made to the Principal Paying Agent *pro rata* and *pari passu* according to the respective amounts due;
- (e) *fifth*, in redeeming the Class A3 Notes until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the Principal Paying Agent *pro rata* and *pari passu* according to the respective amounts due;
- (f) *sixth*, in redeeming the Class B Notes until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the Principal Paying Agent;
- (g) *seventh*, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the Principal Paying Agent; and
- (h) *eighth*, the excess (if any) to be applied as Available Investor Revenue.

On or after a Principal Payments Trigger Event:

- (c) *third*, in redeeming *pro rata* and *pari passu* according to the respective amounts due:
- (i) the Class A1a Notes (other than in respect of any Swap Termination Deferred Principal Amounts), such payment to be made to the AUD Currency Swap Provider or, if there is no AUD Currency Swap Provider, to the Australian Paying Agent, and following such payments any Swap Termination Excess Principal Amounts relating thereto shall be used to pay any Swap Termination Deferred Amounts on the Class A1a Notes with any remainder being transferred to the relevant Swap Termination Reserve Account;
 - (ii) the Class A1b Notes (other than in respect of any Swap Termination Deferred Principal Amounts), such payment to be made to the EUR Currency Swap Provider or, if there is no EUR Currency Swap Provider, to the Principal Paying Agent, and following such payments any Swap Termination Excess Principal Amounts relating thereto shall be used to pay any Swap Termination Deferred Amounts on the Class A1b Notes with any remainder being transferred to the relevant Swap Termination Reserve Account;
 - (iii) the Class A2 Notes, such payment to be made to the Principal Paying Agent *pro rata* and *pari passu* according to the respective amounts due; and
 - (iv) the Class A3 Notes, such payment to be made to the Principal Paying Agent *pro rata* and *pari passu* according to the respective amounts due,
- in each case, 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, such payment to be made to the Principal Paying Agent;
- (e) *fifth*, in redeeming the Class C Notes until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the Principal Paying Agent; 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 Investor Percentage and the Seller Percentage of all amounts received or recovered (including amounts held in the Swap Termination

Reserve Accounts and, for the avoidance of doubt, on enforcement or realisation of the Security) other than Swap Collateral, Swap Tax Credits, Replacement Swap Premium, Third Party Amounts, Early Repayment Charges and Issuer Profit Amounts, being the "**Post Enforcement Seller Amounts**" and the "**Post Enforcement Investor Amounts**", respectively.

Post Enforcement Seller Amounts

An amount of the Post Enforcement Seller Amounts equal to the Seller Percentage of the Senior Expenses will be applied as a Post Enforcement Investor Amounts in accordance with the Post Enforcement Investor Payments Priorities set out below, with any remaining Post Enforcement Seller Amounts being paid to the Seller as Deferred Consideration.

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 Investor Principal Payments Priorities and the Pre Enforcement Seller Principal Payments Priorities, the "**Payments Priorities**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof 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, the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and
- (b) *second* in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any remuneration then due and payable to the Agent Bank, the Australian Calculation Agent, the Registrar, the Australian Registrar, the Transfer Agent and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement or the Australian Agency Agreement, together with (if payable) VAT thereon as provided therein;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any amounts 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 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 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
 - (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 (if payable) VAT thereon as provided therein;
- (d) *fourth*, in or towards satisfaction 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 (j) below);
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof.

- (i) any interest due and payable on the Class A1a Notes (other than Swap Termination Deferred Interest Amounts) and any Additional Interest relating thereto; provided that, for the purposes of making such payment, the Issuer shall pay such amounts to the AUD Currency Swap Provider or, if there is no AUD Currency Swap Agreement, to the Australian Paying Agent, for the account of the noteholders;
 - (ii) any interest due and payable on the Class A1b Notes (other than Swap Termination Deferred Interest Amounts) and any Additional Interest relating thereto; provided that, for the purposes of making such payment, the Issuer shall pay such amounts to the EUR Currency Swap Provider or, if there is no EUR Currency Swap Agreement, to the Principal Paying Agent, for the account of the noteholders;
 - (iii) any interest due and payable on the Class A2 Notes and Additional Interest relating thereto, such payment to be made to the Principal Paying Agent, for the account of the noteholders, *pro rata* and *pari passu* according to the respective outstanding amounts thereof;
 - (iv) any interest due and payable on the Class A3 Notes and any Additional Interest relating thereto, such payment to be made to the Principal Paying Agent, for the account of the noteholders, *pro rata* and *pari passu* according to the respective outstanding amounts thereof; and
 - (v) any other amounts due and payable to the Currency Swap Providers (other than any Currency Swap Subordinated Amounts due and payable under item (j) below);
- (f) *sixth*, to pay or in or towards redeeming, as the case may be, *pro rata* and *pari passu*:
- (i) the Class A1a Notes (other than Swap Termination Deferred Principal Amounts) until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the AUD Currency Swap Provider or, if there is no AUD Currency Swap Provider, to the Australian Paying Agent;
 - (ii) the Class A1b Notes (other than Swap Termination Deferred Principal Amounts) until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the EUR Currency Swap Provider or, if there is no EUR Currency Swap Provider, to the Principal Paying Agent;
 - (iii) the Class A2 Notes until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the Principal Paying Agent *pro rata* and *pari passu* according to the respective outstanding amounts thereof; and
 - (iv) the Class A3 Notes until the Principal Amount Outstanding thereof has been reduced to zero, such payment to be made to the Principal Paying Agent *pro rata* and *pari passu* according to the respective outstanding amounts thereof;
- (g) *seventh*, to pay *first*, Swap Termination Deferred Interest Amounts and any Additional Interest relating thereto and, *second*, Swap Termination Deferred Principal Amounts due and payable on the Class A Notes to the relevant Paying Agent, *pro rata* and *pari passu* according to the respective amounts due;
- (h) *eighth*, to pay, *first*, interest due and payable on the Class B Notes (including any Additional Interest relating thereto) and, *second*, principal due and payable on the Class B Notes until the Principal Amount Outstanding on the Class B Notes has been reduced to zero, such payment to be made to the Principal Paying Agent, for the account of the noteholders;
- (i) *ninth*, to pay, *first*, interest due and payable on the Class C Notes (including any Additional Interest relating thereto) and, *second*, principal due and payable on the Class C Notes until the Principal Amount Outstanding on the Class C Notes has been reduced to zero, such payment to be made to the Principal Paying Agent, for the account of the noteholders;
- (j) *tenth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Basis Swap Agreement and the relevant Currency Swap Agreement, to the Basis

Swap Provider and relevant Currency Swap Provider, respectively, any Swap Subordinated Amounts;

- (k) *eleventh*, in or towards payment to the Issuer of the Issuer Profit Amount on each Interest Payment Date to be retained by the Issuer as profit in respect of the business of the Issuer;
- (l) *twelfth*, to pay amounts due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (m) *thirteenth*, to pay Deferred Consideration due and payable to the Seller.

Swap Termination Reserve Accounts

A Swap Termination Reserve Account will be established for each Class of Non-Sterling Notes, in the Applicable Currency, to hold any Swap Termination Excess Amounts for such Class of Non-Sterling Notes. Swap Termination Excess Amounts on a Class of Non-Sterling Notes shall be applied to purchase a replacement swap at a future date or to pay, on any Interest Payment Date, *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts on the relevant Class of Notes (as required) on subsequent Interest Payment Dates and shall not constitute Available Investor Revenue. If, following the termination of any Swap Agreement, a replacement currency swap provider is not found, any termination payment received by the Issuer (including, for the avoidance of doubt, any net amount due to the Issuer under the relevant Swap Agreement in respect of the early termination date designated thereunder and discharged by way of application of the relevant amount of the Swap Collateral held by the Issuer in the relevant Swap Collateral Account in accordance with the relevant Swap Agreement) shall also be deposited in the relevant Swap Termination Reserve Account and shall be applied to purchase a replacement swap at a future date or to pay, on any Interest Payment Date, *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts on the relevant Class of Notes (as required).

Amounts standing to the credit of any Swap Termination Reserve Account shall be released and constitute Available Investor Revenue in the event that and on the date that a replacement swap provider is appointed for the relevant Class of Notes (and provided there are no outstanding Swap Termination Deferred Amounts payable in respect of such Class of Note) or if the relevant Class of Notes have been redeemed in full.

Application of Amounts in Respect of Termination Payments, 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 relevant Swap Agreement, to reduce the amount that would otherwise be payable by the relevant Swap Provider to the Issuer on early termination of the relevant Swap Agreement), Swap Tax Credits, Replacement Swap Premium (only to the extent it is applied directly to pay a termination payment due and payable by the Issuer to the relevant Swap Provider) and swap termination payments (only to the extent it is applied directly to acquire a replacement swap) shall, to the extent that amounts relating thereto become due and payable to the relevant Swap Provider under the terms of the relevant Swap Agreement or replacement swap provider under the terms of the relevant replacement swap agreement, be paid directly to the relevant Swap Provider or replacement swap provider, respectively, without regard to the Payments Priorities and in accordance with the terms of the Deed of Charge.

DESCRIPTION OF THE EUROPEAN NOTES IN GLOBAL FORM

General

The Sterling Notes and the EUR Notes of each 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 Sterling Notes and the EUR Notes.

The Global Note will be deposited on the Closing Date with a Common Safekeeper, in respect of the EUR Notes, and a Common Depositary, in respect of the Sterling Notes.

The Global Note will be registered in the name of the nominee for the Common Safekeeper, in respect of the EUR Notes, and the Common Depositary, in respect of the Sterling Notes, for both Euroclear and Clearstream, Luxembourg. The Registrar will maintain a register in which it will register the nominee for the Common Safekeeper or, as the case may be, Common Depositary, as the owner of the Global Note.

In a press release dated 22 October 2008, "*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*", the ECB announced that it has assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in co-operation with market participants and that notes to be held under the new structure (the "**New Safekeeping Structure**" or "**NSS**") would be in compliance with the "*Standards for the use of EU securities settlement systems in ESCB credit operations*" of the central banking system for the euro (the "**Eurosystem**"), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg as of 30 June 2010 and that registered debt securities in global registered form held issued through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

Upon confirmation by the Common Safekeeper, in respect of the EUR Notes, and the Common Depositary, in respect of the Sterling Notes, 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 or €100,000 and for so long as Euroclear and Clearstream, Luxembourg so permit, any amount in excess thereof in integral multiples of £1,000 or €1,000 respectively (an authorised denomination). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg (the "**Participants**") or persons that hold interests in the Book-Entry Interests through Participants (the "**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 Safekeeper, in respect of the EUR Notes, or the Common Depositary, in respect of the Sterling Notes, is the registered holder of the Global Note underlying the Book-Entry Interests, the nominee for the Common Safekeeper or, as the case may be, Common Depositary, will be considered the sole Noteholder of the Global Note for all purposes under the Trust Deed. Except as set forth under "*Description of the European Notes in Global Form - 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 "*Description of the European Notes in Global Form - 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 Safekeeper or, as the case may be, Common Depositary, may not be transferred except as a whole by such Common Safekeeper or Common Depositary to a successor of such Common Safekeeper or 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 (in respect of the Sterling Notes) and Euros (in respect of the EUR Notes) by or to the order of The Bank of New York Mellon, acting through its London branch, as the Principal Paying Agent on behalf of the Issuer to the order of the Common Safekeeper or its nominee (in respect of the EUR Notes), and the Common Depositary or its nominee (in respect of the Sterling Notes), 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 Safekeeper or, as the case may be, 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 Safekeeper or, as the case may be, 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 business on 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 Transfer Agent, 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

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 nominee of the Common Safekeeper or, as the case may be, Common Depositary, 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 "*Description of the European Notes in Global Form - 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 under "*Description of the European Notes in Global Form - Transfer Restrictions*", below 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 "*Description of the European Notes in Global Form - 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 28 (*Notices*) of the Notes.

DESCRIPTION OF THE AUD NOTES

On the issue of the AUD Notes the Issuer will procure that the AUD Notes be entered into the Austraclear System by the registration of Austraclear as the holder of record.

On entry, Austraclear Limited (ABN 94 002 060 773) will become the sole registered holder and legal owner of the AUD Notes. Accountholders acquire rights against Austraclear in relation to those AUD Notes as beneficial owners and Austraclear is required to deal with the AUD Notes in accordance with the directions and instructions of the Accountholders under and in accordance with the Austraclear Regulations.

Any potential investors who are not Accountholders may hold their interest in the relevant AUD Notes through a nominee who is an Accountholder. Accordingly, each beneficial owner of an AUD Note must rely on the Austraclear Regulations and, if such person is not an Accountholder, on the procedures of, and contractual arrangement in respect of, the nominee through which such person holds its interest, to exercise any right in respect of an AUD Notes.

All payments by or on behalf of the Issuer in respect of AUD Notes entered in the Austraclear System will be made directly to an account agreed with Austraclear or as it directs in accordance with the Austraclear Regulations and all notices and other dealings will be directed to Austraclear as the registered holder and will be governed by the Austraclear Regulations.

Austraclear will not be liable for any amounts owing to the Issuer, upon issue, or to investors, upon either payment of interest or amounts due on redemption, which have not been paid to it.

Where Austraclear is registered as the holder of AUD Notes that are lodged in the Austraclear System, Austraclear may in certain specified circumstances as set out in the Austraclear Regulations instruct the Australian Registrar to transfer or 'uplift' the AUD Notes to the person in whose Security Record (as defined in the Austraclear Regulations) those AUD Notes are recorded without any consent or action of such transferee and, as a consequence, remove those AUD Notes from the Austraclear System.

Holding of AUD Notes through Euroclear and Clearstream

On admission to the Austraclear System, interests in the AUD Notes may be held through Euroclear or Clearstream, Luxembourg. In these circumstances, entitlements in respect of holdings of interests in the AUD Notes in Euroclear would be held in the Austraclear System by HSBC Custody Nominees (Australia) Limited as nominee of Euroclear, while entitlements in respect of holdings of interests in the AUD Notes in Clearstream, Luxembourg would be held in the Austraclear System by ANZ Nominees Limited as nominee of Clearstream, Luxembourg.

The rights of a holder of interests in AUD Notes held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations for accountholders of Euroclear and Clearstream, Luxembourg and their respective nominees and the Austraclear Regulations.

Transfers, Secondary Market Sales and Austraclear

Any transfer of interests in AUD Notes which are held in the Austraclear System will be subject to the Austraclear Regulations, applicable law including the Corporations Act of Australia 2001 and the other requirements set out in the Transaction Documents in respect of the AUD Notes.

Secondary market sales of AUD Notes lodged in the Austraclear System will be settled in accordance with the Austraclear Regulations.

Transfer Restrictions

Noteholders may only transfer AUD Notes if:

- (a) the offer or invitation giving rise to the transfer:
 - (i) is not an offer or invitation which requires disclosure to investors under Part 6D.2 of the Corporations Act;

- (ii) is not to an offeree or invitee which is a "retail client" (within the meaning of Section 761G of the Corporations Act); and
- (b) the transfer complies with any applicable law or directive of the jurisdiction where the transfer takes place.

TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions of the European Notes in the form in which they will be set out in the Trust Deed (subject to completion and amendment) and the terms and conditions of the AUD Notes in the form in which they will be set out in the Deed Poll (subject to completion and amendment). If the European 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 European 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 A\$275,000,000 Class A1a Mortgage Backed Floating Rate Notes due 2051 (the "**Class A1a Notes**"), the €500,000,000 Class A1b Mortgage Backed Floating Rate Notes due 2051 (the "**Class A1b Notes**"), together with the Class A1a Notes, the "**Class A1 Notes**"), the £225,200,000 Class A2 Mortgage Backed Floating Rate Notes due 2051 (the "**Class A2 Notes**"), the £225,300,000 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 £112,900,000 Class B Mortgage Backed Fixed Rate Notes due 2051 (the "**Class B Notes**") and the £75,300,000 Class C Mortgage Backed Fixed 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 Headingley RMBS 2011-1 plc (registered number 7061476) (the "**Issuer**") on or about the Closing Date.
- 1.2 The Issuer has agreed to issue the European Notes subject to and with the benefit of the terms of the Trust Deed and the Agency Agreement.
- 1.3 The Issuer has agreed to issue the AUD Notes subject to and with the benefit of the terms of the Deed Poll and the Australian Agency Agreement. Although the AUD Notes will be constituted by, and owing under, the Deed Poll and will not be constituted by the Trust Deed, the Noteholders of the AUD Notes will have the benefit of, are bound by and are deemed to have notice of, the provisions of the Trust Deed.
- 1.4 The security for the Notes is created pursuant to, and on the terms set out in, the Deed of Charge.
- 1.5 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the European Notes. The Australian Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the AUD Notes.
- 1.6 Certain provisions of these Conditions are summaries of the Trust Documents, the Deed Poll, the Agency Agreement and the Australian Agency Agreement and are subject to their detailed provisions.
- 1.7 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.
- 1.8 Copies of the Transaction Documents and the Memorandum and Articles of Association of each of the Issuer and Holdings are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent and the Australian 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 and 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;

"Agency Agreement" means the agreement so named dated on or about the Closing Date between the Issuer, the Agent Bank, the Principal Paying Agent, the Registrar and the Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time);

"Agent Bank" means The Bank of New York Mellon, acting through its London branch in its capacity as agent bank pursuant to the Agency Agreement;

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

"Applicable Currency" means:

- (a) in respect of Sterling Notes, Sterling;
- (b) in respect of EUR Notes, Euro; and
- (c) in respect of the AUD Notes, Australian Dollars;

"AUD Currency Swap Agreement" means currency swap agreement so named entered into on or about the Closing Date between the Issuer and the AUD Currency Swap Provider (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

"AUD Currency Swap Provider" means National Australia Bank Limited (ABN 12 004 044 937) in its capacity as currency swap provider pursuant to the AUD Currency Swap Agreement, and any successor thereto in such capacity;

"AUD Noteholders" means holders of the AUD Notes;

"AUD Notes" means the Class A1a Notes issued by the Issuer which are constituted by, and owing under, the Deed Poll;

"Austraclear" means Austraclear Limited (ABN 94 002 060 773);

"Austraclear Regulations" means the rules, regulations and operating procedures established by Austraclear to govern the use of the Austraclear System;

"Austraclear System" means the system operated by Austraclear in Australia for the holding of securities and electronic recording and settling of transactions in those securities between members of the system;

"Australian Agency Agreement" means the agency and registry services agreement so named dated on or about the Closing Date between, amongst others, the Issuer, the Trustee, the Australian Calculation Agent, the Australian Paying Agent and the Australian Registrar (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time);

"Australian Calculation Agent" means BTA Institutional Services Australia Limited in its capacity as calculation agent pursuant to the Australian Agency Agreement;

"Australian Dollars", **"AUD"** or **"A\$"** means the lawful currency of Australia;

"Australian Paying Agent" means BTA Institutional Services Australia Limited in its capacity as paying agent in accordance with the terms of the Australian Agency Agreement;

"Australian Reference Rate" means, on any Interest Determination Date, the floating rate determined by the Australian Calculation Agent by reference to the Australian Screen Rate on such date or if on such date the Australian Screen Rate is unavailable by 10.30 am (Sydney time):

- (a) the rate the Australian Calculation Agent calculates as the Rounded Arithmetic Mean of the mid rates for Australian Dollar bills of exchange that each Reference Bank quoted or would have quoted to the leading banks in Sydney at approximately 10.00 am (Sydney time) for a period equivalent to the Relevant Period; or
- (b) if the Australian Calculation Agent is unable to calculate a rate under paragraph (a) because it is unable to obtain at least two quotes, the Australian Reserve Reference Rate;

"Australian Registrar" means the party responsible for the registration of the AUD Notes, which at the Closing Date is BTA Institutional Services Australia Limited acting in such capacity as registrar pursuant to the Australian Agency Agreement;

"Australian Reserve Reference Rate" means, on any Interest Determination Date:

