

IMPORTANT NOTICE

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

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

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

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

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

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

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

PROSPECTUS DATED 28 March 2011

Darrowby No. 1 plc

(incorporated with limited liability in England and Wales under number 07451854)

Notes	Initial Principal Amount	Issue Price	Interest Rate	Margin/ Step-Up Margin	Step-Up Date/Call Option Date	Pre-enforcement Redemption Profile	Final Maturity Date	Ratings (Fitch/Moody's)
Class A1	GBP 295,000,000	100%	3 month GBP LIBOR plus a Margin or Step-Up Margin, as applicable	Up to and excluding the Step-Up Date, 1.25% p.a./From and including the Step-Up Date, 2.50% p.a.	The Interest Payment Date falling in March 2016	Pass through amortisation	The Interest Payment Date falling in December 2043	AAA(sf)/Aaa(sf)
Class A2	GBP 737,000,000	100%	3 month GBP LIBOR plus a Margin or Step-Up Margin, as applicable	Up to and excluding the Step-Up Date, 1.50% p.a./From and including the Step-Up Date, 3.00% p.a.	The Interest Payment Date falling in March 2016	Pass through amortisation	The Interest Payment Date falling in December 2043	AAA(sf)/Aaa(sf)
Class B	GBP 168,000,000	100%	3 month GBP LIBOR plus a Margin	0.00% p.a.	N/A	Pass through amortisation	The Interest Payment Date falling in December 2043	Unrated

Issue Date	The Issuer will issue the Notes in the Classes set out above on the Closing Date.
Stand alone/programme issuance	Stand alone issuance.
Underlying Assets	The Issuer will make payments on the Notes from, <i>inter alia</i> , payments of principal and revenue on a portfolio comprising mortgage loans originated by Skipton Building Society and secured over residential properties located in England, Wales and Scotland (the " Portfolio ") which will be purchased by the Issuer on the Closing Date. Substitution of the Loans contained in the Portfolio may occur in accordance with the terms described herein. Please refer to the section entitled " <i>The Portfolio</i> " for further information.
Credit Enhancement	<ul style="list-style-type: none"> • Subordination of junior ranking Notes; • General Reserve Fund; and • Excess Available Revenue Receipts. <p>Please refer to sections entitled "<i>Key Structural Features</i>" and "<i>Cashflows and Cash Management</i>" for further information.</p>
Liquidity Support	<p><u>Liquidity Support Features for the Class A Notes</u></p> <ul style="list-style-type: none"> • General Reserve Fund; and • Principal Receipts applied to make up any Remaining Income Deficit. <p>Please refer to the section entitled "<i>Key Structural Features</i>" for further information.</p>
Redemption Provisions	Information on any optional and mandatory redemption of the Notes is summarised on page 10 (" <i>Transaction Overview – Overview of the Terms and Conditions of the Notes</i> ") and is set out in full in Condition 9 (" <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> ").
Rating Agencies	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 Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (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. Credit ratings included or referred to in this Prospectus have been or, as applicable, may be, issued by Fitch Ratings Limited and Moody's

	Investors Service Limited, each of which 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.
Credit Ratings	Ratings are expected to be assigned to the Class A Notes by the Rating Agencies as set out above on or before the Closing Date.
	<p>The ratings reflect the views of the Rating Agencies and are based on the Loans, the Related Security and the Properties and the structural features of the transaction, including, <i>inter alia</i>, the current ratings of the Swap Providers.</p> <p>The ratings assigned by Fitch address the likelihood of full and timely payment to the Noteholders (i) of interest due on each Interest Payment Date and (ii) of principal on a date that is not later than the Final Maturity Date.</p> <p>The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Notes held by the Noteholder by the Final Maturity Date. In Moody's opinion, the structure allows for timely payment of interest and principal at par on or before the Final Maturity Date.</p> <p>The assignment of ratings to the Notes is not a recommendation to invest in the Notes and ratings may be suspended, revised or withdrawn at any time by the assigned rating agency.</p>
Listings	<p>This document comprises a prospectus (the "Prospectus") for the purpose of Directive 2003/71/EC (the "Prospectus Directive"). This Prospectus has been approved by the Financial Services Authority (the "FSA") as competent authority under the Prospectus Directive.</p> <p>An application has been made to the FSA in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "UK Listing Authority") for the Notes to be admitted to the official list of the UK Listing Authority (the "Official List") and to the London Stock Exchange plc (the "London Stock Exchange") and for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market (the "Regulated Market"). The Regulated Market is a regulated market for the purposes of Directive 2004/39/EC (the "Markets in Financial Instruments Directive").</p>
Obligations	The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of any Transaction Party other than the Issuer.
Retention Undertaking	<p>Skipton Building Society will undertake to the Issuer, the Swap Providers and the Trustee, on behalf of the Noteholders, that it will retain a material net economic interest of at least 5% of the nominal value of the securitised exposures in accordance with Article 122a(1)(d) of Directive 2006/48/EC (as amended by Directive 2009/111/EC), referred to as the Capital Requirements Directive ("CRD 2") by holding a sufficient amount of the Class B Notes. In exceptional circumstances Skipton Building Society may hold a material net economic interest in another manner permitted by Article 122a(1).</p> <p>Please refer to the section entitled "<i>Subscription and Sale</i>" for further information.</p>
Significant Investor	<p>Skipton Building Society, will on the Closing Date purchase Class A1 Notes in an aggregate amount equal to £195,000,000, Class A2 Notes in an aggregate amount equal to £487,000,000 and all of the Class B Notes.</p> <p>Skipton Building Society will enter into a pre-agreed securities lending transaction with J.P. Morgan Securities Ltd. (or one of its affiliates) in respect of not less than £143,000,000 of the Class A1 Notes and not less than £357,000,000 of the Class A2 Notes that Skipton Building Society will purchase on the Closing Date (the "Securities Lending Transaction").</p> <p>J.P. Morgan Securities Ltd. (or one of its affiliates), in its capacity as securities lending counterparty with respect to the Class A1 Notes and the Class A2 Notes held by it pursuant to the Securities Lending Transaction, may exercise voting rights in respect of the Class A1 Notes and the Class A2 Notes held by it in a manner that may be prejudicial to other Noteholders.</p> <p>Please refer to the section entitled "<i>Subscription and Sale</i>" for further information.</p>

A "RISK FACTORS" SECTION BEGINNING ON PAGE 35 OF THIS PROSPECTUS 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.

Arrangers

J.P. Morgan **The Royal Bank of Scotland**

Joint Lead Managers

J.P. Morgan

The Royal Bank of Scotland

The date of this Prospectus is 28 March 2011.

IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. Any information sourced from third parties contained in this Prospectus has been accurately reproduced (and is clearly sourced where it appears in this Prospectus) and, as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Skipton Building Society accepts responsibility for the information set out in the section headed "*Skipton Building Society*". To the best of the knowledge and belief of Skipton Building Society (having taken all reasonable care to ensure that such is the case), the information contained in such section 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 Skipton Building Society 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.

J.P. Morgan Securities Ltd. accepts responsibility for the information set out in the section headed "*The Fixed Rate Swap Provider and its Guarantor – J.P. Morgan Securities Ltd.*". To the best of the knowledge and belief of J.P. Morgan Securities Ltd. (having taken all reasonable care to ensure that such is the case), the information contained in such section 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 J.P. Morgan Securities Ltd. 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.

JPMorgan Chase Bank, National Association accepts responsibility for the information set out in the section headed "*The Fixed Rate Swap Provider and its Guarantor - JPMorgan Chase Bank, National Association*". To the best of the knowledge and belief of JPMorgan Chase Bank, National Association (having taken all reasonable care to ensure that such is the case), the information contained in such section 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 JPMorgan Chase Bank, National Association 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.

The Royal Bank of Scotland plc and The Royal Bank of Scotland N.V., as applicable, accept responsibility for the relevant information set out in the section headed "*The Account Bank, The BBR Swap Provider and the SVR Swap Provider*". To the best of the knowledge and belief of The Royal Bank of Scotland plc and The Royal Bank of Scotland N.V. (having taken all reasonable care to ensure that such is the case), the information contained in such section 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 The Royal Bank of Scotland plc or The Royal Bank of Scotland N.V. 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.

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 Transaction Party that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this prospectus as a Prospectus for the purposes of the Prospectus Directive by the UK Listing Authority, no action has been or will be taken by any Transaction Party which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required.

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into

whose possession this Prospectus comes are required by the Issuer, the Joint Lead Managers and the Arrangers to inform themselves about and to observe any such restriction. For a further description of certain restrictions on offers and sales of the Notes and distribution of this document (or any part hereof), see the section entitled "*Subscription and Sale*" below.

Neither the delivery of this Prospectus nor any sale or allotment made in connection with any offering of any of the Notes shall, under any circumstances, constitute a representation or create any implication that there has been no change in the information contained in this Prospectus since the date of this Prospectus.

None of the Joint Lead Managers, the Arrangers or the Trustee makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Prospectus or part thereof or any other information provided by the Issuer in connection with the Notes. None of the Joint Lead Managers, the Arrangers or the Trustee accepts any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. Each potential purchaser of Notes should determine the relevance of the information contained in this Prospectus or part hereof and the purchase of Notes should be based upon such investigation as each purchaser deems necessary. None of the Joint Lead Managers, the Arrangers or the Trustee undertakes or shall undertake to review the financial condition or affairs of the Issuer nor to advise any investor or potential investor in the Notes of any information coming to the attention of the Joint Lead Managers or the Arrangers.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES SECURITIES LAWS AND THEREFORE MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT PURSUANT TO AN EXEMPTION FROM, SUCH REGISTRATION REQUIREMENTS. THE NOTES ARE NOT TRANSFERABLE EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS DESCRIBED HEREIN UNDER THE GLOBAL NOTES.

None of the Issuer, the Joint Lead Managers or the Arrangers 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.

No person has been authorised to give any information or to make any representation other than as contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, the Trustee, the directors of the Issuer, the Joint Lead Managers or the Arrangers.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy the Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus or any part hereof and any offering of the Notes in certain jurisdictions may be restricted by law. No action has been taken by the Issuer, the Joint Lead Managers or the Arrangers other than as set out in the paragraph headed "*Listings*" on page (ii) of this Prospectus that would permit a public offer of the Notes in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any part hereof nor any other prospectus, form of application, advertisement or other offering material may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with applicable laws, orders, rules and regulations.

The Notes will be represented by Global Notes which are expected to be deposited with a common depositary (the "**Common Depositary**") for EuroClear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking Société anonyme ("**Clearstream, Luxembourg**") and registered in the name of a nominee of the Common Depositary on the Closing Date.

References in this Prospectus to "£" or "**Sterling**" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

Forward-Looking Statements and Statistical Information

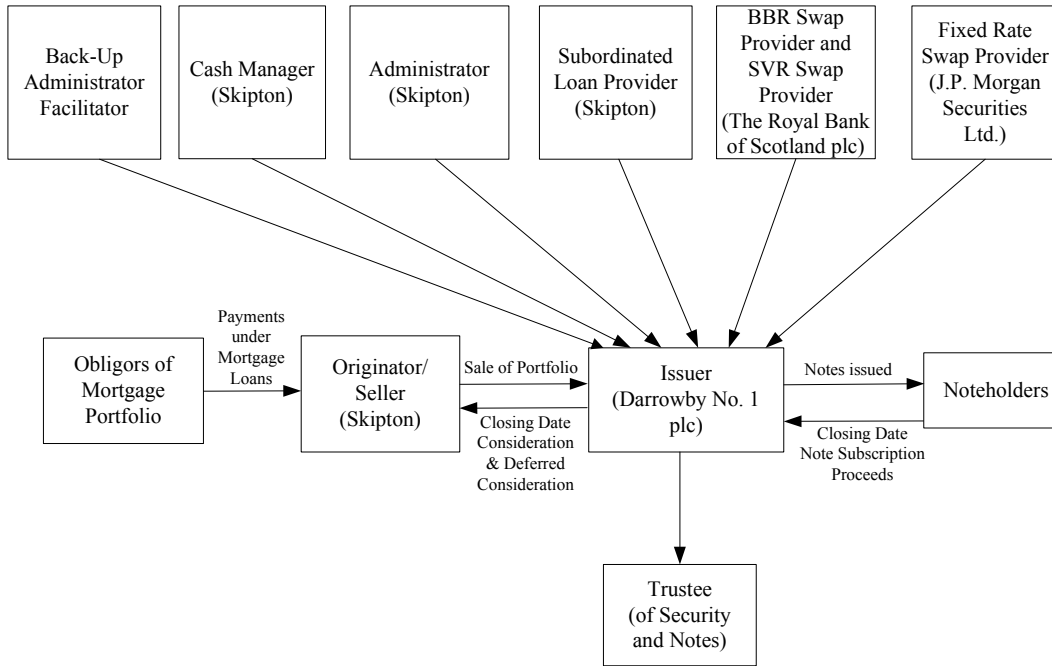
Certain matters contained in this Prospectus are forward-looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the Loans, and reflect significant assumptions and subjective judgments by the Issuer that may not prove to be correct. Such statements may be identified by reference to a future period