- (a) the rate the Australian Calculation Agent calculates as the Rounded Arithmetic Mean of the mid rates (being the nearest equivalent to Australian Dollar bills of exchange) quoted by two or more banks, chosen in good faith by the Australian Calculation Agent, in Sydney at approximately 10.30 am (Sydney time) on the Interest Determination Date for a period equivalent to the Relevant Period to leading banks carrying on business in Sydney; or
- (b) if the Australian Calculation Agent certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Australian Reference Rate in effect for the immediately preceding Interest Period;

"Australian Screen Rate" means, in relation to an Interest Determination Date: (i) in respect of the first Interest Determination Date, the linear interpolation of the rates expressed as a percentage per annum appearing on the Screen at or about 10.10 a.m. (Sydney time) on that date as being the average mid rate (rounded up, if necessary to the nearest one ten-thousandth of a percentage point (0.0001%)) for two-month and three-month Australian Dollar bills of exchange; and (ii) on each subsequent Interest Determination Date, the rate expressed as a percentage per annum appearing on the Screen at or about 10.10 a.m. (Sydney time) on that date as being the average mid rate (rounded up, if necessary to the nearest one ten-thousandth of a percentage point (0.0001%)) for an Australian Dollar bill of exchange for a period equivalent to the Relevant Period;

"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) provided the Seller Principal Diversion Conditions are not satisfied on such Interest Payment Date, any amounts released from the Liquidity Reserve Principal Sub-Ledger of the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced; and
- (c) provided the Seller Principal Diversion Conditions are not satisfied on such Interest Payment Date, 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) the Investor Revenue received during the immediately preceding Calculation Period;
- (b) prior to and including the Step-Up Date, an amount of Seller Revenue equal to the Seller Percentage of the amounts payable by the Issuer at items (a) to (d) of the Pre Enforcement Investor Revenue Payments Priorities on the relevant Interest Payment Date and following the Step-Up Date, all Seller Revenue;
- (c) 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;
- (d) all amounts received by the Issuer under the Basis Swap Agreement, or any replacement basis swap agreement, on such Interest Payment Date (excluding Swap Collateral posted under the Basis Swap Agreement, save to the extent that any net amount due to the Issuer under the Basis Swap Agreement in respect of the early termination date designated thereunder is discharged by way of application of the relevant amount of the Swap Collateral held by the Issuer in the relevant Swap Collateral Account in accordance with the Basis Swap Agreement) other than:
 - (i) any early termination payment received by the Issuer from the Basis Swap Provider to the extent utilised to acquire, at any time, a new basis swap; and
 - (ii) Replacement Swap Premium paid by a replacement basis swap provider to the extent utilised to pay any termination payment on the Basis Swap;
- (e) all amounts received by the Issuer under the Currency Swap Agreements or any replacement currency swap agreement on such Interest Payment Date (excluding Swap Collateral posted under a Currency Swap Agreement, save to the extent that any net amount due to the Issuer under a Currency Swap Agreement in respect of any early termination date designated thereunder is discharged by way of application of the relevant amount of such Swap Collateral held by the Issuer in the relevant Swap Collateral Account in accordance with the relevant Currency Swap Agreement) other than:
 - (i) any payments that are used to redeem principal of the Non-Sterling Notes on such Interest Payment Date;
 - (ii) any early termination payment received by the Issuer from a Currency Swap Provider and either transferred to the relevant Swap Termination Reserve Account or to the extent utilised to acquire, at any time, a replacement currency swap; and
 - (iii) Replacement Swap Premium paid by a replacement currency swap provider to the extent utilised by the Issuer to pay any termination payment on a Currency Swap;
- (f) other net income of the Issuer received during the immediately preceding Calculation Period (other than: (i) Principal Receipts; (ii) Seller Revenue; (iii) Early Repayment Charges; (iv) Third Party Amounts; (v) the Expenses Advance to the extent not utilised to pay the costs of issuance; (vi) Swap Tax Credits; (vii) amounts held in the Swap Termination Reserve Accounts (other than any funds released from a Swap Termination Reserve Account upon the appointment of a replacement currency swap provider for the relevant Class of Notes or redemption in full of the relevant Class of Notes, provided there are no outstanding Swap Termination Deferred Amounts for such Class of Note); and (viii) other than on the First Interest Payment Date, the Initial General Reserve Advance), including any cash payments made by the Seller to the Issuer representing an amount of Capitalised Interest allocated to the Investor Principal Amount;

- (g) 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;
- (h) any amounts released from the General Reserve Fund when the General Reserve Fund Required Amount is reduced to zero;
- (i) any amounts released from the Liquidity Reserve Revenue Sub-Ledger of the Liquidity Reserve Fund when the Liquidity Reserve Fund Required Amount is reduced;

plus

- (j) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (i) above being insufficient to pay or provide for items (a) to (k) 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 cover such Revenue Shortfall;

plus

- (k) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (j) above being insufficient to pay or provide for items (a) to (k) 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);

plus

- (l) if a Revenue Shortfall occurs (as a result of the aggregate of items (a) to (k) above being insufficient to pay or provide for items (a) to (k) 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 cover 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).

"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 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

"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, gross negligence or breach of trust or (other than with respect to the Trustee) material breach of any agreement by such person;

"Business Day" means, a day on which commercial banks and foreign exchange markets settle payments in London, Sydney and Melbourne and which is a TARGET2 Business Day;

"Calculation Date" means the first Business Day of March, June, September and December in each calendar year commencing on 1 June 2011. 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;

"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, varied, 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 A1a Notes, the Class A1b 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 A1 Notes" means the Class A1a Notes together with the Class A1b Notes;

"Class A1a Notes" means the A\$275,000,000 Class A1a asset backed floating rate Notes due 2051;

"Class A1b Notes" means the €500,000,000 Class A1b asset backed floating rate Notes due 2051 (whether represented by Definitive Notes or the Global Note);

"Class A2 Notes" means the £225,200,000 Class A2 asset backed floating rate Notes due 2051 (whether represented by Definitive Notes or the Global Note);

"Class A3 Notes" means the £225,300,000 Class A3 asset backed floating rate Notes due 2051 (whether represented by Definitive Notes or the Global Note);

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

"Class B Notes" means the £112,900,000 Class B asset backed fixed rate Notes due 2051 (whether represented by Definitive Notes or the Global Note);

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

"Class C Notes" means the £75,300,000 Class C asset backed fixed rate Notes due 2051 (whether represented by Definitive Notes or the Global Note);

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

"Closing Date" means 31 March 2011, or such other date as the Issuer and the Lead Managers may agree;

"Conditions" means in relation to the:

- (a) Sterling Notes and the EUR Notes, the terms and conditions to be endorsed on such Notes in, or substantially in, the form set out in Schedule 3 of the Trust Deed, in so far as they relate to the Sterling Notes or the EUR Notes (as applicable), 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; and

- (b) AUD Notes, the terms and conditions of the AUD Notes in the form set out in Schedule 2 of the Deed Poll, in so far as they relate to the AUD Notes, as any of the same may from time to time be modified in accordance with the Trust Deed and the Deed Poll 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 (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;

"Corporations Act" means the Corporations Act 2001 of Australia;

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

"Currency Swap" means a currency swap entered into pursuant to a Currency Swap Agreement;

"Currency Swap Agreement" means each of the AUD Currency Swap Agreement and the EUR Currency Swap Agreement, together the **"Currency Swap Agreements"**;

"Currency Swap Provider" means each of the AUD Currency Swap Provider and the EUR Currency Swap Provider, together the **"Currency Swap Providers"**;

"Day Count Fraction" means, in respect of an Interest Period:

- (a) for Sterling Notes and AUD Notes, the actual number of days in such period divided by 365; or
- (b) for EUR Notes the actual number of days in such period divided by 360;

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

"Deed Poll" means the deed poll so named (including the Conditions of the AUD Notes) dated on or about the Closing Date executed by the Issuer constituting the AUD Notes and any document expressed to be supplemental to the Deed Poll;

"Definitive Notes" has the meaning ascribed to it in Condition 4.3;

"Enforcement Notice" means a notice issued by the Trustee to the Issuer declaring the Notes to be due and repayable pursuant to Condition 19 (*Events of Default*);

"Euro", **"euro"** or **"€"** means the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty;

"EUR Currency Swap Agreement" means the currency swap agreement so named to be entered into on or about the Closing Date between the Issuer and the EUR Currency Swap Provider (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

"EUR Currency Swap Provider" means The Royal Bank of Scotland plc in its capacity as currency swap provider pursuant to the EUR Currency Swap Agreement, and any successor thereto in such capacity;

"EUR Notes" means the Class A1b Notes;

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

"European Notes" means the Sterling Notes and the EUR Notes and **"European Note"** means any of them whether represented by Definitive Notes or the Global Note;

"Euro Reference Rate" means, the floating rate determined by the Agent Bank by reference to the Euro Screen Rate on such date or if, on such date, the Euro Screen Rate is unavailable:

- (a) the Rounded Arithmetic Mean of the offered quotations, as at or about 11:00 a.m. (Brussels time) on that date, of the Reference Banks to major banks in the Euro-zone interbank market for euro deposits for the Relevant Period in the London interbank market in the Representative Amount, determined by the Agent Bank after request of the principal Euro-zone office of each of the Reference Banks; or
- (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 Euro Reserve Reference Rate;

"Euro Reserve Reference Rate" means on any Interest Determination Date:

- (a) the Rounded Arithmetic Mean of the rates quoted by major banks in the Euro-zone, selected by the Agent Bank, at approximately 11:00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in euro to major European banks) for the Relevant Period and in the Representative Amount; or
- (b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Euro Reference Rate in effect for the immediately preceding Interest Period;

"Euro Screen Rate" means, in relation to an Interest Determination Date: (i) on the first Interest Determination Date, the linear interpolation of the rate for two-month and three-month euro deposits; and (ii) on each subsequent Interest Determination Date, the rate for euro deposits for the Relevant Period, in each case which appears on the Screen as at or about 11:00 a.m. (Brussels time) on that date;

"Euro-zone" means the region comprised of member states of the European Union which adopt the euro in accordance with the Treaty;

"Event of Default" means any one of the events specified in Condition 19 (*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 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 March 2051;

"First Interest Payment Date" means 14 June 2011;

"GIC Account" means the account in the name of the Issuer (account number 06078855, sort code 12-08-03) 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 4.2;

"holder" means the registered holder of a Note as entered in the Register in respect of that Note and the words **"holders"** and related expressions shall (where appropriate) be construed accordingly;

"Holdings" means Headingley RMBS 2011-1 Holdings Limited (registered number 7115487), 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;

"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,

plus any deferral of interest under Condition 13.11(b);

"Interest Determination Date" means:

- (a) in respect of the Sterling Notes, each Interest Payment Date or, in the case of the first Interest Period, the Closing Date;
- (b) in respect of the EUR Notes, each day which is two TARGET2 Settlement Days prior to an Interest Payment Date or, in the case of the first Interest Period, the Closing Date; and
- (c) in respect of the AUD Notes, each Interest Payment Date or, in the case of the first Interest Period, the Closing Date,

and an Interest Determination Date shall relate to an Interest Period (and be the **"related Interest Determination Date"** in respect of such Interest Period) where the Interest Period commences on such Interest Determination Date;

"Interest Payment Date" means the 11th day of March, June, September and December 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 approximately 90.909%; and
- (b) thereafter, on each Calculation Date, shall be an amount, expressed as a percentage,
- $$\text{equal to } \frac{A + B - C - D}{E} \times 100, \text{ where:}$$

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

- B means an amount equal to the investor share of any Capitalised Interest in respect of each Mortgage Loan where there has been a Payment Holiday from (and including) the immediately preceding Calculation Date *less* an amount equal to any cash payment made by the Seller to the Issuer since the immediately preceding Calculation Date in respect of Capitalised Interest and to be applied by the Issuer as Available Investor Revenue on the immediately following Interest Payment Date in accordance with the Payments Priorities;
- C 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;
- D 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
- E 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;

"Issuer Accounts" means the GIC Account, the Transaction Account and any Swap Termination Reserve 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 27 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

"Issuer Profit Amount" means an amount equal to £7,000 on each Interest Payment Date up to and including the Interest Payment Date falling in December 2011 and £250 on each Interest Payment Date thereafter, in each case, to be credited to the Issuer Profit Ledger of the Transaction Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

"Issuer Profit Ledger" means the ledger of the Transaction Account so named in the books of the Issuer and maintained by the Cash Manager on behalf of the Issuer;

"Lead Managers" means:

- (a) in respect of the Sterling Notes, Lloyds TSB Bank plc;
- (b) in respect of the EUR Notes, Lloyds TSB Bank plc and Natixis; and
- (c) in respect of the AUD Notes, Lloyds TSB Bank plc, acting through its Australian branch (ARBN 142 617 605), National Australia Bank Limited (ABN 12 004 044 937) and Macquarie Bank Limited (ABN 46 008 583 542);

"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, in respect of the Sterling Notes, one penny; in respect of the EUR Notes, 0.01 euro and in respect of the AUD Notes, one cent;

"Minimum Denomination" means:

- (a) in respect of the Notes represented by the Global Notes and (if issued) the Definitive Notes:
 - (i) in respect of Sterling 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
 - (ii) in respect of the EUR 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;
- (b) in respect of the AUD Notes, A\$100,000 and for so long as Austraclear so permits, any amount in excess thereof in integral multiples of A\$10,000;

"Minimum Seller Principal Amount" means on the Closing Date, approximately £42,762,311 and thereafter, on each Calculation Date, an amount equal to "X" where "X" has the meaning set out in the definition of Minimum Seller Percentage;

"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 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;

"Non-Sterling Notes" means the AUD Notes and the EUR Notes;

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

- (a) in the case of each Class A1a Note, an amount equal to the lesser of the amount of Available Investor Principal to be applied in or towards redeeming the Class A1a Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class A1a Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1a Notes;
- (b) in the case of each Class A1b Note, an amount equal to the lesser of the amount of Available Investor Principal to be applied in or towards redeeming the Class A1b Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the

Principal Amount Outstanding of the Class A1b Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1b Notes;

- (c) 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;
- (d) 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;
- (e) 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;
- (f) 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 Rate**" for each Interest Period means:

- (a) in respect of the Class A Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such Interest Period for such class; and
- (b) in respect of the Class B Notes and 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 A1a Notes, the Class A1b 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;

"**Notices Condition**" means Condition 28 (*Notices*);

"**Notices Details**" means the provisions set out in Schedule 3 (*Notices Details*) of the Incorporated Terms Memorandum;

"**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, the Principal Paying Agent or the Australian Paying Agent in the manner provided for in the Agency Agreement or the Australian 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 purchased and cancelled, (including in respect of the European Notes, surrendered for cancellation), as provided in Condition 15 (*Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase 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 European Notes which have been surrendered or cancelled and those European Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement European 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;

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of Noteholders;
- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 17 (*Waiver*), Clause 18 (*Modifications*), Clause 23 (*Proceedings and Actions by the Trustee*), Clause 32 (*Appointment of Trustees*) and Clause 33 (*Notice of New Trustee*) of the Trust Deed and Condition 19 (*Events of Default*), Condition 20 (*Enforcement*) and Condition 22 (*Meetings of Noteholders*) and the Provisions for Meetings of Noteholders; and
- (iii) any discretion, power or authority, whether contained in the Trust Deed or provided by law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them,

those Notes (if any) which are for the time being held by or on behalf of or for the benefit of the Issuer or the Seller, any holding company of the Issuer or the Seller or any other subsidiary of such holding company (the "**Relevant Persons**"), in each case as beneficial owner, shall (unless and until ceasing to be so held) be deemed not to remain outstanding, except where all of the Notes of any Class are held by or on behalf of or for the benefit of one or more Relevant Persons, in which case such Class of Notes (the "**Relevant Class of Notes**") shall be deemed to remain outstanding except that, if there is any other Class of Notes ranking *pari passu* with, or junior to, the Relevant Class of Notes and one or more Relevant Persons are not the beneficial owners of all the Notes of such Class, then the Relevant Class of Notes shall be deemed not to remain outstanding;

"**Paying Agents**" means the Principal Paying Agent, the Australian Paying Agent and any other paying agents named in the Agency Agreement and the Australian Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement or the Australian Agency Agreement;

"**Payments Priorities**" means the Pre Enforcement Payments Priorities and the Post Enforcement Investor 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 15.2 (*Post Enforcement Investor 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 2 of the Cash Management Agreement;

"Pre Enforcement Payments Priorities" means the Pre Enforcement Investor 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 3 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 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 Agent" means The Bank of New York Mellon, acting through its 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 Step-Up Date; or
- (b) there is a debit balance on the Class B Principal Deficiency Sub-Ledger on any Interest Payment Date; or
- (c) the Seller Principal Amount is less than the Minimum Seller Principal Amount;

"Provisions for Meetings of Noteholders" means the provisions contained in Schedule 5 of the Trust Deed;

"Rating Agencies" means Moody's and S&P 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, in respect of the European Note and AUD Notes, have the meaning in respect of the relevant Notes as defined in Condition 17.4 (*Record Date*);

"Reference Banks" means:

- (a) in respect of the Sterling Notes, the principal London office of four major banks in the London interbank market; and
- (b) in respect of the EUR Notes, the principal Euro-zone office of four major banks in the Euro-zone interbank market;
- (c) in respect of the AUD Notes, five lending banks in Sydney that quote rates for Australian Dollar bills of exchange;

in each case, selected by the Agent Bank, or in respect of the AUD Notes, the Australian Calculation Agent at the relevant time;

"Reference Rate" means:

- (a) in respect of the Class A2 Notes and the Class A3 Notes, the Sterling Reference Rate;
- (b) in respect of the EUR Notes, the Euro Reference Rate; and
- (c) in respect of the AUD Notes the Australian Reference Rate;

"Registrar" means the party responsible for the registration of the European Notes, which at the Closing Date is The Bank of New York Mellon (Luxembourg) S.A. acting in such capacity pursuant to the Agency Agreement;

"Register" means (i) in respect of the European Notes the register on which the names and addresses of the holders of the European Notes and the particulars of the European Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar; and (ii) in respect of the AUD Notes, the register on which the names and addresses of the holders of the AUD Notes and the particulars of the AUD Notes shall be entered and kept by the Issuer at the Specified Office of the Australian Registrar;

"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 Exchange Rate" means in relation to the Non-Sterling Notes the exchange rate specified in the relevant Currency Swap (notwithstanding its termination);

"Relevant Margin" means, in respect of an Interest Period:

- (a) for the Class A1a Notes, 1.50 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 1.75 per cent. per annum;
- (b) for the Class A1b Notes, 1.25 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 1.50 per cent. per annum;
- (c) for the Class A2 Notes, 1.45 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 1.95 per cent. per annum; and
- (d) for the Class A3 Notes, 1.55 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 2.30 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;

"Replacement Swap Premium" means any amount received by the Issuer from a replacement swap provider upon entry by the Issuer into a replacement swap agreement with such replacement swap provider to replace the Basis Swap or any Currency Swap, as applicable;

"Representative Amount" means an amount that is representative for a single transaction in the relevant market at the relevant time;

"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 27 (*Substitution of Issuer*) and Clause 21 (*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;

"Revenue Ledger" means the ledger in the books of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer;

"Rounded Arithmetic Mean" means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent);

"S&P" means Standard & Poor's Credit Market Services Europe Limited and includes any successor to its rating business;

"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 Mortgage" means a Mortgage on a property located in Scotland;

"Screen" means, in relation to Sterling, Reuters Screen LIBOR01 in relation to euro Reuters Screen EURIBORO and in relation to Australian Dollars Reuters Screen BBSW Page; or

- (a) such other page as may replace Reuters Screen LIBOR01 or Reuters Screen EURIBORO or Reuters Screen BBSW Page (as applicable) 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;

"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 Australian Calculation Agent, the Paying Agents, the Registrar, the Australian Registrar, the Transfer Agent, the Basis Swap Provider, the Currency Swap Providers 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 plc 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, £125,402,670; and
- (b) on each Calculation Date, an amount equal to $E \times \text{Seller Percentage}$ on such date, where "E" has the meaning set out in the definition of Investor Percentage;

"**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 Servicer, the Seller and the Trustee;

"**Set Interest Amount**" means, on each Interest Payment Date:

- (a) in respect of the AUD Notes, the amounts calculated as being due by the Issuer to the AUD Currency Rate Swap Provider under the AUD Currency Swap on such Interest Payment Date in exchange for which the AUD Currency Swap Provider would pay an amount equal to the interest due and payable to the AUD Noteholders on such Interest Payment Date (excluding, for the avoidance of doubt, any payments with respect to the principal of the AUD Notes that might be due on such Interest Payment Date) or, if the AUD Currency Swap Agreement has been terminated, the amount that would have been payable by the Issuer on such Interest Payment Date if it had not been so terminated;
- (b) in respect of the EUR Notes, the amounts calculated as being due by the Issuer to the EUR Currency Rate Swap Provider under the EUR Currency Swap on such Interest Payment Date in exchange for which the EUR Currency Swap Provider would pay an amount equal to the interest due and payable to the EUR Noteholders on such Interest Payment Date (excluding, for the avoidance of doubt, any payments with respect to the principal of the EUR Notes that might be due on such Interest Payment Date) or, if the EUR Currency Swap Agreement has been terminated, the amount that would have been payable by the Issuer on such Interest Payment Date if it had not been so terminated; and
- (c) in respect of the Sterling Notes, the interest due and payable on such Notes under the terms and conditions of the Notes;

"**Share Trust Deed**" means the deed so named dated 26 May 2010 and executed by the Share Trustee;

"**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 or clause 19.5 (*Changes in Specified Offices*) of the Australian Agency Agreement;

"**Spot Rate**" means Lloyds TSB Bank plc's spot rate of exchange for the purchase of the Applicable Currency with Sterling in the London foreign exchange market at or about 11:00 a.m. on a particular day;

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

"Step-Up Date" means the Interest Payment Date falling in 11 March 2018;

"Sterling" and **"£"** denote the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

"Sterling Equivalent Principal Amount Outstanding" means:

- (a) in relation to the Non-Sterling Notes or any Class of Non-Sterling Note, the sterling equivalent of the Principal Amount Outstanding of such Note or Class of Notes ascertained using the Relevant Exchange Rate relating to such Notes, and
- (b) in relation to the Sterling Notes or any Class of Sterling Notes, the Principal Amount Outstanding of such Note or Class of Notes;

"Sterling Notes" means the Class A2 Notes, the Class A3 Notes, the Class B Notes and the Class C Notes;

"Sterling Reference Rate" means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Sterling Screen Rate on such date or if, on such date, the Sterling 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 Sterling Reserve Reference Rate;

"Sterling 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 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 Sterling Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

"Sterling Screen Rate" means, in relation to: (i) the first Interest Determination Date, the linear interpolation of offered quotations for two-month and three-month Sterling deposits; and (ii) each subsequent Interest Determination Date, the offered quotations for Sterling deposits for the Relevant Period, in each case which appears on the Screen as at or about 11:00 a.m. (London time) on that date;

"Stock Exchange" means the London Stock Exchange PLC;

"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;

"Subscription Agreement" means the subscription agreement so named dated on or about 28 March 2011 between the Issuer, the Seller and the Lead Managers;

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

"Swap Agreements" means the Basis Swap Agreement and the Currency Swap Agreements and "Swap Agreements" means any of them;

"Swap Collateral" means any cash or securities transferred by a Swap Provider to the Issuer on any date pursuant to the terms of the relevant Credit Support Annex to the relevant Swap Agreement (including for the avoidance of doubt, any interest and income earned on such cash or securities).

"Swap Collateral Return Payment" means any amount of cash or securities (including for the avoidance of doubt, any interest and income earned on such cash or securities) required to be transferred to the Basis Swap Provider or the relevant Currency Swap Provider in accordance with the applicable Swap Agreement or Credit Support Annex;

"Swap Providers" means the Basis Swap Provider and the Currency Swap Providers and **"Swap Provider"** means any of them;

"Swap Reserved Matter" means, in respect of a Swap Provider, any proposal:

- (a) to make an amendment to the Payments Priorities that has an adverse effect on such Swap Provider;
- (b) to make an amendment to any Transaction Document as a result of which such Swap Provider would be required to pay more or receive less under the relevant Swap Agreement or make or receive a payment under the relevant Swap Agreement on a different date; or
- (c) to amend Condition 15 (*Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation*) of the Notes;

"Swap Tax Credits" means any amounts that must be paid by the Issuer to any Swap Provider pursuant to paragraph (j) of Part 5 of the Schedule to the relevant Currency Swap Agreement or the Basis Swap Agreement (as the case may be);

"Swap Termination Deferred Amounts" has the meaning given to it in Condition 14(a) (*Swap Termination Deferred Principal*);

"Swap Termination Deferred Interest Amounts" has the meaning given to it in Condition 13.11 (*Interest Accrual*);

"Swap Termination Deferred Principal Amounts" has the meaning given to it in Condition 14(b) (*Swap Termination Deferred Principal*);

"Swap Termination Excess Amounts" has the meaning given to it in Condition 14(b) (*Swap Termination Deferred Principal*);

"Swap Termination Excess Interest Amounts" has the meaning given to it in Condition 13.11 (*Interest Accrual*);

"Swap Termination Excess Principal Amounts" has the meaning given to it in Condition 14(b) (*Swap Termination Deferred Principal*);

"Swap Termination Reserve Account" means the relevant swap termination reserve account established in respect of principal or interest payments on the Class A1a Notes, the Class A1b Notes or the Class A3 Notes (as applicable), in each case in the Applicable Currency;

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

"**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 06078863, sort code 12-08-83) 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, Australian Agency Agreement, Account Bank Agreement, Basis Swap Agreement, Cash Management Agreement, Corporate Services Agreement, Deed of Charge, Currency Swap Agreements, Incorporated Terms Memorandum, Mortgage Sale Agreement, Subscription Agreement, Servicing Agreement, the Scottish Declaration of Trust, the Share Trust Deed, Subordinated Loan Agreement, the Notes, Trust Deed (including the Conditions), Deed Poll (including the Conditions) and any other Trust Documents 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 Agent**" means The Bank of New York Mellon, acting through its London branch in its capacity as transfer agent in accordance with the terms of the Agency Agreement;

"**Trust Deed**" means the deed so named (including the Conditions and the form of the European Notes) dated on or about the Closing Date between the Issuer and the Trustee constituting the European Notes and any document expressed to be supplemental to the Trust Deed;

"**Trust Documents**" means the Trust Deed, the Deed Poll 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, the Deed Poll or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed, the Deed Poll or the Deed of Charge (as applicable);

"**Trustee**" means The Bank of New York Mellon, acting through its Australian branch at Level 2, 35 Clarence Street, Sydney NSW 2000, Australia 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;

"**Written Resolution**" means a resolution in writing signed by or on behalf 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.

3. **Interpretation and Construction**

3.1 **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;

"**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

3.2 **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.

3.3 **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.

3.4 **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.

3.5 **Headings:** Condition headings are for ease of reference only.

3.6 **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.

3.7 **Number**

In any Transaction Document, save where the context otherwise requires, words importing the singular number include the plural and vice versa.

4. **Form and Denomination – European Notes**

4.1 The European Notes are in fully registered form and serially numbered in the Minimum Denomination for the European Notes. European Notes in registered form are issued without coupons attached. The expression "**European Notes**" means and includes co ownership under a permanent global note and the expression "**Noteholder**" in respect of a European Note shall mean and include any person entitled to co-ownership and further benefit under a permanent global note.

4.2 The Principal Amount Outstanding of the European Notes of each Class initially offered and sold outside the United States to non U.S. Persons in reliance on 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.

4.3 Definitive registered European 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 4.4 below. Definitive Notes, if issued, will be issued in the applicable Minimum Denomination for the European Notes.

4.4 If, while any European Notes are represented by a Global Note:

- (a) in the case of a Global Note held with 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 European Notes which would not be required if the European 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.

5. **Form and Denomination – AUD Notes**

5.1 The AUD Notes are debt obligations of the Issuer constituted by, and owing under, the Deed Poll.

5.2 Each AUD Note is in registered form and is issued by an entry in the Register for the AUD Notes.

5.3 The entries in the Register in respect of the AUD Notes constitute:

- (a) an irrevocable undertaking by the Issuer to the Noteholder to pay principal, interest and any other amount subject to and in accordance with the Conditions, the Deed Poll and the Trust Deed and comply with the other Conditions in respect of the AUD Notes; and

- (b) an entitlement to the other benefits given to Noteholders under the Conditions and the Deed Poll in respect of the AUD Notes.
- 5.4 AUD Notes may only be issued if the:
- (a) amount subscribed for, or the consideration payable to the Issuer, by the relevant Noteholder is a minimum of A\$500,000 (or its equivalent in other currencies) (disregarding amounts, if any, lent by the Issuer or other person offering the AUD Notes or its associates (within the meaning of those expressions in Part 6D.2 of the Corporations Act)) unless the issue is otherwise in circumstances which does not require disclosure to investors under Part 6D.2 of the Corporations Act;
 - (b) offer or invitation in respect of the issue is not to a "retail client" (within the meaning of Section 761G of the Corporations Act); and
 - (c) offer or invitation and any resulting issue complies with all other applicable laws and directives in the jurisdiction in which the offer, invitation or issue takes place.
- 5.5 AUD Notes when issued may only be denominated in and issued in the Minimum Denominations of Australian Dollars.
- 5.6 No certificates will be issued in respect of an AUD Note unless the Issuer determines that certificates should be issued or are required by law.
6. **Title and transfer – European Notes**
- 6.1 The person registered in the Register as the holder of any European 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 European 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 European Note.
- 6.2 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 European Notes and the particulars of the European Notes held by them and of all transfers and redemptions of the European Notes.
- 6.3 No transfer of a European Note will be valid unless and until entered on the Register.
- 6.4 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 European Notes and the detailed regulations concerning transfers of such European Notes contained in the Agency Agreement, the Trust Deed and the legend appearing on the face of the European 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 Transfer Agent in the U.K. or the Registrar to any holder of a European Note who so requests and will be available upon request at the Specified Office of the Registrar or the Transfer Agent.
- 6.5 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 Transfer 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 or Transfer Agent.
- 6.6 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 Transfer 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.

6.7 Registration of Definitive Notes on transfer will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent, but upon payment of (or the giving of such indemnity as the Registrar or Transfer Agent may require in respect of) any tax or other governmental charges which may be imposed in relation to it.

6.8 No holder of a Definitive Note may require the transfer of such European Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on such European Note.

7. Title and registration – AUD Notes

7.1 Entries in the Register with respect to an AUD Note are conclusive evidence that that the person so entered is the absolute owner of the AUD Note, subject to correction for fraud or error.

7.2 Except as required by order of a court of competent jurisdiction, or as required by law:

(a) the Issuer, the relevant Agents and the Australian Registrar must treat the person whose name is entered in the Register as the Noteholder of an AUD Note as the absolute owner of that AUD Note, whether or not any payment in relation to such AUD Note is overdue and regardless of any notice of ownership, trust or any other interest in, or claim to, an AUD Note; and

(b) upon a person acquiring title to an AUD Note by virtue of becoming registered as the owner of that AUD Note, all rights and entitlements arising by virtue of the Conditions, the Deed Poll and the Trust Deed in respect of that AUD Note vest absolutely in the registered owner of the AUD Note, so that no person who has previously been registered as the owner of the AUD Note nor any other person has or is entitled to assert against the Issuer or the Australian Registrar any rights, benefits or entitlements in respect of the AUD Note.

No notice of any trust or other interest in, or claim to, any AUD Note will be entered in the Register.

7.3 If two or more persons are entered into the Register in respect of an AUD Note as joint Noteholders, they are taken to hold the AUD Note as joint tenants with rights of survivorship. The Australian Registrar is not bound to register more than four persons as joint holders of an AUD Note.

7.4 The Issuer shall cause to be kept at the Specified Office of the Australian Registrar, the Register on which shall be entered in respect of an AUD Note:

(a) the principal amount of the AUD Note;

(b) the name and address of the Noteholder of the AUD Note;

(c) the issue date, the Final Maturity Date and the Note Rate in respect of the AUD Note;

(d) any payment instructions notified by the Noteholder of the AUD Note or provided by the Issuer in respect of the AUD Note;

(e) particulars of any transfers and redemptions of the AUD Note; and

(f) such other information as is required by the terms of the Australian Agency Agreement by all applicable laws or as the Issuer and Australian Registrar agree.

The Issuer shall use reasonable endeavours to procure that the Australian Registrar complies with the obligations expressed in the Conditions, the Deed Poll, the Trust Deed and the Australian Agency Agreement to be performed by the Australian Registrar.

8. **Transfer – AUD Notes**

- 8.1 Noteholders may only transfer AUD Notes in whole and in accordance with the Conditions.
- 8.2 Noteholders may only transfer AUD Notes if:
- (a) the offer or invitation giving rise to the transfer:
 - (i) is not an offer or invitation which requires disclosure to investors under Part 6D.2 of the Corporations Act; and
 - (ii) is not to an offeree or invitee which is a "retail client" (within the meaning of Section 761G of the Corporations Act); and
 - (b) the transfer complies with any applicable law or directive of the jurisdiction where the transfer takes place.
- 8.3 Interests in AUD Notes held in the Austraclear System may only be transferred in accordance with the Austraclear Regulations.
- 8.4 Application for transfer of AUD Notes not held in the Austraclear System or another clearing system must be made by the lodgement of a transfer at the Specified Office of the Australian Registrar. To be valid a transfer form must be:
- (a) in the form provided by the Australian Registrar;
 - (b) duly completed and signed by, or on behalf of, the transferor and the transferee; and
 - (c) accompanied by any evidence that the Australian Registrar may require to establish that the transfer form has been duly executed.
- 8.5 No fee is payable to register a transfer of an AUD Note so long as all applicable taxes, stamp duties and other similar taxes in respect of the transfer have been paid.
- 8.6 The transferor of an AUD Note shall remain the Noteholder of that AUD Note until the name of the transferee is entered in the Register in respect of that AUD Note.
- 8.7 Where a Noteholder transfers some but not all of the AUD Notes registered in its name, and the specific AUD Notes to be transferred are not identified, the Australian Registrar may register the transfer in respect of such of the AUD Notes registered in the name of the Noteholder as the Australian Registrar thinks fit, provided the aggregate Principal Amount Outstanding of the AUD Notes registered as having been transferred equals the aggregate principal amount of the AUD Notes expressed to be transferred in the transfer form.
- 8.8 A person becoming entitled to an AUD Note as a consequence of the death or bankruptcy of a Noteholder or of a vesting order or a person administering the estate of a Noteholder may transfer the AUD Note or, if so entitled, become registered as the Noteholder of the relevant AUD Note upon producing such evidence as to that entitlement or status as the Australian Registrar considers sufficient.
- 8.9 A transfer to an unincorporated association is not permitted.
- 8.10 The registration of the transfer of an AUD Note may be suspended by the Australian Registrar after the close of business on the Record Date.
- 8.11 The Issuer is not responsible for any stamp duties or other similar taxes which are payable in any jurisdiction in connection with any transfer, assignment or any other dealing by a Noteholder with the AUD Note.

9. **Austraclear and AUD Notes**

9.1 The AUD Notes will be lodged, subject to the agreement of Austraclear, into the Austraclear System. When the AUD Notes are lodged into the Austraclear System, the Australian Registrar will enter Austraclear in the Register as the Noteholder of those AUD Notes.

9.2 When Austraclear is recorded in the Register as the Noteholder of the AUD Notes, each person in whose Security Record (as defined in the Austraclear Regulations) an AUD Note is recorded is taken to acknowledge in favour of the Issuer, the Australian Registrar and Austraclear that:

- (a) the Australian Registrar's decision to act as the Australian Registrar is not a recommendation or endorsement by the Australian Registrar in relation to that AUD Note, but only indicates that the Australian Registrar considers that the holding of the AUD Note is compatible with the performance by it of its obligations as Australian Registrar under the Australian Agency Agreement; and
- (b) the Noteholder does not rely on any fact, matter or circumstance to the contrary.

9.3 For so long as any AUD Note is lodged in the Austraclear System:

- (a) all payments of the Issuer or the Australian Registrar in relation to those AUD Notes will be made or directed to Austraclear and all notices required of the Issuer or the Australian Registrar in relation to those AUD Notes may be made or directed to Austraclear, in each case, in accordance with the Austraclear Regulations; and
- (b) all dealings (including transfers and payments) in relation to those AUD Notes within the Austraclear System will be governed by the Austraclear Regulations and need not comply with the Conditions to the extent of any inconsistency.

9.4 On admission to the Austraclear System, interests in the AUD Notes may be held through Euroclear or Clearstream, Luxembourg. In these circumstances, entitlements in respect of holdings of interests in the AUD Notes in Euroclear would be held in the Austraclear System by HSBC Custody Nominees (Australia) Limited as nominee of Euroclear while entitlements in respect of holdings of interests in the AUD Notes in Clearstream, Luxembourg would be held in the Austraclear System by ANZ Nominees Limited as nominee of Clearstream, Luxembourg.

9.5 The rights of a holder of interests in AUD Notes held through Euroclear or Clearstream, Luxembourg are subject to the respective rules and regulations for accountholders of Euroclear and Clearstream, Luxembourg and their respective nominees and the rules and regulations of the Austraclear System.

9.6 In addition, any transfer of interests in AUD Notes which are held through Euroclear or Clearstream, Luxembourg (to the extent such transfer will be recorded in the Austraclear System and is in respect of offers or invitations received in Australia) will be subject to the Corporations Act and the other requirements set out in the Conditions.

10. **Status and Ranking**

10.1 **Status:** The Notes of each Class constitute direct, secured (in accordance with Condition 16 (*Limited Recourse*)) and unconditional obligations of the Issuer.

10.2 **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.

10.3 **Sole Obligations:** The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.

- 10.4 **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 or the Post Enforcement Investor Payments Priorities and subject to the swap termination deferrals mechanism set out in Condition 13.11 (*Interest Accrual*). Payments of interest on the Class A1 Notes, the Class A2 Notes and the Class A3 Notes will rank *pari passu* and *pro rata*.
- 10.5 **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 Investor Payments Priorities and subject to the swap termination deferrals mechanism set out in Condition 14 (*Swap Termination Deferred Principal*).

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*, in each case in accordance with the Pre Enforcement Principal Payments Priorities and the Post Enforcement Investor Payments Priorities and subject to the swap termination deferrals mechanism set out in Condition 14 (*Swap Termination Deferred Principal*).

- 10.6 **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 Investor Payments Priorities.

11. Security

- 11.1 **Security:** The Notes are secured by the Security.
- 11.2 **Enforceability:** The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 19 (*Events of Default*) and subject to the matters referred to in Condition 20 (*Enforcement*).

12. 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.

13. Interest

- 13.1 **Accrual of Interest:** Each Note bears interest on its Principal Amount Outstanding, from (and including) the Closing Date.
- 13.2 **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 in respect of the European Notes only, payment of the principal on the Note 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:
- (a) 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

- (b) the seventh day after notice has been given to the relevant Noteholders in accordance with Condition 28 (*Notices*) that the full amount (together with interest accrued to that date) has been received by the relevant Paying Agent or the Trustee, except to the extent that there is a default in the subsequent payment thereof to the Noteholders (as the case may be) under the Conditions.

13.3 **Interest Payments:** Subject to Condition 13.11 (*Interest Accrual*), Interest on each Note is payable in the Applicable Currency in arrear on the First Interest Payment Date and, thereafter, quarterly in arrear on each Interest Payment Date in an amount equal to the Interest Amount in respect of such Note for the Interest Period ending on the day immediately preceding such Interest Payment Date.

13.4 **Calculation of Interest Amount:** Upon or as soon as practicable after each Interest Determination Date, the Issuer shall calculate (or shall cause the Agent Bank or the Australian Calculation Agent, as applicable, to calculate) the Interest Amount payable on each Note for the related Interest Period.

13.5 **Determination of Note Rate, Interest Amount and Interest Payment Date:** The Agent Bank will in respect of the European Notes and the Australian Calculation Agent will in respect of the AUD Notes, on each Interest Determination Date, determine:

- (a) the Note Rate for each of the relevant Class of Notes for the related Interest Period;
- (b) the Interest Amount for each relevant Class of Notes 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 (in respect of the European Notes), the Australian Registrar (in respect of the AUD Notes), the Swap Providers and the Paying Agents and for so long as the Notes are listed on the Stock Exchange, the Stock Exchange.