or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans" or similar terms. Consequently, future results may differ from the Issuer's expectations due to a variety of factors, including (but not limited to) the economic environment and regulatory changes in the residential mortgage industry in the United Kingdom. This Prospectus also contains certain tables and other statistical analyses (the "**Statistical Information**"). Numerous assumptions have been used in preparing the Statistical Information, which may or may not be reflected in the material. As such, no assurance can be given as to the Statistical Information's accuracy, appropriateness or completeness in any particular context, or as to whether the Statistical Information and/or the assumptions upon which they are based reflect present market conditions or future market performance. The Statistical Information should not be construed as either projections or predictions or as legal, tax, financial or accounting advice. The average life of or the potential yields on any security cannot be predicted, because the actual rate of repayment on the underlying assets, as well as a number of other relevant factors, cannot be determined. No assurance can be given that the assumptions on which the possible average lives of or yields on the securities are made will prove to be realistic. None of the Joint Lead Managers or the Arrangers has attempted to verify any forward-looking statements or Statistical Information, nor does it make any representations, express or implied, with respect thereto. Prospective purchasers should therefore not place undue reliance on any of these forward-looking statements or Statistical Information. None of the Issuer, the Joint Lead Managers or the Arrangers assumes any obligation to update these forward-looking statements or Statistical Information or to update the reasons for which actual results could differ materially from those anticipated in the forward-looking statements or Statistical Information, as applicable.

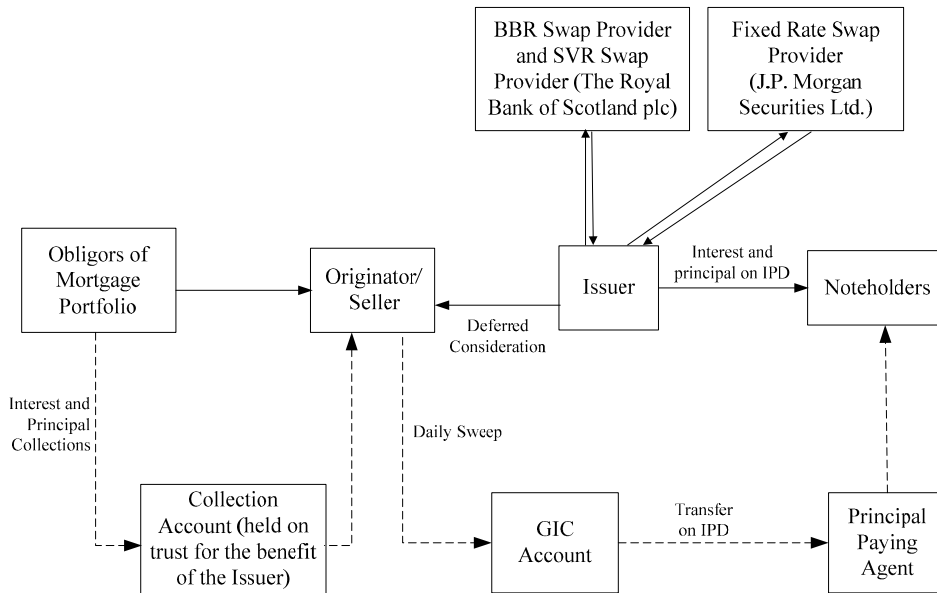
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DIAGRAMMATIC OVERVIEW OF TRANSACTION

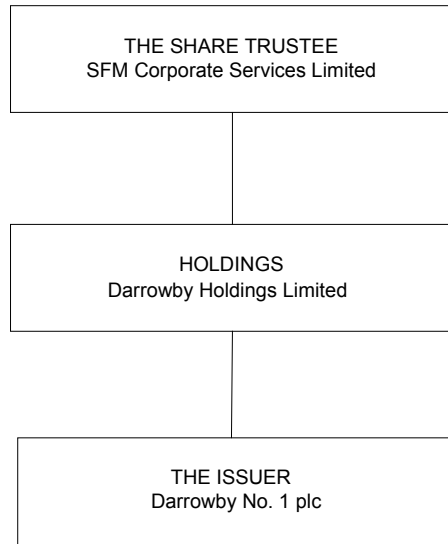


DIAGRAMMATIC OVERVIEW OF ON-GOING CASHFLOW



—————> Contractual Obligations
 - - - - -> Cash flows

OWNERSHIP STRUCTURE DIAGRAM



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

The entire issued share capital of Holdings is beneficially owned by the Share Trustee on discretionary trust 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:	Darrowby No. 1 plc	35 Great St. Helen's, London EC3A 6AP	N/A (Please refer to the section entitled " <i>Issuer</i> " for further information on this.)
Holdings:	Darrowby Holdings Limited	35 Great St. Helen's, London EC3A 6AP	N/A (Please refer to the section entitled " <i>Holdings</i> " for further information on this.)
Seller:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	N/A (Please refer to the section entitled " <i>Skipton Building Society</i> " for further information on this.)
Administrator:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	Administration Agreement (Please refer to the section entitled " <i>The Administrator</i> " for further information on this.)
Back-Up Administrator Facilitator	Structured Finance Management Limited	35 Great St. Helen's London EC3A 6AP	Administration Agreement (Please refer to the section entitled " <i>The Administrator – The Administration Agreement</i> " for further information on this.)
Cash Manager:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	Cash Management Agreement (Please refer to the section entitled " <i>Cashflows and Cash Management</i> " for further information on this.)