13.6 **Publication of Note Rate, Interest Amount and Interest Payment Date:** As soon as practicable after receiving each notification of the Note Rate, the Interest Amount and the Interest Payment Date in accordance with Condition 13.5 (*Determination of Note Rate, Interest Amount and Interest Payment Date*) and in any event no later than the second Business Day thereafter, the Issuer will cause such Note Rate and the Interest Amount for each Class and the next following Interest Payment Date to be published in accordance with the Notices Condition.

13.7 **Amendments to Publications:** The Note Rate, Interest Amount for each Class 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.

13.8 **Determination or Calculation by Trustee:** If the Agent Bank or the Australian Calculation Agent does not at any time for any reason determine the Note Rate or the Interest Amount for a relevant Class of Notes in accordance with this Condition 13 (*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 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 or the Australian Calculation Agent (as applicable). 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 or calculation shall be deemed to have been made by the Agent Bank or the Australian Calculation Agent (as applicable).

- 13.9 **Notifications to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 13 (*Interest*), whether by the Reference Banks (or any of them), the Paying Agents, the Registrar, the Australian Registrar, the Agent Bank, the Australian Calculation Agent 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, the Australian 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 13 (*Interest*).
- 13.10 **Reference Banks and Agents:** The Issuer shall ensure that, so long as any of the European Notes remain outstanding there shall at all times be four Reference Banks, a Registrar, an Agent Bank, a Paying Agent, a Transfer Agent and a Principal Paying Agent and so long as any of the AUD Notes remain outstanding there shall at all times be five Reference Banks, an Australian Registrar, an Australian Calculation Agent and an Australian 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, the Transfer Agent and the Australian Calculation Agent may not resign until a successor agent is appointed in accordance with the Agency Agreement or the Australian Agency Agreement (as applicable). 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.
- 13.11 **Interest Accrual:**
- (a) On each Interest Payment Date, Interest Amounts shall be due and payable on each Class of Notes. However, subject to paragraphs (b) to (e) below, the Issuer shall only be obliged to pay the Set Interest Amount for a Class of Notes on an Interest Payment Date to the relevant Currency Swap Provider or, if there is no swap provider for the relevant Class of Notes, the Principal Paying Agent or the Australian Paying Agent (converted into the relevant currency at the Spot Rate by the Cash Manager on such Interest Payment Date, if relevant) for the purposes of paying such Interest Amounts.
 - (b) To the extent the Issuer has insufficient funds to pay the Set Interest Amount due and payable on a Class of Notes (other than the Most Senior Class of Notes) on an Interest Payment Date, or to the extent that the Issuer has paid the Set Interest Amount on a Class of Notes (including on the Most Senior Class of Notes), on an Interest Payment Date to the relevant Currency Swap Provider or Paying Agent (as applicable) and such entity has failed to make the equivalent payment in full to the relevant Paying Agent or the Noteholders respectively the shortfall or non-payment 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 make such payments in accordance with the Payments Priorities and the Interest Amount scheduled to be paid on such Interest Payment Date for that Class of Notes will be increased to take account of any such deferral. Payments by the Issuer of Set Interest Amounts to the relevant Currency Swap Provider or to the relevant Paying Agent on the Most Senior Class of Notes cannot be deferred.
 - (c) In respect of a Class of Non-Sterling Notes only, if the relevant Currency Swap Agreement has been terminated and no replacement currency swap entered into in its place then, on each Interest Payment Date prior to the delivery of an Enforcement Notice:
 - (i) to the extent that the Set Interest Amount payable by the Issuer on the relevant Class of Non-Sterling Notes on such Interest Payment Date (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is insufficient to pay the Interest Amount due and payable on such Class of Notes on such Interest Payment Date, the shortfall (such amounts being "**Swap Termination Deferred Interest Amounts**") shall be paid on such date *first*, from any Swap Termination Excess Amounts for such Class of Notes available to pay Swap

Termination Deferred Interest Amounts and *second*, from Available Investor Revenue as a subordinated item in the relevant Payments Priorities, with the payment of any remainder being deferred until such Interest Payment Date as there are Swap Termination Excess Amounts available for the relevant Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay Swap Termination Deferred Interest Amounts; and

- (ii) to the extent that the Set Interest Amount payable by the Issuer on the relevant Class of Non-Sterling Notes on such Interest Payment Date (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is greater than the Interest Amount due and payable on such Class of Notes on such Interest Payment Date, the excess (such amounts being "**Swap Termination Excess Interest Amounts**") shall be used to pay on such date *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, due and payable in respect of that Class of Non-Sterling Notes, with any excess being transferred to the Swap Termination Reserve Account for such Class of Non-Sterling Notes where, subject to the terms of the Transaction Documents, it may be applied on subsequent Interest Payment Dates to pay *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, on that Class of Non-Sterling Notes, or to purchase, on any future date, a replacement currency swap for that Class of Non-Sterling Notes;

On each Interest Payment Date on or after the delivery of an Enforcement Notice, any Swap Termination Deferred Interest Amount (and any Additional Interest in respect of Swap Termination Deferred Interest Amounts) remaining outstanding shall be paid in accordance with the Post Enforcement Investor Payments Priorities.

- (d) Interest Amounts which are deferred, or otherwise not paid on the relevant Interest Payment Date, 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 13 (*Interest*)) to the Issuer to pay such Additional Interest to the extent of such available funds in accordance with the Payments Priorities, save that Additional Interest that accrues on Swap Termination Deferred Interest Amounts may also be paid as if such amounts were themselves Swap Termination Deferred Interest Amounts including, but not limited to, from funds held in the relevant Swap Termination Reserve Account.
- (e) Payments of Interest Amounts and any Additional Interest thereon shall not be deferred beyond the Final Maturity Date or beyond any earlier date on which the relevant Class of Notes falls to be redeemed in full in accordance with Condition 15 (*Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase 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.

14. **Swap Termination Deferred Principal**

In respect of a Class of Non-Sterling Notes only, if the relevant Currency Swap Agreement has been terminated and no replacement currency swap entered into in its place then, on each Interest Payment Date prior to the delivery of an Enforcement Notice:

- (a) to the extent that the amount of Available Investor Principal available to the Issuer on an Interest Payment Date under the Payments Priorities to pay principal on that Class of Non-Sterling Notes (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is less than the amount of funds that would have been payable by the relevant Currency Swap Provider on such Interest Payment Date in respect of principal if the relevant Currency Swap Agreement had still been in full force and effect, the shortfall (such amounts being "**Swap Termination Deferred Principal Amounts**" and together with the Swap Termination Deferred Interest Amounts, the "**Swap Termination Deferred Amounts**") shall be paid on such date *first*, from any Swap

Termination Excess Amounts for such Class of Notes available to pay Swap Termination Deferred Principal Amounts and *second*, from Available Investor Revenue as a subordinated item in the relevant Payments Priorities with the payment of any remainder being deferred until such Interest Payment Date as there are any Swap Termination Excess Amounts available for that Class of Non-Sterling Notes, or funds available under the Payments Priorities, to pay Swap Termination Deferred Principal Amounts;

- (b) to the extent that the amount of Available Investor Principal available to the Issuer on an Interest Payment Date under the Payments Priorities to pay principal on a Class of Non-Sterling Notes (once converted into the Applicable Currency at the Spot Rate by the Cash Manager) is greater than the amount of funds that would have been payable by the relevant Currency Swap Provider on such Interest Payment Date in respect of principal if the relevant Currency Swap Agreement had still been in full force and effect, the excess (such amounts being "**Swap Termination Excess Principal Amounts**" and together with any Swap Termination Excess Interest Amounts and any termination payment received by the Issuer and deposited in the relevant Swap Termination Reserve Account, "**Swap Termination Excess Amounts**") shall be used to pay *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, due and payable in respect of that Class of Notes, with any excess being transferred to the Swap Termination Reserve Account for that Class of Non-Sterling Notes where, subject to the terms of the Transaction Documents, it may be applied on subsequent Interest Payment Dates to pay *firstly* Swap Termination Deferred Interest Amounts and *secondly*, Swap Termination Deferred Principal Amounts, on that Class of Non-Sterling Notes, or to purchase, on any future date, a replacement currency swap for that Class of Non-Sterling Notes,.

On each Interest Payment Date on or after the delivery of an Enforcement Notice, any Swap Termination Deferred Principal Amount remaining outstanding shall be paid in accordance with the Post Enforcement Investor Payments Priorities.

15. **Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation**

15.1 **Final Redemption:** Unless previously redeemed or purchased and cancelled as provided in this Condition 15 (*Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation*), the Issuer shall redeem the Notes of each Class at their Principal Amount Outstanding together with any accrued (and unpaid) interest on the Final Maturity Date.

15.2 **Mandatory Redemption in part:** On each Interest Payment Date prior to the delivery of an Enforcement Notice (and subject to the swap deferrals mechanism set out in Condition 14 (*Swap Termination Deferred Principal*)), 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.

15.3 **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 on any Interest Payment Date from and including the Step-Up Date, subject to the following:

- (a) no Enforcement Notice has been delivered by the Trustee prior to such Interest Payment Date;
- (b) the Issuer has given not more than 60 nor less than 30 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
- (c) 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 Payments Priorities.

15.4 **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, 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 a Swap Provider is to make any payments in respect of the relevant Swap Agreement and either the Issuer or the 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 accounting period;

subject to the following:

- (i) no Enforcement Notice has been delivered by the Trustee prior to such Interest Payment Date;
- (ii) that the Issuer has given not more than 60 nor less than 30 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
- (iii) that prior to giving any such notice, the Issuer (or in respect to Condition 15.4(a), the relevant Swap Provider (if applicable)) has provided to the Trustee:
 - (A) 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 (or the application of the official interpretation of Tax law) and confirming that the circumstance set out in either paragraph (a) or (b) above is applicable; and
 - (B) if relevant, a certificate signed by the Issuer or, as the case may be, the relevant Swap Provider, to the effect that the obligation to make a Tax Deduction cannot be avoided; and
 - (C) 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.

15.5 **Calculation of Note Principal Payment, Principal Amount Outstanding and Pool Factor:** On each Calculation Date, the Issuer shall calculate (or cause the Cash Manager 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 15.5(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 15.9 (*Notice of Calculation*).

- 15.6 **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.
- 15.7 **Trustee to determine amounts in case of Issuer default:** If the Issuer does not at any time for any reason calculate (or cause the Cash Manager 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. In such case the Trustee may, at the expense of the Issuer, employ an expert to make the determination or calculation and any such determination or calculation shall be deemed to have been made by the Issuer or Cash Manager (as applicable).
- 15.8 **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 15.3 (*Optional Redemption in whole*) and Condition 15.4 (*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.
- 15.9 **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 (and, in any event, at least 5 Business Days prior to each Interest Payment Date) to the Trustee, the Agents and (in respect of the Note Principal Payment only) the relevant Swap Provider 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.
- 15.10 **Notice irrevocable:** Any such notice as is referred to in Condition 15.3 (*Optional Redemption in whole*) or Condition 15.4 (*Optional Redemption in whole for taxation reasons*) or Condition 15.9 (*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 15.3 (*Optional Redemption in whole*) or Condition 15.4 (*Optional Redemption in whole for taxation reasons*).
- 15.11 **Restrictions on purchase price:** The Issuer may not purchase any Note of a Class if the purchase price for such Note (after deducting the Accrued Interest and expenses in relation to such purchase) would be more than the Principal Amount Outstanding of such Note as at the date of purchase of such Note.
- 15.12 **Cancellation of purchased or redeemed Notes:** All Notes purchased by the Issuer or redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.
16. **Limited Recourse**
- 16.1 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 (plus, for the avoidance of doubt, amounts due and payable to the Seller as Deferred Consideration from Post Enforcement Seller Amounts), 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 16 (*Limited Recourse*), "**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.

17. **Payments**

17.1 **Principal and interest – European Notes:** Payments of principal and interest shall be made by cheque drawn in the Applicable Currency or, upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for payment, by transfer to an account in the Applicable Currency, 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.

17.2 **Principal and interest – AUD Notes:** Payments of principal and interest shall be made:

- (a) if the AUD Notes are held in the Austraclear System, by crediting the amount in the Applicable Currency due to:
 - (i) the account of Austraclear (as the Noteholder) in Australia previously notified to the Issuer and the Australian Registrar; or
 - (ii) if requested by Austraclear, the accounts of the persons in whose Security Record (as defined in the Austraclear Regulations) an AUD Note is recorded in Australia previously notified by Austraclear to the Issuer and the Australian Registrar in accordance with the Austraclear Regulations; and
- (b) if the AUD Notes are not held in the Austraclear System, by crediting the amount then due under each AUD Note in the Applicable Currency to an account in Australia previously notified by the Noteholder to the Issuer and the Australian Registrar.

If a Noteholder has not notified the Australian Registrar of an account to which payments to it must be made by the close of business on the Record Date, payments of principal and interest shall be made by cheque drawn in the Applicable Currency at the risk of the registered Noteholder, to the Noteholder (or to the first named joint holder of the AUD Note) at its address appearing in the Register at the close of business on the Record Date.

If a payment in respect of an AUD Note is prohibited by law from being made in Australia, such payment will be made by or on behalf of the Issuer in an international financial centre for the account of the relevant payee, and on the basis that the relevant amounts are paid in immediately available funds, freely transferable at the order of the payee. Payments of such amounts shall constitute, to the extent of such payment, satisfaction of the Issuer's obligation in respect of the relevant AUD Note.

17.3 **Cheques:** Cheques sent to the nominated address of a Noteholder will be taken to have been received by the Noteholder on the relevant payment date and no further amount will be payable by the Issuer in respect of the Notes as a result of the Noteholder not receiving payment on the due date.

- 17.4 **Record date:** Each payment in respect of a European 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**" in respect of the European Notes) and each payment in respect of an AUD Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Australian Registrar's Specified Office as at the close of the Business Day before the due date for such payment or such other day in accordance with the Austraclear Regulations before the due day for payment or such other number of days as may be agreed by the Issuer and the Australian Registrar and not contrary to the Austraclear Regulations and notified promptly by the Issuer to the Noteholders of the AUD Notes (the "**Record Date**" in respect of the AUD Notes). 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.
- 17.5 **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. Neither the Issuer, the Registrar, the Australian Registrar, the Transfer Agent, the Principal Paying Agent nor the Australian Paying Agent shall be liable to any Noteholder or other person for any commissions, costs, losses or expenses in relation to or resulting from such payments.
- 17.6 **Partial Payments:** If a Principal Paying Agent or the Australian 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 European Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant European Note.
- 17.7 **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.
- 17.8 **Clearing Systems:** If the due date for payment of any amount in respect of a Note which is lodged in Euroclear, Clearstream, Luxembourg or the Austraclear System is a Business Day but is not a date on which the relevant clearing system is open, then the holder of that Note will not receive payment in its clearing system account until the next succeeding day on which the relevant clearing system is open and which is a Business Day and such payment will be made for value on the Business Day on which the payment was due.
- 17.9 **Payment after due date:** If any payment of principal or interest in respect of the Notes is made after the due date, payment shall be deemed not to have been made until the earlier of:
- (a) the date on which the full amount is paid to the relevant Noteholders; and
 - (b) the seventh day after notice has been given to the relevant Noteholders in accordance with the Notices Condition that the full amount (together with interest accrued to that date) has been received by the relevant Payment Agent or the Trustee except to the extent there is a default in the subsequent payment thereof to the Noteholders (as the case may be) under the Conditions.
- 17.10 **Payments to Noteholders:**
- Subject to Condition 17.9 (*Payment after due date*), every payment of principal or interest in respect of the:
- (a) European Notes made to the Principal Paying Agent in the manner provided in the Agency Agreement shall satisfy, to the extent of such payment, the relevant covenant by the Issuer contained in the Trust Deed; and

- (b) AUD Notes made to the Australian Paying Agent in the manner provided in the Australian Agency Agreement shall satisfy, to the extent of such payment, the relevant covenant by the Issuer contained in the Deed Poll,

except, in the case of payment to the Principal Paying Agent or the Australian Paying Agent (as applicable), to the extent that there is a default in the subsequent payment thereof to the Noteholders under the Conditions.

18. **Taxation**

18.1 **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.

18.2 **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.

19. **Events of Default**

19.1 **Events of Default:** Each of the following events shall be an "Event of Default":

- (a) **Non-payment of principal:** the Issuer fails to pay any amount of principal (other than any Swap Termination Deferred Principal Amounts) in respect of the Notes within five days following the due date for payment of such principal to the relevant Swap Provider or Paying Agent (as applicable);
- (b) **Non-payment of Interest:** the Issuer fails to pay a Set Interest Amount on the Most Senior Class of Notes within 10 days following the due date to the relevant Swap Provider or Paying Agent (as applicable);
- (c) **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 Poll, the Deed of Charge or any of the other Transaction Documents (excluding, for the avoidance of doubt, its obligations to make payments of principal or interest on the Notes) and such default is, in the opinion of the Trustee, to be certified in writing, materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes and is either (a) in the opinion of the Trustee, incapable of remedy or (b) 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;
- (d) **Insolvency Event:** an Insolvency Event occurs in relation to the Issuer; or
- (e) **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.

19.2 **Delivery of Enforcement Notice:** Subject to Condition 19.3 (*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 Sterling Equivalent 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.

19.3 **Conditions to delivery of Enforcement Notice:** Notwithstanding Condition 19.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless it shall have been indemnified, secured and/or pre-funded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

19.4 **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. If the Notes become immediately due and payable, interest payable on the Notes will continue to be calculated in accordance with Condition 13 (*Interest*) (with consequential amendments as necessary) except that the Note Rate need not be published.

20. Enforcement

20.1 **Proceedings:** The Trustee may, at its discretion and without notice, institute such proceedings or take such other steps or actions as it thinks fit to enforce and/or to exercise its rights under the Trust Deed and the Deed Poll 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 Sterling Equivalent 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 such case, only if it shall have been indemnified, pre-funded and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur in so doing.

20.2 **Directions to the Trustee:** If the Trustee shall take any action described in Condition 20.1 (*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 any such case, only if it shall have been indemnified, pre-funded and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

20.3 **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 (i) any Swap Collateral which may be required to pay any Swap Collateral Return Payment to the Basis Swap Provider or a Currency Swap Provider under the terms of the relevant Credit Support Annex or under the relevant Swap Agreement; (ii) Swap Tax Credits that are to be paid to any Swap Provider, or (iii) any Replacement Swap Premium to the extent utilised to pay any amount due to the relevant Swap Provider on termination of the relevant Swap Agreement) 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 Investor 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 20.3(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 Investor Payments Priorities and the resulting shortfall would be greater than the shortfall arising upon disposal of the Charged Property.

The Trustee shall not be bound to seek the advice referred to in Condition 20.3(b) unless the Trustee shall have been indemnified, pre-funded and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

- 20.4 **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.

21. **No action by Noteholders or any other Secured Creditor**

- 21.1 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;
- (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.

22. **Meetings of Noteholders**

- 22.1 **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, the Trust Deed or the Deed Poll, which modification may be made if sanctioned by an Extraordinary Resolution.

- 22.2 **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 22.5 (*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.

22.3 **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, pre-funded 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 Sterling Equivalent 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.

22.4 **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 Sterling Equivalent 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 Sterling Equivalent 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 Sterling Equivalent Principal Amount Outstanding of the outstanding Notes in the relevant Class or, at any adjourned meeting, one or more persons holding or representing not less than in the aggregate $33\frac{1}{3}$ per cent. of the Sterling Equivalent Principal Amount Outstanding of the outstanding Notes in the relevant Class.

22.5 **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.

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

23. **Modification and Waiver**

23.1 **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, the Notes or the other Transaction 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, which require an Extraordinary Resolution of each Class of Notes then outstanding) 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, save that the prior written consent of a Swap Provider shall also be required in respect of any Swap Reserved Matter relating to such Swap Provider; or
- (b) any modification to these Conditions, the Trust Documents, the Notes 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 requested in writing by the Issuer as 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 and further provided that any such certificate given by or on behalf of the Issuer 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 and the Trustee shall not be liable or responsible for any losses to any person, howsoever caused, as a result of taking or omitting to take any action whatsoever in relation to any such certificate, or otherwise.

23.2 **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.

23.3 **Restriction on power to waive:** The Trustee shall not exercise any powers conferred upon it by Condition 23.2 (*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 Sterling Equivalent 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.

23.4 **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 and the Rating Agencies, as soon as practicable after it has been made.

23.5 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 23.1 (*Modification*) or Condition 23.2 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

24. **Prescription**

24.1 **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.

24.2 **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.

25. **Replacement of Notes**

If any European Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar and the Transfer 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 European Notes must be surrendered before replacements will be issued.

26. **Trustee and Agents**

26.1 **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, reimbursed or pre-funded 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.

26.2 **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.

26.3 **Regard to Classes of Noteholders:** In the exercise of its powers and discretions under these Conditions, the Trust Deed and the Deed Poll, 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.

26.4 **Agents solely agents of Issuer:** In acting under the Agency Agreement and the Australian Agency Agreement and in connection with the Notes, the Paying Agents, the Agent Bank, the Australian Calculation Agent, the Transfer Agent, the Registrar and the Australian 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 (other than as expressly set out in the Transaction Documents).

26.5 **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, transfer agent or agent bank and additional or successor paying agents at any time, having given not less than 30 days notice to such Agent.

27. **Substitution of Issuer**

27.1 **Substitution of Issuer:** The Trustee may, without the consent of the Noteholders or any other Secured Creditor and subject to:

- (a) the request of the Issuer; and
- (b) such further conditions as are specified in the Trust Deed and the Deed Poll,

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.

27.2 **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 and the Rating Agencies.

27.3 **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.

27.4 **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.

28. **Notices**

28.1 **Valid Notices:** Any notice to Noteholders shall be validly given if such notice is either:

- (a) in respect of the European Notes, 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;
- (b) in respect of the European Notes and 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;
- (c) in respect of the AUD Notes, published in the Australian Financial Review 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 Australia;
- (d) in respect of the AUD Notes, sent by prepaid post (airmail if appropriate) to, or left at, the address of the Noteholder (as shown in the Register at the close of business on the day which is 3 Business Days before the date of the notice or communication) and so long as the AUD Notes are held on in the Austraclear System upon delivery of the relevant notice to Austraclear; or
- (e) published on the Relevant Screen,

and, in addition to the foregoing (but not instead of), the Issuer may publish any such notice via the Bloomberg service (or any other similar information service).

28.2 **Date of publication:** Any notices so sent or published shall be deemed to have been given on the date on which it was so sent (other than in respect of a notice for the AUD Notes sent by prepaid post (including airmail), which shall be deemed to have been given 5 Business Days after posting) 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 Austraclear, Euroclear and Clearstream, Luxembourg (as applicable).

- 28.3 **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 the clearing system through which the Notes are cleared and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

29. **Governing Law and Jurisdiction**

- 29.1 **Governing law:** The Transaction Documents and the Notes (including, for the avoidance of doubt, the Conditions relating thereto) 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:

- (a) 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); and
- (b) the AUD Notes (including, for the avoidance of doubt, the Conditions relating thereto), the Deed Poll, the Australian Agency Agreement (which are governed by, and shall be construed in accordance with, the laws in force in New South Wales, Australia).

- 29.2 **Jurisdiction:** The Courts of England are to have non-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 non-exclusive jurisdiction of such Courts.

In respect of the AUD Notes, the Deed Poll and the Australian Agency Agreement, the courts of New South Wales, Australia are to have non-exclusive jurisdiction to settle any disputes that may arise out of or in connection with the AUD Notes, the Deed Poll and the Australian Agency Agreement and accordingly any legal action or proceedings arising out of or in connection with the AUD Notes, the Deed Poll and the Australian Agency Agreement, may be brought in such Courts. The Issuer has irrevocably submitted to the non-exclusive jurisdiction of the courts of New South Wales, Australia in the Deed Poll and the Australian Agency Agreement.

For so long as any AUD Notes are outstanding, the Issuer will appoint Lloyds TSB Bank plc, Australia Branch to accept service of process on its behalf in New South Wales in respect of any legal action or proceedings as may be brought in the courts of New South Wales, Australia or the federal courts of Australia. In the event of such agent ceasing to act, the Issuer will immediately appoint another agent in Sydney and notify the Noteholders of the AUD Notes in accordance with the Notices Condition.

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.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubts 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 27 (*Substitution of the Issuer*) of the Notes or otherwise and does not consider the tax consequences of any such substitution.

Australian Taxation

The following is a summary of certain aspects of the Australian taxation treatment at the date hereof in relation to payments of principal and interest in respect of the AUD Notes under the Income Tax Assessment Acts of 1936 and 1997 (Cth) of Australia (together the "**Australian Tax Act**") and the Taxation Administration Act 1953 (Cth) of Australia ("**Taxation Administration Act**"). It is based on current Australian law as in effect as of the date hereof, which may be subject to change, sometimes with retrospective effect, and should be treated with appropriate caution. This summary is not, and is not intended to be, exhaustive and does not deal with the position of all Classes of holders of the AUD Notes (including dealers in securities, custodians or other third parties who hold AUD Notes on behalf of any Noteholders).

This summary does not deal with all Australian tax aspects of acquiring, holding or disposing of the AUD Notes. This summary 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 of the AUD Notes. Prospective holders of the AUD Notes or interests in the AUD Notes should be aware that they may be liable to taxation under the laws of Australia in relation to payments in respect of the AUD Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of Australia.

Prospective holders of the AUD Notes or interests in the AUD Notes should consult their professional advisers on the tax implications of an investment in the AUD Notes for their particular circumstances. Prospective holders of the AUD Notes or interests in the AUD Notes who may be liable to taxation in jurisdictions other than Australia in respect of their acquisition, holding or disposal of the AUD 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 relates only to certain Australian taxation aspects of payments in respect of the AUD Notes.

Income Tax - Australian Noteholders

Australian residents or non-Australian residents who hold the AUD Notes in the course of carrying on business at or through a permanent establishment in Australia (Australian Holders), will be assessable for Australian income tax purposes on income either received or accrued due to them in respect of the AUD Notes. Whether income will be recognised on a cash receipts or accruals basis will depend upon the tax status of the particular holder of an AUD Note and the Conditions of the AUD Notes. No Australian income tax considerations for non-Australian residents who hold AUD Notes and who do not reside in a country with which Australia has a comprehensive double tax agreement have been considered in this summary. Such persons should seek advice as to the Australian income tax consequences (if any) of holding the AUD Notes.

Australian Holders should seek advice in relation to the tax treatment of any gains (which will generally be assessable) or losses (which may be deductible) on disposal or redemption of their AUD Notes.

Special rules apply to the taxation of Australian residents who hold the AUD Notes in the course of carrying on business at or through a permanent establishment outside Australia which vary depending on the country in which that permanent establishment is located.

Australian Holders should not be eligible for a foreign tax offset in connection with the AUD Notes. If the Issuer was obligated to withhold tax amounts from interest payments due to Australian Holders, Australian Holders may be entitled to claim an offset against their Australian tax liability, subject to certain caps.

Interest Withholding Tax on Payments of Interest on the AUD Notes

So long as the Issuer continues to be a non-resident of Australia and the AUD Notes issued by the Issuer are not attributable (to any extent) to a permanent establishment of the Issuer in Australia, payments of principal and interest on the AUD Notes will not be subject to Australian interest withholding tax ("IWT").

Other Pay as you go (PAYG) Withholding Tax on Payments of Interest on the AUD Notes

So long as the Issuer continues to be a non-resident of Australia and does not carry on business at or through a permanent establishment in Australia, the tax file number requirements of Part VA of the Australian Tax Act and section 12-140 of Schedule I to the Taxation Administration Act should not apply in connection with the AUD Notes issued by the Issuer.

Payments in respect of the AUD Notes should also be made free and clear of the Australian Business Number (ABN) withholding tax imposed under section 12-190 of Schedule I to the Taxation Administration Act.

Taxation of Financial Arrangements

Division 230 of the Australian Tax Act contains rules which represent a code for the taxation of receipts and payments in relation to financial arrangements applicable to taxpayers meeting certain turnover or asset thresholds or where the taxpayer has elected for the provisions to apply. Division 230 defines a 'financial arrangement' and sets out the six methods (four of which are elective, subject to certain safeguards) for bringing to account gains or losses on financial arrangements. These methods determine the tax-timing treatment of all financial arrangements covered by the provisions.

GST, Stamp Duty and Other Taxes

Neither the issue nor receipt of the AUD Notes will give rise to a liability for GST in Australia on the basis that there is no taxable supply. Furthermore, neither the payment of principal or interest by the Issuer, nor the disposal of the AUD Notes, would give rise to any GST liability in Australia.

No ad valorem stamp, issue, registration or similar taxes are payable in Australia on the initial issue or transfer of any AUD Notes.

Taxation of Foreign Currency Exchange Gains and Losses

Payments made to Australian Holders in connection with the AUD Notes will be made in Australian currency. In the event that the AUD Notes were denominated in currency other than Australian dollars, complex rules in Divisions 775 and 960 of the Australian Tax Act that deal with the taxation consequences of foreign exchange transactions may apply to any Australian Holders. Any such Australian Holders should consult their professional advisors for advice as to how to tax account for any foreign exchange gains or losses arising from their holding of those AUD Notes.

SUBSCRIPTION AND SALE

The Lead Managers have, pursuant to a subscription agreement dated on or about 28 March 2011 between the Bank of Scotland, the Seller, the Lead Managers and the Issuer (the "**Subscription Agreement**"), together agreed with the Issuer (subject to certain conditions) to subscribe and pay for 100 per cent. of the Class A1 Notes and the Class A2 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes and the Class A2 Notes as at the Closing Date.

Bank of Scotland has, pursuant to the Subscription Agreement, agreed with the Issuer (subject to certain conditions) to subscribe and pay for (a) 100 per cent. of the Class A3 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A3 Notes as at the Closing Date and (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 Managers 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 Managers 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

Each of the Lead Managers 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.

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 to non-U.S. persons in offshore transactions in reliance on Regulation S.

Each of the Lead Managers and Bank of Scotland has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering and the closing date within the United States or to, or for the account or benefit of, U.S. Persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. Persons. See "*Transfer Restrictions and Investor Representations*", below.

Australia

Neither this Prospectus nor any other disclosure document (as defined in the Corporations Act 2001 of Australia) in relation to the Notes has been or will be lodged with the Australian Securities and Investments Commission ("**ASIC**"). Each of the Lead Managers has represented and agreed that it:

- (a) has not (directly or indirectly) offered or invited applications, and will not offer or invite applications, for the issue or sale of the Notes in Australia (including an offer or invitation which is received by a person in Australia); and
- (b) has not distributed or published, and will not distribute or publish, any prospectus, draft, preliminary or definitive offering memorandum, advertisement or other offering material relating to the Notes in Australia,

unless:

- (a) the aggregate consideration payable by each offeree or invitee is at least AUD 500,000 (or its equivalent in other currencies, but disregarding any monies lent by the offeror or its associates) or the offer or invitation otherwise does not require disclosure to investors in accordance with either Part 6D.2 or Chapter 7 of the Corporations Act 2001 of Australia;
- (b) the offeree or invitee is not a "retail client" (within the meaning of Section 761G of the Corporations Act 2001 of Australia);
- (c) such action complies with all applicable laws, regulations and directives; and
- (d) such action does not require any document to be lodged with the ASIC.

General

Each of the Lead Managers 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 Managers 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.

Each of the Lead Managers 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.

TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

Offers and Sales by the Purchasers

The Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) may only be offered, sold, resold, delivered or transferred (i) outside the United States to a non US person in an offshore transaction in reliance on Rule 903 or 904 of Regulation S or (ii) following the expiration of the distribution compliance period, pursuant to an applicable exemption from the registration requirements of the Securities Act and in accordance with any applicable securities law of any state of the United States.

Investor Representations and Restrictions on Resale

By its purchase of the Notes, each purchaser of the Notes (each initial purchaser, together with each subsequent transferee are referred to herein as the "**Purchaser**", which term for the purposes of this section will be deemed to include any interests in the Notes, including Book-Entry Interests) will be deemed to have represented and agreed to the following (undefined terms used in this section that are defined in Regulation S are used herein as defined therein):

- (a) the Notes have not been and will not be registered under the Securities Act and such Notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer such Notes, then it agrees that it will offer, resell, pledge or transfer such Notes only (i) to a purchaser who is not a U.S. Person (as defined in Regulation S) or an affiliate of the Issuer or a person acting on behalf of such an affiliate, and who is not acquiring the Notes for the account or benefit of a U.S. Person and who is acquiring the Notes in an offshore transaction in reliance on Rule 903 or Rule 904 of Regulation S or (ii) pursuant to an applicable exemption from the registration requirements of the Securities Act and in accordance with any applicable securities laws of any state or other jurisdiction of the United States; provided, that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (b) in respect of the Sterling Notes and the EUR Notes, unless the relevant legend set out below has been removed from the Notes such purchaser shall notify each transferee of Notes (as applicable) from it that (i) such Notes have not been registered under the Securities Act, (ii) the holder of such Notes is subject to the restrictions on the resale or other transfer thereof described in paragraph (a) above, (iii) such transferee shall be deemed to have represented that such transferee is acquiring the Notes in an offshore transaction and that such transfer is made pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Regulation S and (iv) such transferee shall be deemed to have agreed to notify its subsequent transferees as to the foregoing;
- (c) in respect of the AUD Notes, interests in the AUD Notes may only be transferred in accordance with the restrictions set out in Condition 8.2 of the AUD Notes;
- (d) the Issuer, the Registrar, the Arranger, the Lead Managers and their affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements;
- (e) the Notes and related documentation may be amended or supplemented from time to time to modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resales or transfer of securities such as the Notes generally, and that it will be deemed, by its acceptance of such Notes, to have agreed to any such amendment or supplement;
- (f) the Issuer may receive a list of participants holding positions in its securities from one or more book entry depositaries, and that those participants may further disclose to the Issuer the names and positions of holders of its securities; and
- (g) it will promptly (i) inform the Issuer if, during any time it holds a Note, there shall be any change in the acknowledgements, representations and agreements contained above or if they shall become false for any reason and (ii) deliver to the Issuer such other representations and

agreements as to such matters as the Issuer may, in the future, request in order to comply with applicable law and the availability of any exemption therefrom.

Each Purchaser understands that (i) the sale of the Sterling Notes and the EUR Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) and the sale of the AUD Notes to it is being made in reliance on Regulation S, and (ii) the Sterling Notes and the EUR Notes (including interests therein represented by a Global Note, a Definitive Note or a Book-Entry Interest) may not be reoffered, resold, pledged or otherwise transferred except in accordance with the legend set forth below:

THIS NOTE HAS NOT BEEN REGISTERED 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 AND THE ISSUER (AS DEFINED IN THE TRUST DEED) HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**") AND, AS A MATTER OF U.S. LAW, PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING AND THE CLOSING OF THE OFFERING THE NOTES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE EXCEPT TO A NON U.S. PERSON IN AN OFFSHORE TRANSACTION PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND IN PRINCIPAL AMOUNT OF NOT LESS THAN £100,000 OR €100,000.

THE PURCHASER OF THIS NOTE OR ANY INTEREST IN THIS NOTE SHALL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT (I) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS NOTE OR ANY INTEREST IN THIS NOTE WILL NOT BE, A BENEFIT PLAN INVESTOR AS DEFINED IN SECTION 3(42) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**"), AND (II) IF IT IS OR MAY BECOME A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN WHICH IS NOT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED, (THE "**CODE**"), ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST IN THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A VIOLATION OF ANY U.S. FEDERAL, STATE OR LOCAL LAW OR ANY NON U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE. "**BENEFIT PLAN INVESTOR**," AS DEFINED IN SECTION 3(42) OF ERISA, INCLUDES (1) ANY EMPLOYEE BENEFIT PLAN (AS DEFINED IN SECTION 3(3) OF ERISA) THAT IS SUBJECT TO PART 4 OF TITLE I OF ERISA, (2) ANY PLAN DESCRIBED IN AND SUBJECT TO SECTION 4975 OF THE CODE, AND (3) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE BY REASON OF A PLAN'S INVESTMENT IN THE ENTITY.

THE PURCHASER IS HEREBY NOTIFIED THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES, AND THAT THOSE PARTICIPANTS MAY FURTHER DISCLOSE TO THE ISSUER THE NAMES AND POSITIONS OF HOLDERS OF ITS SECURITIES.

PRIOR TO THE EXPIRATION OF THE DISTRIBUTION COMPLIANCE PERIOD, AN INTEREST IN THIS NOTE MAY BE HELD ONLY THROUGH EUROCLEAR OR CLEARSTREAM, LUXEMBOURG.

Because of the foregoing restrictions, purchasers of Notes are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of such securities offered and sold.

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 31 March 2011. 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, Euro or Australian Dollars and 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 30 October 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 30 October 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 25 March 2011.
- (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 A1b Notes	XS0605183606	060518360
Class A2 Notes	XS0605184919	060518491
Class A3 Notes	XS0605185569	060518556
Class B Notes	XS0605186021	060518602
Class C Notes	XS0605187342	060518734

- (i) The following Notes have been accepted for clearance through Austraclear under the following ISIN and Common Code:

<u>Class of Notes</u>	<u>ISIN</u>	<u>Common Code</u>
Class A1a Notes	AU3FN0012803	061188126

- (j) For so long as this Prospectus is in effect, copies of the Memorandum and Articles of Association of each of the Issuer and Holdings and the Transaction Documents may be inspected at the registered office of the Principal Paying Agent and the Australian Paying Agent during usual business hours, on any weekday (public holidays excepted).
- (k) The Issuer will make available post issuance information in relation to each Mortgage Loan, which will be accessible via the following website, subject to the terms set out therein: <https://echo.irooms.net/Headingley> (access details available from LBG_HeadingleyRMBS@lloydsbanking.com). The website will be updated by or on behalf of

the Issuer on a quarterly basis. For the avoidance of doubt, the contents of this website are for information purposes only and do not form part of this Prospectus.

- (l) The Issuer will provide post issuance transaction information in the form of Monthly Investor Reports produced by the Cash Manager on behalf of the Issuer. The Monthly Investor Reports will contain information as set out in the Cash Management Agreement including, but not limited to information in respect of the Mortgage Loans, details relating to repurchases of Mortgage Loans by the Seller pursuant to the Mortgage Sale Agreement and details with respect to the rates of interest, Note principal and interest payments and other payments by the Issuer. The Monthly Investor Reports will be accessible to Noteholders via the following website: http://www.lloydsbankinggroup.com/investors/debt_investors/securitisation.asp. The website and the contents thereof do not form of this Prospectus.
- (m) Other than as outlined in paragraphs (k) and (l) above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Mortgage Loans.
- (n) 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. 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. 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).
"Accountholder"	means a member of the Austraclear System.
"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 13.11(d) (<i>Interest Accrual</i>) of the Notes.
"Agency Agreement"	means the agreement so named dated on or about the Closing Date between the Issuer, the Agent Bank, the Principal Paying Agent, the Registrar, the Transfer Agent and the Trustee (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time).
"Agent Bank"	means The Bank of New York Mellon acting through its London branch in its capacity as agent bank pursuant to the Agency Agreement.
"Agents"	means the Agent Bank, the Australian Calculation Agent, the Registrar, the Australian Registrar, the Transfer Agent and the Paying Agents and " Agent " means any one of them.
"AML/CTF Act"	shall have the meaning given to this term on page 61.
"Applicable Currency"	means: <ul style="list-style-type: none"> (a) in respect of Sterling Notes, Sterling; (b) in respect of EUR Notes, Euro; and (c) in respect of the AUD Notes, Australian Dollars.
"Appointee"	means any delegate, agent, nominee, custodian, attorney or manager appointed by the Trustee pursuant to the provisions of the Trust Documents.
"approved purpose"	means, in England and Wales, an approved purpose in relation to the right-to-buy scheme governed by the Housing Act 1985 (as amended by the Housing Act 2004) or, in Scotland, either of the purposes detailed in Sections 72(5)(a)(i) and (ii) of the Housing (Scotland) Act 1987.
"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 (which has not been capitalised) on such Mortgage Loan which is currently due, payable and unpaid on or before that determination date.