Party	Name	Address	Document under which appointed / Further Information
Subordinated Loan Provider:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	Subordinated Loan Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
Swap Providers:	J.P. Morgan Securities Ltd. (whose obligations under the Fixed Rate Swap Agreement are guaranteed by JPMorgan Chase Bank, N.A.)	125 London Wall, London EC2Y 5AJ	Fixed Rate Swap Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
	The Royal Bank of Scotland plc	135 Bishopsgate, London EC2M 3UR	BBR Swap Agreement and SVR Swap Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
Trustee:	Citicorp Trustee Company Limited	Citigroup Centre,Canada Square, London E14 5LB	Trust Deed (See the Conditions for further information on this.)
Principal Paying Agent:	Citibank, N.A., London Branch	Citigroup Centre,Canada Square, London E14 5LB	Agency Agreement
Agent Bank:	Citibank, N.A., London Branch	Citigroup Centre,Canada Square, London E14 5LB	Agency Agreement
Registrar:	Citigroup Global Markets Deutschland AG	Reuterweg 16 60323 Frankfurt Germany	Agency Agreement
Account Bank:	The Royal Bank of Scotland N.V.	250 Bishopsgate, London EC2M 4AA	Account Bank Agreement
Collection Account Bank:	Barclays Bank PLC	1 Churchill Place, London, E14 5HP	N/A

Party	Name	Address	Document under which appointed / Further Information
Corporate Services Provider:	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Services Agreement
Arrangers:	J.P. Morgan Securities Ltd.	125 London Wall, London EC2Y 5AJ	N/A
	The Royal Bank of Scotland plc	135 Bishopsgate, London EC2M 3UR	N/A
Joint Lead Managers:	J.P. Morgan Securities Ltd.	125 London Wall, London EC2Y 5AJ	N/A
	The Royal Bank of Scotland plc	135 Bishopsgate, London EC2M 3UR	N/A

SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

Please refer to section entitled "Terms and Condition of the Notes" for further detail in respect of the terms of the Notes.

FULL CAPITAL STRUCTURE OF THE NOTES

	Class A1 Notes	Class A2 Notes	Class B Notes
<i>Currency:</i>	GBP	GBP	GBP
<i>Initial Principal Amount:</i>	295,000,000	737,000,000	168,000,000
<i>Note Credit Enhancement:</i>	Subordination of Class B Notes, excess Available Revenue Receipts		Excess Available Revenue Receipts
<i>Reserve Credit Enhancement for the Class A Notes:</i>	General Reserve Fund		N/A
<i>Liquidity Support:</i>	General Reserve Fund applied to make up Income Deficit. Principal Receipts applied to make up Remaining Income Deficit (subject to conditions as set out in "Overview of Credit Structure and Cashflow – Income Deficiency")		N/A
<i>Issue Price:</i>	100%	100%	100%
<i>Interest Rate:</i>	3 month GBP LIBOR (interpolated for 5 and 6 month GBP LIBOR in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	3 month GBP LIBOR (interpolated for 5 and 6 month GBP LIBOR in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	3 month GBP LIBOR (interpolated for 5 and 6 month GBP LIBOR in respect of the first Interest Payment Date) + Margin
<i>Margin:</i>	Up to and excluding the Step-Up Date, 1.25% p. a.	Up to and excluding the Step-Up Date, 1.50% p. a.	0.00% p. a.
<i>Step-Up Margin:</i>	From and including the Step-Up Date, 2.50% p. a.	From and including the Step-Up Date, 3.00% p. a.	N/A
<i>Interest Accrual Method:</i>	Actual/365	Actual/365	Actual/365
<i>Calculation Date:</i>	The fifth Business Day prior to each Interest Payment Date.		
<i>Payment Dates:</i>	Interest and Principal will be payable quarterly in arrear on the Interest Payment Dates falling in March, June, September and December in each year.		
<i>Business Day Convention:</i>	Modified Following		
<i>First Interest Payment Date:</i>	The Interest Payment Date falling in September 2011		
<i>First Interest Period:</i>	The period from the Closing Date to the Interest Payment Date falling in September 2011		
<i>Call Option / Step-Up Date:</i>	The Interest Payment Date falling in March 2016		
<i>Pre-Step-Up Date Redemption profile:</i>	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation).		
<i>Post-Step-Up Date Redemption profile:</i>	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation).		

	Class A1 Notes	Class A2 Notes	Class B Notes
<i>Other Early Redemption in Full Events:</i>	tax/illegality/clean up call. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>).		
<i>Final Maturity Date:</i>		The Interest Payment Date falling in December 2043	
<i>Form of the Notes:</i>		Registered	
<i>Application for Listing:</i>		London	
<i>ISIN:</i>	XS0607048641	XS0607053641	XS0607049029
<i>Common Code:</i>	060704864	060705364	060704902
<i>CUSIP:</i>	N/A	N/A	N/A
<i>Minimum Denomination:</i>	£100,000 and £1,000 thereafter	£100,000 and £1,000 thereafter	£100,000 and £1,000 thereafter
<i>Expected Ratings:</i>	AAA(sf)/Aaa(sf)	AAA(sf)/Aaa(sf)	N/A
<i>(Fitch/Moody's)</i>			

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

Please refer to the section entitled "*Terms and Conditions of the Notes*" for further detail in respect of the terms of the Notes.

Ranking of Payments of Interest:

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

The Notes within each individual Class and sub-Class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of interest to be made to such individual Class and sub-Class.

Any reference to a "Class" of Noteholders shall be a reference to the Class A Notes and the Class B Notes, as the case may be, or to the respective holders thereof and to a "sub-Class" of Notes or Noteholders shall be a reference to any sub-class of such Class of Notes (including, for the avoidance of doubt, the Class A1 Notes and the Class A2 Notes, which are sub-classes of the Class A Notes), as the case may be, or to the respective holders thereof.

Ranking of Payments of Principal:

Payments of principal on the Class A1 Notes and the Class A2 Notes will be paid in Sequential Order, other than following the service of an Enforcement Notice, whereupon payments of principal on the Class A Notes, amongst themselves will be made *pari passu* and *pro rata*.

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

The Notes within each individual Class and sub-Class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of principal to be made to such individual sub-Class (other than as specified above in respect of the Class A Notes).

For a more detailed summary of the Priority of Payments, please refer to the section entitled "*Cashflows and Cash Management*".

Most Senior Class:

The Class A Notes whilst they remain outstanding and thereafter the Class B Notes.

Sequential Order:

In respect of payments of principal to be made to the Class A Notes themselves (other than following the service of an Enforcement Notice): firstly, to the Class A1 Notes and secondly, to the Class A2 Notes.

In respect of payments of interest and principal to be made to the Class A Notes and Class B Notes: firstly, to the Class A Notes and secondly to the Class B Notes.