"Asset Agreement"	means any agreement in relation to a Mortgage Loan between the Seller (as lender) and an obligor or obligors (as Borrower(s) or guarantor(s));
"AUD Currency Swap Agreement"	means a currency swap agreement so named entered into on or about the Closing Date between the Issuer and the AUD Currency Swap Provider (as the same may be amended, restated, supplemented, replaced and/or novated from time to time).
"AUD Currency Swap Provider"	means National Australia Bank Limited (ABN 12 004 044 937) in its capacity as currency swap provider pursuant to the AUD Currency Swap Agreement, and any successor thereto in such capacity.
"AUD Noteholders"	means holders of the AUD Notes.
"AUD Notes"	means the Class A1a Notes issued by the Issuer which are constituted by, and owing under, the Deed Poll.
"Austraclear"	means Austraclear Limited (ABN 94 002 060 773).
"Austraclear Regulations"	means the rules, regulations and operating procedures established by Austraclear to govern the use of the Austraclear System.
"Austraclear System"	means the system operated by Austraclear in Australia for the holding of securities and electronic recording and settling of transactions in those securities between members of the system.
"Australian Agency Agreement"	means the agency and registry services agreement so named dated on or about the Closing Date between, amongst others, the Issuer, the Trustee, the Australian Calculation Agent, the Australian Paying Agent and the Australian Registrar (as the same may be amended, restated, varied, supplemented, replaced and/or novated from time to time).
"Australian Calculation Agent"	means BTA Institutional Services Australia Limited in its capacity as calculation agent pursuant to the Australian Agency Agreement.
"Australian Dollars", "AUD" or "A\$ "	means the lawful currency of Australia.
"Australian Paying Agent"	means BTA Institutional Services Australia Limited in its capacity as paying agent in accordance with the terms of the Australian Agency Agreement.
"Australian Reference Rate"	means, on any Interest Determination Date, the floating rate determined by the Australian Calculation Agent by reference to the Australian Screen Rate on such date or if on such date the Australian Screen Rate is unavailable by 10.30 am (Sydney time): <ul style="list-style-type: none"> (a) the rate the Australian Calculation Agent calculates as the Rounded Arithmetic Mean of the mid rates for Australian Dollar bills of exchange that each Reference Bank quoted or would have quoted to the leading banks in Sydney at approximately 10.00 am (Sydney time) for a period equivalent to the Relevant Period; or (b) if the Australian Calculation Agent is unable to calculate a rate under

	paragraph (a) because it is unable to obtain at least two quotes, the Australian Reserve Reference Rate.
"Australian Registrar"	means the party responsible for the registration of the AUD Notes, which at the Closing Date is BTA Institutional Services Australia Limited acting in such capacity pursuant to the Australian Agency Agreement.
"Australian Reserve Reference Rate"	means, on any Interest Determination Date: <ul style="list-style-type: none"> (a) the rate the Australian Calculation Agent calculates as the Rounded Arithmetic Mean of the mid rates (being the nearest equivalent to Australian Dollar bills of exchange) quoted by two or more banks, chosen in good faith by the Australian Calculation Agent, in Sydney at approximately 10.30 am (Sydney time) on the Interest Determination Date for a period equivalent to the Relevant Period to leading banks carrying on business in Sydney; or (b) if the Australian Calculation Agent certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Australian Reference Rate in effect for the immediately preceding Interest Period.
"Australian Screen Rate"	means, in relation to an Interest Determination Date: (i) in respect of the first Interest Determination Date, the linear interpolation of the rates expressed as a percentage per annum appearing on the Screen at or about 10.10 a.m. (Sydney time) on that date as being the average mid rate (rounded up, if necessary to the nearest one ten-thousandth of a percentage point (0.0001%)) for two-month and three-month Australian Dollar bills of exchange; and (ii) on each subsequent Interest Determination Date, the rate expressed as a percentage per annum appearing on the Screen at or about 10.10 a.m. (Sydney time) on that date as being the average mid rate (rounded up, if necessary to the nearest one ten-thousandth of a percentage point (0.0001%)) for an Australian Dollar bill of exchange for a period equivalent to the Relevant Period.
"Australian Tax Act"	means, together, the Income Tax Assessment Acts of 1936 and 1997 (Cth) of Australia.
"Authorised Investments"	means: <ul style="list-style-type: none"> (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 A-1 by S&P with a long-term issuer default rating of A by S&P or (where the short term issue default rating by S&P is less than A-1 or there is no short term rating) 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 A+ by S&P, or ratings which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current rating of the Notes; and (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

	<p>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 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 A-1 by S&P with a long-term issuer default rating of A by S&P or (where the short term issue default rating by S&P is less than A-1 or there is no short term rating) 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 A+ by S&P, or ratings 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>in each case provided that these investments have a yield equal to or exceeding the interest rate on the GIC Account.</p>
"Authorities"	shall have the meaning given to this term on page 53.
"Available Investor Principal"	shall have the meaning given to this term on page 130.
"Available Investor Revenue"	shall have the meaning given to this term on page 120.
"Average Variable Rate Loan Balance"	means, in respect of a Calculation Period, the average of the daily aggregate adjusted Current Balance of all Discounted Variable Rate Loans and all Variable Rate Loans (being the aggregate Current Balance of those Discounted Variable Rate Loans and Variable Rate Loans less the aggregate Current Balance of those Discounted Variable Rate Loans and Variable Rate Loans which are six Monthly Payments or more in arrears) during the relevant Calculation Period, as notified to the Basis Swap Provider by the Cash Manager in accordance with the Cash Management Agreement.
"Average Fixed Rate Loan Balance"	means, in respect of a Calculation Period, the average of the daily aggregate adjusted Current Balance of all Fixed Rate Loans (being the aggregate Current Balance of those Fixed Rate Loans less the aggregate Current Balance of those Fixed Rate Loans which are six Monthly Payments or more in arrears) during the relevant Calculation Period, as notified to the Basis Swap Provider by the Cash Manager in accordance with the Cash Management Agreement.
"Average Tracker Rate Loan Balance"	means, in respect of a Calculation Period, the average of the daily aggregate adjusted Current Balance of all Tracker Rate Loans (being the aggregate Current Balance of those Tracker Rate Loans less the aggregate Current Balance of those Tracker Rate Loans which are six Monthly Payments or more in arrears) during the relevant Calculation Period, as notified to the Basis Swap Provider by the Cash Manager in accordance with the Cash Management Agreement.
"Back-Up Servicer"	means any back-up servicer appointed pursuant to the Back-Up Servicing Agreement.
"Back-Up Servicing Agreement"	shall have the meaning given to this term on page 109.
"Banking Act"	means the Banking Act 2009.

"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.
"Bank of Scotland Group"	means Bank of Scotland plc together with its subsidiary undertakings from time to time.
"Basel Committee"	means the Basel Committee on Banking Supervision.
"Basel II Framework"	means the regulatory capital framework published by the Basel Committee in 2006.
"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 (as the same may be amended, restated, supplemented, replaced and/or novated from time to time).
"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.
"Basis Swap Subordinated Amount"	means any termination payment due to the Basis Swap Provider which arises due to either (i) 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), or (ii) an Additional Termination Event (as defined in the Basis Swap Agreement) which occurs as a result of a Swap Provider Downgrade Event.
"Basis Swap"	means a basis swap entered into pursuant to the Basis Swap Agreement.
"BBA"	shall mean the British Bankers Association.
"BBSW"	means Bank Bill Swap reference rate.
"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.
"Breach of Duty"	means in relation to any person a wilful default, fraud, gross negligence or breach of trust or (other than with respect to the Trustee) illegal dealing or material breach of any agreement by such person.
"Buildings Policies"	means: <ul style="list-style-type: none"> (a) all buildings insurance policies relating to freehold or heritable Mortgage 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 Mortgage Properties; and (b) all landlord's buildings insurance policies relating to leasehold Mortgage Properties including Mortgage 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, Sydney and Melbourne and which is a TARGET2

	Business Day.
"Calculation Date"	means the first Business Day of March, June, September and December in each calendar year commencing on 1 June 2011. 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, the first day in March (or in respect of the first Calculation Period, from the Closing Date) to the last day in May, the first day in June to the last day in August, the first day in September to the last day in November and the first day in December to the last day in February, in each calendar year. 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 last day in the calendar month immediately preceding the Calculation Date which relates to the Interest Payment Date in respect 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 Step-Up Date in accordance with Condition 15.3 (<i>Optional Redemption in whole</i>).
"Capital Requirements Directive"	means Directive 2006/48/EC and/or 2006/49/EC, as appropriate, as amended by Directive 2009/111/EC.
"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.
"Capitalised Interest"	means, if a Borrower takes a Payment Holiday (as permitted under the terms of the Mortgage Loan), then the outstanding Current Balance of the Mortgage Loan will increase by the amount of interest that would have been paid on the relevant Mortgage Loan if not for such Payment Holiday.
"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.
"CCA"	shall mean the Consumer Credit Act 1974.
"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 A1a Notes, the Class A1b 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-	means the sub-ledger of the Principal Deficiency Ledger relating to the Class A

"Ledger"	Notes.
"Class A1 Notes"	means the Class A1a Notes together with the Class A1b Notes.
"Class A1a Notes"	means the A\$275,000,000 Class A1a asset backed floating rate Notes due 2051.
"Class A1b Notes"	means the €500,000,000 Class A1b asset backed floating rate Notes due 2051 (whether represented by Definitive Notes or the Global Note).
"Class A2 Notes"	means the £225,200,000 Class A2 asset backed floating rate Notes due 2051 (whether represented by Definitive Notes or the Global Note).
"Class A3 Notes"	means the £225,300,000 Class A3 asset backed floating rate Notes due 2051 (whether represented by Definitive Notes or the Global Note).
"Class B Noteholders"	means the persons who for the time being are holders of the Class B Notes.
"Class B Notes"	means the £112,900,000 Class B asset backed fixed rate Notes due 2051 (whether represented by Definitive Notes or the Global Note).
"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 £75,300,000 Class C asset backed fixed rate Notes due 2051 (whether represented by Definitive Notes or the Global Note).
"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 31 March 2011, or such other date as the Issuer and the Lead Managers may agree.
"Collection Account Bank"	means Bank of Scotland 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.
"Collection Account"	means an account in the name of the Seller held with the Collection Account Bank.
"Common Depository"	means the common depository for Euroclear and Clearstream, Luxembourg.
"Common Safekeeper"	means the common safekeeper for Euroclear and Clearstream, Luxembourg.
"Competition Commission"	means the United Kingdom Competition Commission.
"Conditions"	means, in relation to the: (a) Sterling Notes and the EUR Notes, the terms and conditions to be

	<p>endorsed on the Notes in, or substantially in, the form set out in Schedule 3 of the Trust Deed, in so far as they relate to the Sterling Notes or the EUR Notes (as applicable), 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; and</p> <p>(b) AUD Notes, the terms and conditions of the AUD Notes in the form set out in Schedule 2 of the Deed Poll, in so far as they relate to the AUD Notes, as any of the same may from time to time be modified in accordance with the Trust Deed and the Deed Poll and any reference to a particular numbered Condition shall be construed accordingly.</p>
"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.
"Corporations Act"	means the Corporations Act 2001 of Australia.
"CPUTRs"	means the Consumer Protection from Unfair Trading Regulations 2008.
"CRA Regulation"	Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.
"CRD IV"	shall have the meaning given to this term on page 51.
"Credit Support Annex"	means any credit support annex executed in accordance with the provisions of a Swap Agreement.
"Currency Swap"	means each currency swap entered into pursuant to any of the AUD Currency Swap Agreement or a EUR Currency Swap Agreement, together the "Currency Swaps".
"Currency Swap Agreement"	means each of the AUD Currency Swap Agreement and the EUR Currency Swap Agreement, together the "Currency Swap Agreements".
"Currency Swap Provider"	means each of the AUD Currency Swap Provider and the EUR Currency Swap Provider, together the "Currency Swap Providers".
"Currency Swap Subordinated Amount"	means any termination payment due to a Currency Swap Provider by the Issuer which arises due to (i) an Event of Default (as defined in the relevant Currency Swap Agreement) where such Currency Swap Provider is the Defaulting Party (as defined in the relevant Currency Swap Agreement); or (ii) an Additional Termination Event (as defined in the relevant Currency Swap Agreement) which occurs as a result of a Swap Provider Downgrade Event.
"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) Capitalised Interest 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.

"Day Count Fraction"	means, in respect of an Interest Period: (a) for Sterling Notes and AUD Notes, the actual number of days in such period divided by 365; or (b) for EUR Notes the actual number of days in such period divided by 360.
"Deed of Charge"	means the deed so named dated on or about the Closing Date between the Issuer and the Trustee.
"Deed Poll"	means the deed poll so named (including the Conditions of the AUD Notes) dated on or about the Closing Date executed by the Issuer constituting the AUD Notes and any document expressed to be supplemental to the Deed Poll.
"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.
"Definitive Notes"	means the any definitive note representing any of the Notes in, or substantially in the form set out in the Trust Deed.
"Discounted Variable Rate Loan"	shall have the meaning given to this term on page 75.
"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.
"ECB"	means the European Central Bank.
"Enforcement Notice"	means a notice issued by the Trustee to the Issuer declaring the Notes to be due and repayable pursuant to Condition 19 (<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.
"EUR Currency Swap Agreement"	means the currency swap agreement so named to be entered into on or about the Closing Date between the Issuer and the EUR Currency Swap Provider (as the same may be amended, restated, supplemented, replaced and/or novated from time to time).
"EUR Currency Swap Provider"	means The Royal Bank of Scotland plc in its capacity as currency swap provider pursuant to the EUR Currency Swap Agreement, and any successor thereto in such capacity.
"EUR Notes"	means the Class A1b Notes.
"EURIBOR"	means European Interbank Offered Rate.
"Euro", "euro" or "€"	means the lawful currency of member states of the European Union that adopt the single currency introduced in accordance with the Treaty.
"Euroclear"	means Euroclear Bank S.A./N.V. and any successor to such business.
"European Notes"	means the Sterling Notes and the EUR Notes and " European Note " means any

	of them whether represented by Definitive Notes or the Global Note.
"Euro Reference Rate"	<p>means, the floating rate determined by the Agent Bank by reference to the Euro Screen Rate on such date or if, on such date, the Euro Screen Rate is unavailable:</p> <p>(a) the Rounded Arithmetic Mean of the offered quotations, as at or about 11:00 a.m. (Brussels time) on that date, of the Reference Banks to major banks in the Euro-zone interbank market for euro deposits for the Relevant Period in the London interbank market in the Representative Amount, determined by the Agent Bank after request of the principal Euro-zone office of each of the Reference Banks; or</p> <p>(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</p> <p>(c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Euro Reserve Reference Rate.</p>
"Euro Reserve Reference Rate"	<p>means on any Interest Determination Date:</p> <p>(a) the Rounded Arithmetic Mean of the rates quoted by major banks in the Euro-zone, selected by the Agent Bank, at approximately 11:00 a.m. (Brussels time) on the first day of the relevant Interest Period for loans in euro to major European banks) for the Relevant Period and in the Representative Amount; or</p> <p>(b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Euro Reference Rate in effect for the immediately preceding Interest Period.</p>
"Euro Screen Rate"	means, in relation to an Interest Determination Date: (i) on the first Interest Determination Date, the linear interpolation of the rate for two-month and three-month euro deposits; and (ii) on each subsequent Interest Determination Date, the rate for euro deposits for the Relevant Period, in each case which appears on the Screen as at or about 11:00 a.m. (Brussels time) on that date.
"Euro-zone"	means the region comprised of member states of the European Union which adopt the euro in accordance with the Treaty.
"Event of Default"	means any one of the events specified in Condition 19 (<i>Events of Default</i>) of the Notes.
"Exchange Date"	means the first day following the expiry of forty days after the Closing Date.
"Exchange Offers"	shall have the meaning given to this term of page 73.
"Expenses Advance"	shall have the meaning given to it on page 114.
"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 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 March 2051.

"First Interest Payment Date"	means 14 June 2011.
"Fitch"	means Fitch Ratings Limited.
"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.
"FOS"	means the Financial Ombudsman Service.
"FSA"	means the Financial Services Authority, which is, amongst other things, 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).
"FSCS"	means the Financial Services Compensation Scheme.
"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 Court"	means the General Court of the European Union.
"General Reserve Fund Advance"	shall have the meaning given to it on page 114.
"General Reserve Fund Required Amount"	means an amount equal to £69,000,000 (being an amount equal to 5.5 per cent. of the 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 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 (plus an additional amount for the purpose of making up any Revenue Shortfalls on the Notes on the First Interest Payment Date only) and which will subsequently be funded from Available Investor Revenue in accordance with the Pre Enforcement Investor Revenue Payments Priorities.
"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 06078855 sort code 12-08-83) 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 Sterling Notes and the EUR Notes of each Class represented on issue by a global note in registered form for each such Class of Notes.
"HMRC"	means Her Majesty's Revenue and Customs.
"holder"	means the registered holder of a Note as entered in the Register in respect of that Note and the words "holders" and related expressions shall (where appropriate) be construed accordingly.

"Holdings"	means Headingley RMBS 2011-1 Holdings Limited (registered number 7115487), 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.
"Housing Indices"	means the United Kingdom residential property prices, as measured by the Nationwide House Price Index and the Halifax Price Index.
"ICSD"	means Clearstream, Luxembourg and Euroclear.
"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.
"Indirect Participants"	shall have meaning to such term on page 135.
"Industry PPR"	shall have the meaning given to it on page 97.
"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 and does not include any (a) High Lending Charges, (b) Further Advance, and (c) Early Repayment Charge.
"Initial Consideration"	means the sum of £1,254,026,700, being an amount equal to the Investor Percentage of the Current Balance of the Mortgage Loan in the Mortgage Portfolio on the Closing Date.
"Insolvency Act"	means the Insolvency Act 1986.
"Insolvency Event"	<p>in respect of a company means:</p> <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 step is taken in relation to: <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

	<p>the Issuer or its directors, or the appointment of an administrative receiver by the Trustee following any such application or notice; or</p> <p>(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</p> <p>(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</p> <p>(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</p> <p>(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;</p> <p>(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"	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"	<p>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:</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 Note 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> <p>plus any deferral of interest under Condition 13.11(b).</p>
"Interest Deferral"	has the same meaning as defined in the Terms and Conditions.

<p>"Interest Determination Date"</p>	<p>means:</p> <p>(a) in respect of the Sterling Notes, each Interest Payment Date or, in the case of the first Interest Period, the Closing Date;</p> <p>(b) in respect of the EUR Notes, each day which is two TARGET2 Settlement Days prior to an Interest Payment Date; and</p> <p>(c) in respect of the AUD Notes, each Interest Payment Date or, in the case of the first Interest Period, the Closing Date,</p> <p>and an Interest Determination Date shall relate to an Interest Period (and be the "related Interest Determination Date" in respect of such Interest Period) where the Interest Period commences on such Interest Determination Date.</p>
<p>"Interest Payment Date"</p>	<p>means the 11th day of March, June, September and December 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.</p>
<p>"Interest Period"</p>	<p>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.</p>
<p>"Interest Shortfall"</p>	<p>shall have the meaning given to it on page 106.</p>
<p>"Interest-only Loans"</p>	<p>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.</p>
<p>"Investor Percentage"</p>	<p>means:</p> <p>(a) on the Closing Date approximately 90.909%; and</p> <p>(b) thereafter, on each Calculation Date, shall be an amount, expressed as a percentage, equal to</p> $\frac{A + B - C - D}{E} \times 100,$ <p>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 Investor Principal Amount on the Closing Date);</p> <p>B means an amount equal to the investor share of any Capitalised Interest in respect of each Mortgage Loan where there has been a Payment Holiday from (and including) the immediately preceding Calculation Date <i>less</i> an amount equal to any cash payment made by the Seller to the Issuer since the immediately preceding Calculation Date in respect of Capitalised Interest and to be applied by the Issuer as Available Investor Revenue on the immediately following Interest Payment Date in accordance with the Payments Priorities – as described in <i>"Overpayments, Underpayments and Payment Holidays"</i>;</p> <p>C means the aggregate amount of Principal Receipts to be applied by the Issuer as Available Investor Principal on the immediately following</p>

	<p>Interest Payment Date in accordance with the Payments Priorities;</p> <p>D 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>E 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, £1,254,026,700; and</p> <p>(b) thereafter, on each Calculation Date, an amount equal to $A + B - C - D$, where "A", "B", "C" and "D" 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 collected during the immediately preceding Calculation Period.
"Issuer Accounts"	means the GIC Account, the Transaction Account and any Swap Termination Reserve 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 (<i>Issuer Covenants</i>) of Trust Deed.
"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 27 (<i>Substitution of Issuer</i>)) is incorporated and/or subject to taxation.
"Issuer Profit Amount"	means an amount equal to £7,000 on each Interest Payment Date up to and including the Interest Payment Date falling in December 2011 and £250 on each Interest Payment Date thereafter in each case to be credited to Issuer Profit Ledger of the Transaction Account and to be retained by the Issuer as profit in respect of the business of the Issuer.
"Issuer Profit Ledger"	means the ledger of the Transaction Account so named in the books of the Issuer and maintained by the Cash Manager on behalf of the Issuer.
"Issuer"	means Headingley RMBS 2011-1 plc (registered number 7061476), 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.
"IWT"	means the Australian interest withholding tax.
"landlord"	shall have the meaning given to it on page 78.
"Lead Managers"	<p>means:</p> <p>(a) in respect of the Sterling Notes, Lloyds TSB Bank plc;</p> <p>(b) in respect of the EUR Notes, Lloyds TSB Bank plc and Natixis; and</p> <p>(c) in respect of the AUD Notes, Lloyds TSB Bank plc acting through its Australian branch (ARBN 142 617 605), National Australia Bank Limited (ABN 12 004 044 937) and Macquarie Bank Limited</p>

	(ABN 46 008 583 542).
"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.
"Liabilities"	has the meaning given to it in the Conditions.
"LIBOR"	means London Interbank Offered Rate.
"Liquidity Coverage Ratio"	shall have the meaning given to this term on page 51.
"Liquidity Reserve Fund Required Amount"	means an amount equal to (i) 3% of the Sterling Equivalent 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) on any date when the Notes are fully repaid or provided for, or (b) on any date when a Liquidity Trigger Event is no longer continuing.
"Liquidity Reserve Fund"	means the liquidity reserve fund funded upon a Liquidity Trigger Event, up to the Liquidity Reserve Fund Required Amount from Available Investor Principal, Seller Principal or Available Investor Revenue, as the case may be, in accordance with the Payments Priorities.
"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 the long term, unsecured, unsubordinated and unguaranteed debt obligations of the Seller cease to be rated at least A3 by Moody's (or such other rating that is consistent with the then published criteria of Moody's as being the minimum ratings that are required to support the then rating of the Most Senior Class of Notes).
"Lloyds Banking Group"	means Lloyds Banking Group plc together with its subsidiary undertakings from time to time.
"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"	means the EU Directive 2004/39/EC.

Directive"	
"Maturity Date"	means, in respect of a Class of Notes, the Final Maturity Date, or such other date on which the Notes are redeemed in full.
"MCOB"	means the FSA's Mortgages and Home Finance: Conduct of Business sourcebook, as the same may be amended, revised or supplemented from time to time.
"Meeting"	means a meeting of Noteholders of any Class or Classes (whether originally convened or resumed following an adjournment).
"Minimum Amount"	means, in respect of the Sterling Notes, one penny; in respect of the EUR Notes, 0.01 euro and in respect of the AUD Notes, one cent.
"Minimum Denomination"	means: (a) in respect of the Notes represented by the Global Notes and (if issued) the Definitive Notes: (i) in respect of Sterling 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 (ii) in respect of the EUR 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; (b) in respect of the AUD Notes, A\$100,000 and for so long as Austraclear so permits, any amount in excess thereof in integral multiples of A\$10,000.
"Minimum Seller Percentage"	means: (a) on the Closing Date, approximately 3.1%; and (b) 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: $X / Y \times 100\%$ where X = means an amount equal to the deposit balance of the Borrowers in respect of the Mortgage Loans in the Mortgage Portfolio; and Y = means the 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, approximately £42,762,311, and thereafter, on each Calculation Date, an amount equal to "X" where "X" has the meaning set out in the definition of Minimum Seller Percentage.
"Monthly Investor Report"	means the monthly report prepared by the Cash Manager in accordance with the Cash Management Agreement.
"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 Regulation Date"	has the meaning given to it on page 46.
"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"	shall have the meaning given to this term on page 119.
"Net Stable Funding Ratio"	shall have the meaning given to this term on page 51.
"Non-Sterling Notes"	means the AUD Notes and the EUR Notes.

"Non-Verified Income Loan"	means a type of loan where the lender has elected not to verify income due to the lower risk that the loan represents based on the overall credit quality of the loan and applicant.
"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 A1a Notes, the Class A1b Notes, the Class A2 Notes and the Class A3 Notes).
"Note Principal Payment"	<p>means, on any Interest Payment Date:</p> <ul style="list-style-type: none"> (a) in the case of each Class A1a Note, an amount equal to the lesser of the amount of Available Investor Principal to be applied in or towards redeeming the Class A1a Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class A1a Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1a Notes; (b) in the case of each Class A1b Note, an amount equal to the lesser of the amount of Available Investor Principal to be applied in or towards redeeming the Class A1b Notes in accordance with the Pre Enforcement Investor Principal Payments Priorities and the Principal Amount Outstanding of the Class A1b Notes, each determined as at the related Calculation Date, divided by the number of outstanding Class A1b Notes; (c) 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; (d) 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; (e) 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; (f) 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; <p>in any such case rounded down to the nearest multiple of the Minimum Denomination.</p>
"Note Rate"	<p>for each Interest Period means:</p> <ul style="list-style-type: none"> (a) in respect of the Class A Notes, the Reference Rate determined as at

	<p>the related Interest Determination Date plus the Relevant Margin in respect of such Interest Period for such class; and</p> <p>(b) in respect of the Class B Notes and Class C Notes, 0.01 per cent. per annum.</p>
"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, the Global Note or otherwise certificated or uncertificated.
"Notices Condition"	means Condition 28 (<i>Notices</i>).
"Notices Details"	means the provisions set out in Schedule 3 (<i>Notices Details</i>) of the Incorporated Terms Memorandum.
"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 74 of FSMA.
"OFT"	means the Office of Fair Trading in the U.K.
"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.
"Participants"	shall have the meaning given to this term on page 135.
"Paying Agents"	means the Principal Paying Agent, the Australian Paying Agent and any other paying agents named in the Agency Agreement and the Australian Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement or the Australian 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 Investor Payments Priorities.
"Perfection Event"	shall have the meaning given to this term on page 87.
"Post Enforcement Investor Amounts"	shall have the meaning given to this term on page 131.
"Post Enforcement Investor Payments Priorities"	means the order of priority of payments set out for reference on page 132.
"Post Enforcement Seller Amount"	Shall have the meaning give to it on page 134.
"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.
"PPI"	means payment protection insurance.

"Pre Enforcement Investor Principal Payments Priorities"	means the order of priority of payments named as such and set out for reference on page 130.
"Pre Enforcement Investor Revenue Payments Priorities"	means the order of priority of payments named as such and set out for reference on page 125.
"Pre Enforcement Payments Priorities"	means the Pre Enforcement Investor 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 order of priority of payments named as such and set out for reference on page 135.
"Pre-Action Protocol"	shall have the meaning given to this term on page 52.
"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 Principal Sub-Ledger (but not the Liquidity Reserve Revenue Sub-Ledger) of the Liquidity Reserve Fund and Available Investor Principal and/or Seller Principal 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 The Bank of New York Mellon acting through its 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 Step-Up Date; or (b) there is a debit balance on the Class B Principal Deficiency Sub-Ledger on any Interest Payment Date; or (c) the Seller Principal Amount is less than the Minimum Seller Principal Amount.
"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 Buildings 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.
"Principal Share"	means, in respect of a Calculation Period, a percentage equal to the product of (i) (x) the sum of (A) Investor Principal Amount; less (B) the Investor Percentage of the aggregate Current Balance of those Mortgage Loans for which the amount in arrears is equal to or greater than six times the Monthly Payment for the relevant Mortgage Loan which is due on the immediately preceding Interest Payment Date; divided by (y) the sum of the Average Fixed Rate Loan Balance, the Average Tracker Rate Loan Balance and the Average Variable Rate Loan Balance in each case in respect of that Calculation Period) and (ii) 100.
"Product Period"	shall have the meaning given to this term on page 75.
"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.
"Proposals"	shall have the meaning given to this term on page 73.
"Prospectus"	means EU Directive 2003/71/EC.

Directive"	
"Prospectus"	means this prospectus of the Issuer for the purposes of the Prospectus Directive.
"Provisions for Meetings of Noteholders"	has the meaning defined in the 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.
"Purchaser"	shall have the meaning given to it on page 192.
"Rating Agencies"	means Moody's and S&P and "Rating Agency" means any one of them.
"Ratings Confirmation"	shall have the meaning given to this term on page 39.
"Realisation"	has the meaning defined in the Conditions.
"Reasonable, Prudent Mortgage Lender"	means a reasonably prudent residential mortgage lender lending to borrowers in England and 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 18.2 (<i>Appointment of Receiver</i>) of the Deed of Charge.
"Record Date"	has the meaning defined in the Conditions.
"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"	means: <ul style="list-style-type: none"> (a) in respect of the Sterling Notes, the principal London office of four major banks in the London interbank market; (b) in respect of the EUR Notes, the principal Euro zone office of four major banks in the Euro zone office of four major banks in the Euro zone interbank; and (c) in respect of the AUD Notes, five lending banks in Sydney that quote rates for Australian Dollar bills of exchange, in each case, selected by the Agent Bank, or in respect of the AUD Notes, the Australian Calculation Agent at the relevant time.
"Reference Date"	means 6 January 2011.
"Reference Rate"	means: <ul style="list-style-type: none"> (a) in respect of the Class A2 Notes and the Class A3 Notes, the Sterling Reference Rate; (b) in respect of the EUR Notes, the Euro Reference Rate; and (c) in respect of the AUD Notes, the Australian Reference Rate.

"Register"	means (i) in respect of the European Notes the register on which the names and addresses of the holders of the European Notes and the particulars of the European Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar; and (ii) in respect of the AUD Notes, the register on which the names and addresses of the holders of the AUD Notes and the particulars of the AUD Notes shall be entered and kept by the Issuer at the Specified Office of the Australian Registrar.
"Registrar"	means the party responsible for the registration of the Sterling Notes and the EUR Notes, which at the Closing Date is The Bank of New York Mellon (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.
"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, in Scotland, first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust, or by a related person.
"Regulation S" or "Reg S"	means Regulation S under the Securities Act.
"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 entity"	shall have the meaning given to this term on page 53.
"Relevant Exchange Rate"	means in relation to the Non-Sterling Notes the exchange rate specified in the relevant Currency Swap Agreement (notwithstanding its termination).
"Relevant Period"	means, in relation to an Interest Determination Date, the length in months of the related Interest Period.
"relevant persons"	shall have the meaning given to this term on page 156.
"Relevant Margin"	means, in respect of an Interest Period: <ul style="list-style-type: none"> (a) for the Class A1a Notes, 1.50 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 1.75 per cent. per annum; (b) for the Class A1b Notes, 1.25 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 1.50 per cent. per annum; (c) for the Class A2 Notes, 1.45 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 1.95 per cent. per annum; and (d) for the Class A3 Notes, 1.55 per cent. per annum for each Interest Period up to and excluding the Interest Period commencing on the Step-Up Date and thereafter 2.30 per cent. per annum;

"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.
"Reorganisation Act"	means HBOS Group Reorganisation Act 2006.
"Repayment Loan"	shall have the meaning given to this term on page 74.
"Replacement Swap Premium"	means any amount received by the Issuer from a replacement swap provider upon entry by the Issuer into a replacement swap agreement with such replacement swap provider to replace the Basis Swap or any Currency Swap, as applicable.
"Representative Amount"	means an amount that is representative for a single transaction in the relevant market at the relevant time.
"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.
"repurchase" or "repurchased"	shall have the meaning given to it on page 85.
"resale share"	shall have the meaning given to it on page 78.
"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 Condition 2.1.
"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"	shall have the meaning given to this term on page 119.
"Revenue Shortfall"	means the difference between the amount required to pay items (a) to (k) 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 Applicable Principal Receipts) which is calculated by the Cash Manager on each Calculation Date.
"Rights Issue"	shall have the meaning given to this term on page 72.
"Rounded Arithmetic Mean"	means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent).
"RTB Disposal Period"	shall have the meaning given to it on page 78.

"RTB Loan"	means a mortgage loan extended to a borrower in connection with the purchase by the borrower of a property from a local authority or certain other landlords under the "right-to-buy" schemes governed by the Housing Act 1985 (as amended by the Housing Act 2004) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001).
"S&P"	means Standard & Poor's Credit Market Services Europe Limited and includes any successor to its rating business;
"sale" or "sell" or "sold"	shall have the meaning given to it on page 85.
"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.
"Screen"	means, in relation to Sterling, Reuters Screen LIBOR01 in relation to euro Reuters Screen EURIBORO and in relation to Australian Dollars Reuters Screen BBSW Page; or (a) such other page as may replace Reuters Screen LIBOR01 or Reuters Screen EURIBORO or Reuters Screen BBSW Page (as applicable) 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.
"SCV"	shall have the meaning given to this term on page 60.
"Secured Amounts"	means any and all of the monies 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), 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 Australian Calculation Agent, the Paying Agents, the Registrar, the Australian Registrar, the Transfer Agent, the Basis Swap Provider, the Currency Swap Providers 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.
"Self-Certified Loan"	means a type of loan where the lender markets the fact that it will not verify income and charges a premium for the greater risk incurred.
"Seller Asset Warranties"	means the representations and warranties in respect of the Mortgage Loans as set out in the Mortgage Sale Agreement and given by the Seller.
"Seller Percentage"	means: (a) on the Closing Date, 9.091%; 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 Amount"	means: (a) on the Closing Date, £125,402,670 and (b) on each Calculation Date, an amount equal to E x Seller Percentage on such date, where "E" has the meaning set out in the definition of Investor Percentage.
"Seller Principal Diversion Conditions"	shall have the meaning given to this on page 31.
"Seller Principal"	means the amount of Principal Receipts to be applied 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 Revenue"	means, for each Interest Payment Date, an amount equal to the aggregate of (without double-counting) the Seller Percentage of the Net Revenue collected during the immediately preceding Calculation Period.
"Seller"	means Bank of Scotland plc acting in its capacity as seller of the Mortgage Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement.
"Senior Expenses"	means expenses of the Issuer which rank at items (a) to (d) of the Pre-Enforcement Investor Revenue Payments Priorities or items (a) to (c) in the Post Enforcement Investor Payments Priorities (as applicable).
"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 (<i>pro rata</i> and <i>pari passu</i> amongst themselves), secondly, to the Class A2 Notes (<i>pro rata</i> and <i>pari passu</i> amongst themselves) and, thirdly, to the Class A3 Notes (<i>pro rata</i> and <i>pari passu</i> amongst themselves); (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 Event"	shall have the meaning given to it on page 107.
"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.
"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 Servicer, the Seller and the Trustee.
"Set Interest Amount"	shall have the meaning given to this term on page 121.
"Set-Off Losses"	means any reduction in Principal Receipts as a result of Borrowers exercising set-off rights against the Seller.

"Share Trust Deed"	means the deed so named dated 26 May 2010 and executed by the Share Trustee.
"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.
"Special Rate Loans"	shall have the meaning given to this term on page 75.
"Specified Office"	shall have the meaning given to it in Condition 2.1.
"Spot Rate"	means Lloyds TSB Bank plc's spot rate of exchange for the purchase of the Applicable Currency with Sterling in the London foreign exchange market at or about 11:00 a.m. on a particular day.
"SPV Criteria"	means the criteria established from time to time by the Rating Agencies for a single purpose company in the Issuer Jurisdiction.
"SRR"	shall have the meaning given to this term on page 53.
"St Andrew's Insurance"	shall have the meaning given to it on page 83.
"Stabilising Manager(s)"	means Lloyds TSB Bank plc.
"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.
"Standard Variable Rate"	shall have the meaning given to this term on page 75.
"Step-Up Date"	means the Interest Payment Date falling in 11 March 2018.
"Sterling Equivalent Principal Amount Outstanding"	means: <ul style="list-style-type: none"> (a) in relation to the Non-Sterling Notes or any Class of Non-Sterling Notes, the sterling equivalent of the Principal Amount Outstanding of such Note or Class of Notes ascertained using the Relevant Exchange Rate relating to such Notes, and (b) in relation to the Sterling Notes or any Class of Sterling Notes, the Principal Amount Outstanding of such Note or Class of Notes.
"Sterling" and "£"	denote the lawful currency for the time being of the of the United Kingdom of Great Britain and Northern Ireland.
"Sterling Notes"	means the Class A2 Notes, the Class A3 Notes, the Class B Notes and the Class C Notes.
"Sterling Reference Rate"	means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Sterling Screen Rate on such date or if, on such date, the Sterling Screen Rate is unavailable: <ul style="list-style-type: none"> (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

	<p>interbank market in the Representative Amount determined by the Agent Bank after request of each of the Reference Banks;</p> <p>(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</p> <p>(c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Sterling Reserve Reference Rate.</p>
"Sterling Reserve Reference Rate"	<p>means on any Interest Determination Date:</p> <p>(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 in its absolute discretion for Sterling loans for the Relevant Period in the Representative Amount to major European banks; or</p> <p>(b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Sterling Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date.</p>
"Sterling Screen Rate"	<p>means, in relation to: (i) the first Interest Determination Date, the linear interpolation of offered quotations for two-month and three-month Sterling deposits; and (ii) each subsequent Interest Determination Date, the offered quotations for Sterling deposits for the Relevant Period, in each case which appears on the Screen as at or about 11:00 a.m. (London time) on that date.</p>
"Stock Exchange"	<p>means London Stock Exchange PLC.</p>
"Subordinated Loan Agreement"	<p>means the Subordinated Loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee.</p>
"Subordinated Loan Provider"	<p>means Bank of Scotland in its capacity as Subordinated Loan provider pursuant to the Subordinated Loan Agreement.</p>
"Subordinated Loan"	<p>shall have the meaning given to this term on page 114.</p>
"Subscription Agreement"	<p>means the subscription agreement so named dated on or about 28 March 2011 between the Issuer, the Seller and the Lead Managers</p>
"Substituted Obligor"	<p>means a single purpose company incorporated in any jurisdiction that meets the SPV Criteria.</p>
"Swap Agreements"	<p>means the Basis Swap Agreement and the Currency Swap Agreements and "Swap Agreement" means any of them.</p>
"Swap Collateral"	<p>means any cash or securities transferred by a Swap Provider to the Issuer on any date pursuant to the terms of the relevant Credit Support Annex to the relevant Swap Agreement (including for the avoidance of doubt, any interest and income earned on such cash or securities).</p>
"Swap Collateral Account"	<p>means the account or accounts in the name of the Issuer so named and maintained by the Cash Manager on behalf of the Issuer in respect of a Swap Agreement in which all Swap Collateral is held by the Issuer in accordance with the relevant Swap Agreement.</p>
"Swap Collateral"	<p>means any amount of cash or securities (including for the avoidance of doubt,</p>