Security:

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

- (a) a first fixed charge over the benefit of the Issuer in the Loans and the Related Security;
- (b) a charge 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 of

England and Wales (the "**Land Registry**") (such registration to occur following a Perfection Trigger Event);

- (c) a first fixed charge over the benefit of each Authorised Investment;
- (d) first fixed charges over the GIC Account, the Swap Collateral Accounts and other bank accounts of the Issuer established on or after the Closing Date in accordance with the Account Bank Agreement or the other Transaction Documents;
- (e) assignment by way of security of all right, title, interest and benefit of the Issuer in the Contingency Insurance, Block Insurance and Local Search Insurance (together, the "**Insurance Policies**");
- (f) an assignment by way of security of the benefit under each relevant Transaction Document; except that the assignment by way of security of all of the Issuer's right, title, interest and benefit under the Swap Agreements shall be subject to any rights of set off or netting provided for thereunder;
- (g) a Scottish Supplemental Charge in terms of which the Issuer assigns its interest in the relevant Scottish Declaration of Trust to the Trustee; and
- (h) a first floating charge over the whole of its undertaking and all its property, assets and rights whatsoever and wheresoever present and future including its uncalled capital (including assets expected to be subject to a fixed charge or assignment by way of security or absolute assignment as described above) and extending over all of its property, assets, rights or revenues as are situated in Scotland or governed by Scots law (whether or not the subject of the fixed charges or assignments described above).

If the legal title of any of the Scottish Mortgages is transferred to the Issuer, then the Issuer also undertakes to execute and deliver to the Trustee as continuing security for the payment or discharge of the Secured Amounts a standard security or standard securities over the Issuer's whole right, title and interest as heritable creditor under the Scottish Mortgages relating to the said Scottish Loans (each a "**Scottish Sub-Security**").

Certain other Secured Amounts (including certain obligations owed to the Swap Providers under the Swap Agreements) rank senior to the Issuer's obligations under the Notes in respect of the allocation of proceeds as set out in the Post-Enforcement Priority of Payments.

Interest payable on the Notes: The interest rates applicable to each Class of Notes are described in the sections "*Full Capital Structure of the Notes*" and "*Terms and Conditions of the Notes*".

Interest Deferral: Interest due and payable on the Class B Notes may be deferred in accordance with Condition 8.11 (*Interest Accrual*).

Gross-up: None of the Issuer, the Trustee or any other person will be obliged to pay any additional amounts to the Noteholders if there is any withholding or deduction for or on account of taxes from a payment made under the Notes.

Redemption:

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

- (a) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 9.1 (*Final Redemption*);
- (b) mandatory redemption in part on any Interest Payment Date prior to the delivery of an Enforcement Notice subject to availability of Available Principal Receipts, as fully set out in Condition 9.2 (*Mandatory Redemption in part*);
- (c) optional redemption exercisable by the Issuer in whole on any Interest Payment Date where the Principal Amount Outstanding of all the Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date, as fully set out in Condition 9.3(a) (*Optional Redemption in whole*);
- (d) optional redemption exercisable by the Issuer in whole on any Interest Payment Date on or after the Step-Up Date, as fully set out in Condition 9.3(b) (*Optional Redemption in whole*); and
- (e) optional redemption exercisable by the Issuer in whole for tax reasons, as fully set out in Condition 9.4 (*Optional Redemption in whole for taxation reasons*).

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

Events of Default:

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

- non-payment by the Issuer of principal in respect of the Most Senior Class of Notes within 7 days following the due date or non-payment by the Issuer of interest within 14 days following the due date (provided that, for the avoidance of doubt, a deferral of interest in respect of the Class B Notes in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest);
- breach of contractual obligations by the Issuer under the Transaction Documents which are incapable of remedy or which are, if capable of remedy, not remedied within 30 days;
- Issuer Insolvency Event; or
- it is illegal for the Issuer to perform or comply with its obligations.

Limited Recourse:

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

Governing Law:

English law.

OVERVIEW OF RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS

Please refer to the sections entitled "*Terms and Conditions of the Notes*" for further details 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 per cent. of the Principal Amount Outstanding of the Notes then outstanding of the relevant Class are entitled to request that the Trustee convene a Noteholders' meeting and all Noteholders of each Class are entitled to participate in a Noteholders' meeting convened by the Issuer or the 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 actions, either directly or through the Trustee, without the consent of the Issuer and, if applicable, certain other Transaction Parties, unless the Issuer has an obligation to take such actions under the relevant Transaction Documents.

Following an Event of Default:

Following the occurrence of an Event of Default which is continuing, the holders of the Most Senior Class of Notes may, if they hold in aggregate not less than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if they pass an Extraordinary Resolution, direct the Trustee in writing to give an Enforcement Notice to the Issuer that all Classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding.

Noteholders Meeting provisions:

Notice period:	21 clear days for the initial meeting	14 clear days for the adjourned meeting
Quorum:	One or more persons holding or representing in aggregate a majority of the 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 the aggregate not less than 75 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding).	At an adjourned meeting one or more persons being or representing Noteholders of that Class or those Classes, whatever the Principal Amount Outstanding of the Notes then outstanding held or represented by them (other than 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 25 per cent. of the Principal Amount Outstanding of the relevant Class or Classes of Notes then outstanding).

	Required majority for Extraordinary Resolution:	Not less than 75 per cent. of votes cast	Not less than 75 per cent. of votes cast
	Written Resolution:	100 per cent. of the Principal Amount Outstanding of the relevant Class of Notes outstanding. A Written Resolution has the same effect as an Extraordinary Resolution.	
Reserved Matters:	Broadly speaking, the following matters are Reserved Matters:		
	Changes to payments (timing, method of calculation, reduction in amounts due and currency), to effect the exchange, conversion or substitution of the Notes, changes to Priority of Payments and changes to quorum and majority requirements and amendments to the definition of Reserved Matter.		
Relationship between Classes of Noteholders:	In the event of a conflict of interests of holders of different Classes the Trustee shall have regard only to the interests of the holders of the Most Senior Class and will not have regard to any lower ranking Class of Notes.		
	Subject to the provision in respect of a Reserved Matter, an Extraordinary Resolution of Noteholders of the Most Senior Class shall be binding on all other Classes and would override any resolutions to the contrary of the Classes ranking behind such Class.		
	A Reserved Matter requires an Extraordinary Resolution of each Class of Notes then outstanding.		
Seller as Noteholder:	For the purpose of, <i>inter alia</i> , 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, 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 held) be deemed not to remain outstanding, provided that if all the Notes of a particular Class are held by the Seller, any holding company of the Seller and/or any other subsidiary of such holding company (the " Relevant Class of Notes ") (and no other Classes of Notes exist that rank junior or <i>pari passu</i> to the Relevant Class of Notes, in respect of which the Notes are held by persons other than the Seller, any holding company of the Seller or any other subsidiary of such holding company), Notes of the Relevant Class of Notes will be deemed to remain outstanding.		
Relationship between Noteholders and other Secured Creditors:	The Trust Deed provides that the Trustee shall, except where expressly provided otherwise and prior to the redemption in full of the Notes, have regard solely to the interests of the Noteholders and shall have regard to the interests of the other Secured Creditors only to pay such parties any monies received and payable to it and to act in accordance with the applicable Priority of Payments.		
Provision of Information to the Noteholders and the Swap Providers:	The Cash Manager will provide an investor report on a monthly basis (the first investor report being provided no earlier than the date falling one month from the Closing Date) containing information in relation to the Notes including, but not limited to, ratings of the Notes, amounts paid by the Issuer pursuant to the relevant Priority of Payments in respect of the relevant Collection Period and required counterparty information.		

OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

Please refer to the sections entitled "**Key Structural Features**" and "**Cashflows and Cash Management**" for further detail in respect of the credit structure and cash flow of the transaction.

Available Funds of the Issuer:

The Cash Manager will apply Available Revenue Receipts and Available Principal Receipts on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, as set out below.

"**Available Revenue Receipts**" will, broadly, include the following:

- (a) Revenue Receipts on the Loans received during the immediately preceding Collection Period less Permitted Withdrawals;
- (b) interest payable to the Issuer on the GIC Account and income from any Authorised Investments received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Swap Agreements on or in respect of such Interest Payment Date, other than:
 - (i) any amounts or securities to be credited to the Swap Collateral Accounts; and
 - (ii) any amounts received by the Issuer in respect of Swap Tax Credits;
- (d) any Swap Collateral Account Surplus;
- (e) any amounts released from the General Reserve Fund when the General Reserve Required Amount is reduced to zero (on redemption in full of the Class A Notes), provided that the Subordinated Loan has been repaid in full; and
- (f) other net income of the Issuer received during the immediately preceding Collection Period excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (e) above.

At any time that the General Reserve Required Amount is reduced to zero (after all the Class A Notes have been redeemed in full), all monies released from the General Reserve Fund shall be applied first, to repay the Subordinated Loan and second, once the Subordinated Loan has been repaid in full, to form part of Available Revenue Receipts.

If the Cash Manager determines that there would be a deficit on an Interest Payment Date to pay items (a) to (f) (inclusive) of the Pre-Enforcement Revenue Priority of

Payments, then the Issuer shall pay or provide for such deficit by applying (1) amounts standing to the credit of the General Reserve Fund and (2) (only in respect of any senior expenses of the Issuer which rank in priority to the Class A Notes in the relevant Priority of Payments (the "**Senior Expenses**") and interest payments due on the Class A Notes) Principal Receipts (if any), subject to certain conditions. See "*Overview of Credit Structure and Cashflow - Income Deficiency*" below.

"**Available Principal Receipts**" will, broadly, include the following:

- (a) Principal Receipts on the Loans received during the immediately preceding Collection Period;
- (b) amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (k) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and
- (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration,

less:

- (i) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits; and
- (ii) the amount of Principal Receipts used during the immediately preceding Collection Period to purchase Further Advances.

Summary of Priority of Payments:

Below is a summary of the Priority of Payments. Please refer to the section entitled "*Cashflows and Cash Management*" for further information. In addition, please refer to "*Limited Recourse*" in the section entitled "*Overview of the Terms and Conditions of the Notes*".

<u>Pre-Enforcement Revenue Priority of Payments</u>	<u>Pre-Enforcement Principal Priority of Payments</u>	<u>Post-Enforcement Priority of Payments</u>
<p>(a) Fees, costs and expenses of the Trustee;</p> <p>(b) any costs and fees of the Agents, any third parties, amounts required to discharge any liability of the Issuer for corporation tax (which cannot be met out of amounts previously retained under item (i) below), any costs and expenses of the Corporate Services Provider and any costs and expenses associated with any transfer of administration to a substitute administrator;</p> <p>(c) any costs and fees of each of the Administrator, Back-Up Administrator Facilitator, Cash Manager, Account Bank and any bank at which a Swap Collateral Account is held and, where applicable, Back-Up Administrator and Back-Up Cash Manager;</p> <p>(d) any amounts due to the Swap Providers in respect of the Swap Agreements (excluding Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex));</p> <p>(e) Class A interest;</p> <p>(f) an amount sufficient to eliminate any debit on the Class A Principal Deficiency Sub-Ledger;</p> <p>(g) (so long as the Class A Notes will remain outstanding following such Interest Payment Date) to credit the General Reserve Ledger</p>	<p>(a) to redeem the Class A1 Notes;</p> <p>(b) to redeem the Class A2 Notes;</p> <p>(c) to redeem the Class B Notes; and</p> <p>(d) Deferred Consideration to the Seller.</p>	<p>(a) Fees, costs and expenses of the Trustee (and any Receiver appointed by the Trustee);</p> <p>(b) any costs and fees of the Agents and the Corporate Services Provider;</p> <p>(c) any costs and fees of each Administrator, Back-Up Administrator Facilitator, Cash Manager, Account Bank and any bank at which a Swap Collateral Account is held and, where applicable, Back-Up Administrator and Back-Up Cash Manager;</p> <p>(d) any amounts due to the Swap Providers in respect of the Swap Agreements (excluding Swap Subordination Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex(as defined in the relevant Swap Credit Support Annex));</p> <p>(e) Class A interest;</p> <p>(f) to redeem the Class A Notes;</p> <p>(g) Class B interest;</p> <p>(h) to redeem the Class B Notes;</p> <p>(i) Swap Subordinated Amounts;</p> <p>(j) payment of interest and principal to the Subordinated Loan Provider;</p> <p>(k) Issuer Profit Amount;</p> <p>(l) corporation tax payable by the Issuer; and</p> <p>(m) Deferred Consideration to the Seller.</p>

<u>Pre-Enforcement Revenue Priority of Payments</u>	<u>Pre-Enforcement Principal Priority of Payments</u>	<u>Post-Enforcement Priority of Payments</u>
<p>up to the General Reserve Required Amount;</p> <p>(h) Swap Subordinated Amounts;</p> <p>(i) Issuer Profit Amount;</p> <p>(j) Class B interest;</p> <p>(k) an amount sufficient to eliminate any debit on the Class B Principal Deficiency Sub-Ledger;</p> <p>(l) interest payment to the Subordinated Loan Provider;</p> <p>(m) principal payment to the Subordinated Loan Provider; and</p> <p>(n) Deferred Consideration to the Seller.</p>		

Key Structural Features:

The general credit and liquidity structure of the transaction includes, broadly, the following elements:

- availability of the General Reserve Fund, initially funded by a Subordinated Loan on the Closing Date up to the General Reserve Required Amount (being an amount equal to 2.5 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date) and replenished on each Interest Payment Date up to the General Reserve Required Amount from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments. The General Reserve Fund will be credited to the GIC Account. Moneys standing to the credit of the General Reserve Fund will be applied to make up any Income Deficit. Any amount credited to the General Reserve Fund after the Class A Notes have been repaid in full shall be used to repay the Subordinated Loan in full and thereafter will form part of Available Revenue Receipts;
- availability of Principal Receipts to make up any Remaining Income Deficit. See the section entitled "*Overview of Credit Structure and Cashflow - Income Deficiency*" below for limitations on the use of Principal Receipts for this purpose;
- prior to the service of an Enforcement Notice, payments of principal amongst the Class A Notes will be made in Sequential Order and payments of interest on the Class A Notes shall be made *pari passu* and *pro rata* amongst each other;
- payments of principal and interest on the Class B Notes will be subordinated to payments on the Class A Notes;
- availability of guaranteed investment payment provided by the Account Bank in respect of collections transferred to the GIC Account. The GIC Account is subject to a guaranteed investment contract, under which, the Account Bank has agreed to pay 3 Month GBP LIBOR less a margin in respect of sums in the GIC Account. However, the Issuer (or the Cash Manager on its behalf) may invest sums standing to the credit of the GIC Account in Authorised Investments;
- availability of Bank of England base rate swaps, standard variable rate swaps and fixed rate swaps provided by the Swap Providers to hedge against the possible variance between the fixed interest rates, Bank of England base rate linked interest rates and standard variable rate linked interest rates payable in respect of certain Loans and the floating rate interest payable in respect of the Notes; and
- it is expected that during the life of the Notes, the Available Revenue Receipts will, assuming that all the Loans are fully performing, be sufficient to pay the interest amounts payable in respect of all the Class A Notes, the Senior Expenses of the structure and retaining the Issuer Profit Amount.

See the section entitled "*Key Structural Features*" for further information on this.

Income Deficiency:

On each Calculation Date, the Cash Manager will determine whether Available Revenue Receipts are sufficient to pay or provide for payment of Senior Expenses, interest amounts on the Class A Notes and the elimination of debit balances on the Principal Deficiency Ledger (excluding the Class B Principal Deficiency Sub-Ledger). To

the extent that Available Revenue Receipts are insufficient to pay items (a) to (f) inclusive of the Pre-Enforcement Revenue Priority of Payments in full (the amount of any deficit being an "**Income Deficit**"), the Cash Manager will, on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Income Deficit by applying amounts standing to the credit of the General Reserve Fund.

If following application of Available Revenue Receipts and amounts standing to the credit of the General Reserve Fund, the Cash Manager determines that there would be a remaining income deficit on such Interest Payment Date to pay Senior Expenses and interest amounts on the Class A Notes under items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments (the amount of any such deficit being a "**Remaining Income Deficit**"), the Cash Manager will on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Remaining Income Deficit by applying Principal Receipts (if any).

The application of any Principal Receipts to meet any Remaining Income Deficit will be recorded as set out below in the section entitled "*Overview of Credit Structure and Cashflow - Principal Deficiency Ledger*".

Principal Deficiency Ledger:

The Principal Deficiency Ledger of the Issuer will record as a debit to the ledger (i) any Losses on the Portfolio and (ii) the application of any Principal Receipts to meet any Remaining Income Deficit. The Principal Deficiency Ledger will be divided into two sub-ledgers which will correspond to each of the Class A Notes and the Class B Notes. The sub-ledger for each Class of Notes will show separate entries for each Class of Notes.

Debits will be recorded as follows:

- (i) *first*, on the Class B Principal Deficiency Sub-Ledger until the balance of that sub-ledger is equal to the then aggregate Principal Amount Outstanding of the Class B Notes; and
- (ii) *second*, on the Class A Principal Deficiency Sub-Ledger until the balance of that sub-ledger is equal to the then aggregate Principal Amount Outstanding of the Class A Notes.

On each Interest Payment Date, the Issuer shall apply any excess Available Revenue Receipts to extinguish or reduce any balance on the Principal Deficiency Ledger. Any Available Revenue Receipts applied as Available Principal Receipts on an Interest Payment Date, will be applied as follows:

- (i) *first*, provided that interest due on the Class A Notes has been paid in full, in or towards satisfaction of the amounts necessary to reduce to zero the debit balance in respect of the Class A Notes on the Class A Principal Deficiency Sub-Ledger; and
- (ii) *second*, provided that interest due on the Class B Notes has been paid in full, in or towards satisfaction of the amounts necessary to reduce to zero the debit balance in respect of the Class B Notes on the Class B Principal Deficiency Sub-Ledger.

On each Interest Payment Date, the Issuer shall also apply any amount standing to the credit of the General Reserve Fund to extinguish or reduce any balance on the Class A Principal Deficiency Sub-Ledger (see "*Overview of Credit Structure and Cashflow - Income Deficiency*" above).

Please refer to the section entitled "*Key Structural Features*" for further information on this.

GIC Account and Cash Management:

The Administrator will ensure that all payments due under the Loans are made by Borrowers into the Collection Account. Amounts credited to the Collection Account from (and including) the Closing Date that relate to the Loans will be identified on a daily basis (each such aggregate daily amount, a "**Daily Loan Amount**") and the Seller will transfer an amount equal to the Daily Loan Amount from the Collection Account into the GIC Account on the next Business Day after that Daily Loan Amount is identified as received in the relevant Collection Account. On each Interest Payment Date amounts standing to the credit of the GIC Account will be applied by the Cash Manager in accordance with the relevant Priority of Payments.

OVERVIEW OF THE PORTFOLIO AND ADMINISTRATION

Please refer to the section entitled "*The Portfolio - The Loans*", "*The Portfolio – Statistical Information on the Portfolio*" and "*Administrator – Administration Procedures*" for further detail in respect of the characteristics of the Portfolio and the sale and the servicing arrangements in respect of the Portfolio.

Sale of Portfolio: The Portfolio will consist of the Loans and the Related Security which will be sold by the Seller to the Issuer on the Closing Date pursuant to the Mortgage Sale Agreement.