"Return Payment"	any interest and income earned on such cash or securities) required to be transferred to the Basis Swap Provider or the relevant Currency Swap Provider in accordance with the applicable Swap Agreement or Credit Support Annex.
"Swap Reserved Matter"	means, in respect of a Swap Provider, any proposal: <ul style="list-style-type: none"> (a) to make an amendment to the Payments Priorities that has an adverse effect on such Swap Provider; (b) to make an amendment to any Transaction Document as a result of which such Swap Provider would be required to pay more or receive less under the relevant Swap Agreement or make or receive a payment under the relevant Swap Agreement on a different date; or (c) to amend Condition 15 (Final Redemption, Mandatory Redemption in part, Optional Redemption, Purchase and Cancellation) of the Notes.
"Swap Provider Downgrade Event"	means the occurrence of an Additional Termination Event (as defined in the relevant Swap Agreement) following the failure by a Swap Provider to take the required remedial action (including, for the avoidance of doubt, to obtain mark-to-market valuations as required by Part 5(f)(iv)(C) of the Schedule to the relevant Swap Agreement) in accordance with the requirements of the ratings downgrade provisions set out in the relevant Swap Agreement.
"Swap Providers"	means the Basis Swap Provider and the Currency Swap Providers and "Swap Provider" means any of them.
"Swap Subordinated Amount"	means each of the Basis Swap Subordinated Amounts and Currency Swap Subordinated Amounts (together, the "Swap Subordinated Amounts").
"Swap Tax Credits"	means any amounts that must be paid by the Issuer to any Swap Provider pursuant to paragraph (j) of Part 5 of the Schedule to the relevant Currency Swap Agreement or the Basis Swap Agreement (as the case may be).
"Swap Termination Deferred Interest Amounts"	has the meaning given to it in Condition 13.11 (<i>Interest Accrual</i>).
"Swap Termination Deferred Principal Amounts"	has the meaning given to it in Condition 14(a) (<i>Swap Termination Deferred Principal</i>).
"Swap Termination Excess Interest Amounts"	has the meaning given to it in Condition 13.11 (<i>Interest Accrual</i>).
"Swap Termination Excess Principal Amounts"	has the meaning given to it in Condition 14(b) (<i>Swap Termination Deferred Principal</i>).
"Swap Termination Reserve Account "	means the relevant swap termination reserve account established in respect of principal or interest payments on the Class A1a Notes, the Class A1b Notes or the Class A3 Notes (as applicable) in the Applicable Currency.
"TARGET2 Settlement Day"	means any day on which TARGET2 is open for the settlement of payments in euro.
"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).
" Taxation Administration Act "	means the Taxation Administration Act 1953 (Cth) of Australia.
" Tax Deduction "	has the meaning set out in the Terms and Conditions.
" Third Party Amounts "	means: <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.
" Transaction Account "	means the account in the name of the Issuer (account number 06078863, sort code 12-08-83) 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, the Australian Agency Agreement, Account Bank Agreement, Cash Management Agreement, Basis Swap Agreement, Corporate Services Agreement, Deed of Charge, Currency Swap Agreements, Incorporated Terms Memorandum, Mortgage Sale Agreement, the Subscription Agreement, the Servicing Agreement, the Scottish Declaration of Trust, the Share Trust Deed, Subordinated Loan Agreement, the Notes, Trust Deed (including the Conditions), the Deed Poll (including the Conditions) and any other Trust Documents, 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 Agent "	means The Bank of New York Mellon, acting through its London branch in its capacity as transfer agent in accordance with the terms of the Agency Agreement.
" Transfer Date "	means, with respect to Mortgage Loans in the Mortgage Portfolio on the Closing Date, the Closing Date and any other date on which the Seller repurchases 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 of the European Notes and the form of the European Notes) dated on or about the Closing Date between the Issuer and the Trustee constituting the European Notes and any document expressed to be supplemental to the Trust Deed.
"Trust Documents"	means the Trust Deed, the Deed Poll 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, the Deed Poll or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed, the Deed Poll or the Deed of Charge (as applicable).
"Trustee"	means The Bank of New York Mellon acting through its Australian branch at Level 2, 35 Clarence Street, Sydney NSW 2000, Australia 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.
"TSC Regulations"	means the Taxation of Securitisation Companies Regulations 2006.
"U.S. Persons"	means U.S. Persons as defined in Regulation S under the Securities Act
"UKFI"	shall mean the UK Financial Investments Limited.
"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 Overpayments.
"Unfair Practices Directive"	means Directive 2005/29/EC on unfair business-to-consumer commercial practices adopted by the European Parliament and Council on 11 May 2005.
"United Kingdom" or "UK"	means the United Kingdom of Great Britain and Northern Ireland.
"UTCCR"	shall have the meaning given to this term on page 50.
"Valuation Report"	means the valuation report or reports for mortgage purposes, 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.
"Variable Rate Loan"	shall have the meaning given to it on page 75.
"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 or Classes 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

£	ix, 161, 225	BBSW	202
€	ix, 149, 206	Benefit Plan Investor	195
A\$	ix, 144, 199	Book-Entry Interests	vi, 136, 202
Account Bank	143, 198	Borrower	147, 202
Account Bank Agreement	143, 198	Breach of Duty	147, 202
Accountholder	198	Buildings Policies	202
Accrued Interest	144, 198	Business Day	147, 202
Additional Interest	173, 198	Calculation Date	148, 203
Agency Agreement	144, 198	Calculation Period	203
Agent Bank	144, 198	Call Option	203
Agents	144, 198	Capital Requirements Directive	203
AML/CTF Act	61, 198	Capitalised Arrears	203
Applicable Currency	144, 198	Capitalised Interest	78, 203
Appointee	198	Cash Management Agreement	148, 203
approved purpose	198	Cash Manager	148, 203
Arranger	198	CCA	49, 203
Arrears of Interest	198	Charged Property	148, 203
ASIC	192	class	148, 203
Asset Agreement	199	Class	148, 203
AUD	ix, 144, 199	Class A Noteholders	148, 203
AUD Currency Swap Agreement	144, 199	Class A Notes	143, 148, 203
AUD Currency Swap Provider	144, 199	Class A Principal Deficiency Sub-Ledger	203
AUD Noteholders	144, 199	Class A1 Notes	143, 148, 204
AUD Notes	144, 199	Class A1a Notes	143, 148, 204
AUD Swap Due Amount	117	Class A1b Notes	143, 148, 204
Austraclear	144, 199	Class A2 Notes	143, 148, 204
Austraclear Regulations	144, 199	Class A3 Notes	143, 148, 204
Austraclear System	144, 199	Class B Noteholders	148, 204
Australian Agency Agreement	144, 199	Class B Notes	143, 148, 204
Australian Calculation Agent	144, 199	Class B Principal Deficiency Sub-Ledger	204
Australian Dollars	ix, 144, 199	Class C Noteholders	148, 204
Australian Paying Agent	144, 199	Class C Notes	143, 148, 204
Australian Reference Rate	145, 199	Class C Principal Deficiency Sub-Ledger	204
Australian Registrar	145, 200	Clause	164
Australian Reserve Reference Rate	145, 200	Clearstream, Luxembourg	vi, 148, 204
Australian Screen Rate	145, 200	Closing Date	148, 204
Australian Tax Act	189, 200	Code	195
Authorised Investments	200	Collection Account	204
Authorities	53, 201	Collection Account Bank	204
Available Investor Principal	17, 130, 145, 201	Collection Account Declaration of Trust	22, 204
Available Investor Revenue	15, 121, 146, 201	Common Depository	vi, 204
Average Fixed Rate Loan Balance	201	Common Safekeeper	vi, 204
Average Tracker Rate Loan Balance	201	Competition Commission	204
Average Variable Rate Loan Balance	201	Conditions	148, 204
Back-Up Servicer	109, 201	continuing	163
Back-Up Servicing Agreement	109, 201	Corporate Services Agreement	149, 205
Bank of Scotland	147, 202	Corporate Services Provider	149, 205
Bank of Scotland Group	202	Corporations Act	149, 205
Banking Act	53, 201	CPUTRs	51, 205
Basel Committee	51, 202	CRA Regulation	205
Basel II Framework	51, 202	CRD IV	52, 205
Basis Swap	147, 202	Credit Support Annex	149, 205
Basis Swap Agreement	147, 202	Currency Swap	149, 205
Basis Swap Provider	147, 202	Currency Swap Agreement	149, 205
Basis Swap Subordinated Amount	202	Currency Swap Provider	149, 205
BBA	202	Currency Swap Subordinated Amount	205

Current Balance	205	In Arrears	209
Day Count Fraction	149, 206	including	164
Deed of Charge	149, 206	including without limitation	164
Deed Poll	149, 206	Incorporated Terms Memorandum	151, 209
Deferred Consideration	206	indebtedness	164
Definitive Notes	149, 165, 206	Indirect Participants	136, 209
determination date	144, 198	Industry PPR	98, 209
Discounted Variable Rate Loan	76	Initial Advance	209
Early Repayment Charges	206	Initial Consideration	85, 209
ECB	206	Insolvency Act	151, 209
Enforcement Notice	149, 206	Insolvency Event	151, 209
English Loan	206	Insolvency Official	152, 210
English Mortgage	206	Interest Amount	152, 210
ERISA	195	Interest Deferral	210
EUR Currency Swap Agreement	149, 206	Interest Determination Date	152, 211
EUR Currency Swap Provider	149, 206	Interest Payment Date	152, 211
EUR Notes	149, 206	Interest Period	152, 211
EURIBOR	206	Interest Shortfall	107, 211
euro	149, 206	Interest Shortfall Advance	115
Euro	ix, 149, 206	Interest-only Loan	75
Euro Reference Rate	150, 207	Interest-only Loans	211
Euro Reserve Reference Rate	150, 207	Investment Company Act	195
Euro Screen Rate	150, 207	Investor Percentage	152, 211
Euroclear	vi, 149, 206	Investor Principal Amount	212
European Note	206	Investor Revenue	120, 212
European Notes	150, 165, 206	Issuer	143, 212
Eurosystem	136	Issuer Accounts	153, 212
Euro-zone	150, 207	Issuer Covenants	153, 212
Event of Default	150, 179, 207	Issuer Jurisdiction	153, 212
Exchange Date	150, 207	Issuer Profit Amount	153, 212
Exchange Offers	207	Issuer Profit Ledger	153, 212
Expenses Advance	115, 207	IWT	190, 212
Extraordinary Resolution	150, 207	landlord	79, 212
Final Discharge Date	150, 207	law	164
Final Maturity Date	150, 207	LBSF	38
First Interest Payment Date	150, 208	Lead Manager	153, 212
Fixed Rate Loan	76	Lending Criteria	213
Fixed Rate Loans	208	Liabilities	153, 213
FOS	208	LIBOR	213
FSA	53, 60, 208	Liquidity Coverage Ratio	52, 213
FSCS	60, 208	Liquidity Reserve Fund	213
FSMA	47, 208	Liquidity Reserve Fund Required Amount	213
Further Advance	208	Liquidity Reserve Principal Sub-Ledger	213
GBP	ix	Liquidity Reserve Revenue Sub-Ledger	213
General Court	208	Liquidity Trigger Event	213
General Reserve Fund	208	Lloyds Banking Group	213
General Reserve Fund Advance	115, 208	Loan Conditions	215
General Reserve Fund Required Amount	208	Loan Files	213
General Reserve Ledger	208, 213	loan-to-value ratio	213
GIC Account	150, 208	London Stock Exchange	213
Global Note	165	LTSB	74
Global Notes	150, 208	LTV	213
HMRC	208	LTV Ratio	213
holder	151, 208	Markets in Financial Instruments Directive	iv, 213
holders	151	Maturity Date	214
Holdings	66, 151, 209	MCOB	47, 214
Home Owner and Debtor Protection Act	50	Meeting	153, 214
Housing Indices	101, 209	Member State	ix
ICSD	209	Minimum Amount	153, 214
in arrears	209		

Minimum Denomination	154, 214	Pre Enforcement Payments Priorities	157, 218
Minimum Seller Percentage	214	Pre Enforcement Revenue Payments Priorities	
Minimum Seller Principal Amount	154, 214	.....	126, 156, 218
Monthly Investor Report.....	214	Pre Enforcement Seller Principal Payments	
Monthly Payment.....	214	Priorities	132, 157, 218
Monthly Payment Date.....	215	Pre-Action Protocol.....	49, 218
Moody's.....	154, 215	principal.....	164
Mortgage.....	154, 215	Principal Amount Outstanding	157, 218
Mortgage Account	215	Principal Deferred Consideration	218
Mortgage Conditions	154, 215	Principal Deficiency Ledger	218
Mortgage Deed.....	215	Principal Ledger	157, 218
Mortgage Loans	154, 215	Principal Losses	218
Mortgage Portfolio.....	154, 215	Principal Paying Agent	157, 218
Mortgage Regulation Date.....	47, 215	Principal Payments Trigger Event	157, 219
Mortgage Sale Agreement	154, 215	Principal Receipts.....	129, 219
Mortgage Terms.....	215	Principal Share	219
Mortgaged Property	215	Product Period	76, 219
Mortgages.....	154, 215	Product Switches	219
Most Senior Class	154, 215	Property	219
Net Revenue.....	120, 215	Proposals	219
Net Stable Funding Ratio	52, 215	Prospectus.....	220
New Safekeeping Structure	136	Prospectus Directive	219
Non-Sterling Notes	215	Provisions for Meetings of Noteholders	157, 181,
Non-Verified Income Loan	216	220	
Note Principal Payment	154, 216	Purchase Price	220
Note Rate.....	155, 216	Purchaser	194, 220
Noteholder.....	165	rating.....	38
Noteholders	155, 216	Rating Agencies	157, 220
Notes	143, 155, 217	Rating Agency.....	157
Notices Condition	155, 217	ratings	38
Notices Details	155, 217	Ratings Confirmation.....	39, 220
NSS	136	Realisation	33, 177, 220
Offer Conditions	217	Reasonable, Prudent Mortgage Lender	220
Official List.....	217	Receiver.....	157, 220
OFT	60, 217	Record Date.....	138, 157, 178, 220
outstanding	155	redeem	164
Outstanding	217	redeemable	164
Overpayment	217	redeemed	164
paid	164	redemption.....	164
Paragraph	165	Redemption Fee	220
Part	164	Reference Banks.....	157, 220
Participants.....	136, 217	Reference Date	92, 220
pay	164	Reference Rate	158, 220
payable	164	Reg S	221
Paying Agents	156, 217	Register.....	221
payment.....	164	Registrar	158, 221
Payment Holiday.....	217	Regulated Market	221
Payments Priorities	133, 156, 217	Regulated Mortgage Contract.....	47, 221
Perfection Event.....	88, 217	Regulation S	165, 221
person	164	related Calculation Date.....	148, 152, 203, 211
Pool Factor	175	related Calculation Period.....	203
Post Enforcement Investor Amounts.....	133, 217	Related Security	158, 221
Post Enforcement Investor Payments Priorities		Relevant Class of Notes	156
.....	133, 156, 217	relevant entity.....	53, 221
Post Enforcement Seller Amounts	133	Relevant Entity.....	ix
Potential Event of Default	156, 217	Relevant Exchange Rate	158, 221
Pounds.....	ix	Relevant Information	x
PPI	217	Relevant Margin.....	158, 221
Pre Enforcement Investor Principal Payments		Relevant Period	158, 221
Priorities	131, 157, 218	relevant persons.....	221

Relevant Persons.....	156	St Andrew's Insurance.....	84, 225
Relevant Screen.....	158, 222	Stabilising Manager(s).....	x, 225
Reorganisation Act.....	222	Standard Documentation.....	225
Repayment Loan.....	75, 222	standard security.....	225
Replacement Swap Premium.....	158, 222	Standard Security.....	225
Representative Amount.....	158, 222	Standard Variable Rate.....	76, 206, 225
repurchase.....	86, 222	Step-Up Date.....	161, 225
Repurchase Price.....	222	Sterling.....	ix, 161, 225
repurchased.....	86, 222	Sterling Equivalent Principal Amount	
resale share.....	79, 222	Outstanding.....	161, 225
Reserve Funds.....	222	Sterling Notes.....	161, 225
Reserve Ledgers.....	222	Sterling Reference Rate.....	161, 225
Reserved Matter.....	159, 222	Sterling Reserve Reference Rate.....	161, 226
Revenue Deferred Consideration.....	222	Sterling Screen Rate.....	161, 226
Revenue Ledger.....	159, 222	Stock Exchange.....	161, 226
Revenue Receipts.....	120, 222	Subordinated Loan.....	115, 226
Revenue Shortfall.....	222	Subordinated Loan Agreement.....	161, 226
Rights Issue.....	222	Subordinated Loan Provider.....	161, 226
Risk Factors.....	vi	Subscription Agreement.....	161, 192, 226
Rounded Arithmetic Mean.....	159, 222	Substituted Obligor.....	162, 226
RTB Disposal Period.....	79, 223	successor.....	164
RTB Loan.....	223	Swap Agreement.....	226
S&P.....	159, 223	Swap Agreements.....	226
sale.....	86, 223	Swap Collateral.....	162, 226
Schedule.....	164	Swap Collateral Account.....	226
Scottish Declaration of Trust.....	159, 223	Swap Collateral Return Payment.....	162, 227
Scottish Loan.....	223	Swap Early Termination Event.....	118
Scottish Mortgage.....	159, 223	Swap Provider.....	162
Screen.....	159, 223	Swap Provider Downgrade Event.....	227
SCV.....	60, 223	Swap Providers.....	162, 227
Section.....	164	Swap Subordinated Amount.....	227
Secured Amounts.....	159, 223	Swap Tax Credits.....	162, 227
Secured Creditors.....	159, 223	Swap Termination Deferred Amount.....	36
Securities Act.....	165, 195, 223	Swap Termination Deferred Amounts.....	36, 130, 162, 174, 227
Security.....	159, 223	Swap Termination Deferred Interest Amount	
Self-Certified Loan.....	223	.....	125
sell.....	86, 223	Swap Termination Deferred Interest Amounts	
Seller.....	160, 224	.....	172
Seller Asset Warranties.....	223	Swap Termination Deferred Principal Amounts	
Seller Percentage.....	223	.....	173
Seller Principal.....	130, 224	Swap Termination Excess Amounts.....	37, 130, 162, 174, 227
Seller Principal Amount.....	160, 224	Swap Termination Excess Interest Amount ..	125
Seller Principal Diversion Conditions.....	86, 224	Swap Termination Excess Interest Amounts.....	173
Seller Revenue.....	121, 224	Swap Termination Excess Principal Amounts	
Senior Expenses.....	224	.....	174
Sequential Order.....	224	Swap Termination Reserve Account.....	227
Servicer.....	160, 224	Swap Termination Reserve Fund.....	162
Servicer Event.....	108, 224	TARGET2 Settlement Day.....	162, 227
Servicer Termination Event.....	224	Tax.....	163, 228
Servicing Agreement.....	160, 224	Tax Authority.....	163, 228
Set Monthly Interest Amount.....	122, 160, 224	Tax Deduction.....	163, 228
Set-Off Losses.....	225	taxable.....	163, 228
Share Trust Deed.....	160, 225	taxation.....	163, 228
Share Trustee.....	68, 160, 225	Taxation Administration Act.....	189, 228
sold.....	86, 223	Taxes.....	163, 228
Special Rate Loans.....	76, 225	Third Party Amounts.....	120, 228
Specified Office.....	160, 225	Tracker Rate Loan.....	76
Spot Rate.....	160, 225	Tracker Rate Loans.....	228
SPV Criteria.....	160, 225		
SRR.....	53, 225		

Transaction Account	163, 228	U.S. Persons	229
Transaction Documents	163, 228	UKFI.....	59, 229
Transaction Parties.....	163	Underpayment.....	229
Transaction Party	163, 164, 228	Unfair Practices Directive.....	51, 229
Transfer Agent	163, 228	United Kingdom.....	229
Transfer Date	229	UTCCR.....	50, 229
Treaty	229	Valuation Report	229
Trust Deed.....	163, 229	Variable Rate Loan	76, 229
Trust Documents.....	163, 229	VAT	229
Trustee.....	163, 229	VATA	229
TSC Regulations	54, 229	Written Resolution	163, 229

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