The Loans and Related Security are governed by English Law, other than the Scottish Loans and Related Security, which are governed by Scots law.

Please refer to the section entitled "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*" for further information.

Features of Loans: Certain features of the Loans as at the Cut-off Date are set out in the table below and investors should refer to, and carefully consider, further details in respect of the Loans set out in "*The Portfolio – Statistical Information on the Portfolio*". The Loans comprise loans to prime Borrowers and are 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, Part and Part and Interest Only		
Number of Loans	18,463		
	Weighted average	Minimum	Maximum
Current Balance*	80,609	2.00	951,137
Current LTV Ratio (%)	62.69	0.23	137.57
Seasoning (years)	3.26	0.17	9.67
Remaining Term (years)	18.19	0.11	29.68

*Current balance calculated as a simple average

Consideration: The consideration from the Issuer to the Seller in respect of the sale of the Portfolio together with its Related Security shall be: (i) Initial Consideration of £1,200,016,770.65, being an amount equal to the Current Balance of the Loans of the Seller comprising the Portfolio determined as at close of business on 23 March 2011, which is due and payable on the Closing Date and (ii) Deferred Consideration, in each case, payable in accordance with the Mortgage Sale Agreement to the Seller.

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

Any reference to the "**Current Balance**" of any Loan means, on any date, the aggregate balance of the amounts charged to the Borrower's account in respect of a Loan at such date (but avoiding double

counting) including:

- a) the original principal amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and
- b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or capitalised in accordance with the Seller's normal charging practices and added to the amounts secured or intended to be secured by the related Mortgage; and
- c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or in accordance with the Seller's normal charging practices but which is secured or intended to be secured by the related Mortgage, as at the end of the Business Day immediately preceding that given date,

less any repayment or payment (including, if permitted, by way of set-off, withholding or counterclaim) of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date.

See the section entitled "*The Portfolio*" for further information.

The consideration from the Issuer to the Seller in respect of the sale of Further Advances to the Issuer shall be the Further Advance Purchase Price, which will, if sufficient, be met through Available Principal Receipts on the last day of the calendar month in which the Further Advance is made.

Representations and Warranties:

The Seller will make certain representations and warranties to the Issuer and the Trustee on (i) the Closing Date in respect of the Portfolio; (ii) each Advance Date in respect of the relevant Further Advances; (iii) each Switch Date in respect of the relevant Product Switches; and (iv) each Substitution Date in respect of the relevant Substitution Loans.

In addition to warranties in respect of the legal status of the Loans and their Related Security, there are also warranties in relation to the assets which include (but are not limited to) the following:

- First ranking mortgage;
- No right of set-off;
- Maximum loan amount not exceeding £1,000,000;
- Minimum payment made (not less than one monthly payment);
- No Loan is more than one monthly payment in arrears;

and

- Final Loan repayment date not falling beyond three years prior to the Final Maturity Date.

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

Substitution Criteria:

On repurchase of the Loans as described below, the Seller may transfer Substitute Loans to the Issuer as consideration for such repurchase. This is subject to the satisfaction of certain Substitution Conditions which broadly speaking include the following:

- no Event of Default is continuing;
- no Seller Insolvency Event has occurred;
- if required, the Swap Agreements may be appropriately varied or, replaced in order to hedge against the interest rate payable on the Substitute Loan(s) and the floating rate of interest payable on the Notes; and
- the Substitute Loan and Related Security constitute the same ranking and priority security over a Property as the security provided in respect of the relevant repurchased Loan.

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

Repurchase of Loans:

The Seller shall repurchase the Loans and their Related Security in the following circumstances:

- upon material breach of any of the representations or warranties given by the Seller on the Closing Date (and, with respect to certain of the representations and warranties, on the date that the appointment of Skipton Building Society as Administrator is terminated), which have not been remedied by the Seller within 30 Business Days of being notified by the Issuer of such breach;
- upon material breach of any of the representations or warranties given by the Seller (i) in respect of a Further Advance, on the Advance Date, (ii) in respect of a Product Switch, on a Switch Date or (iii) in respect of a Substitute Loan, on a Substitution Date (in each case which is not capable of remedy or is not remedied within 30 Business Days of being notified by the Issuer); and
- in certain circumstances upon making a Product Switch, Further Advance or substitution if the Seller has notified the Issuer that certain conditions have not been met. See "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*".

The Seller will also repurchase the Loans and their Related Security in the following circumstances:

- if the Issuer exercises its clean up call option where the Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date; or
- if the Issuer exercises a general call option on any Interest Payment Date from and including the Step-Up Date (see the section headed "*Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption*),

Mandatory Redemption in part, Optional Redemption and Cancellation)).

As an alternative to selling the Further Advance to the Issuer, if the Available Principal Receipts are insufficient to pay the consideration for any Further Advance or if the Seller does not wish a Loan which is the subject of a Product Switch to remain in the Portfolio (as applicable), the Seller may elect to repurchase the relevant Loan and its Related Security from the Issuer on the last day of the calendar month in which the Further Advance or Product Switch is made.

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

Consideration for repurchase:

An amount equal to the Current Balance of the Loans to be repurchased as of the date of completion of the repurchase.

Such consideration may be satisfied by a cash payment by the Seller and/or by the transfer of Substitute Loans to the Issuer.

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

Perfection Trigger Events:

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

Prior to the completion of the transfer of legal title of the Loans, the Issuer will be subject to certain risks as set out in the risk factor entitled "*Seller to initially retain legal title to the Loans and risks relating thereto*" in the section entitled "*Risk Factors*".

Administration of the Portfolio:

The Administrator agrees to service its respective Loans to be sold to the Issuer and their Related Security on behalf of the Issuer. The appointment of the Administrator may be terminated by the Issuer and/or the Trustee (subject to the terms of the Administration Agreement) upon the occurrence of an Administrator Termination Event (see "*Administrator Termination Event*" in the "*Non-Rating Triggers Table*").

The Administrator may also resign by giving not less than 12 months' notice to the Issuer and the Trustee and subject to, *inter alia*, a replacement administrator having been appointed.

Delegation:

The Administrator may, in certain circumstances, delegate or sub-contract some or all of its responsibilities and obligations under the Administration Agreement. However, the Administrator remains liable at all times for servicing the Loans and for the acts or omissions of any delegate or sub-contractor. See the section entitled "*The Administrator - The Administration Agreement*" for further information.

TRIGGERS TABLES

Rating Triggers Table

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
Swap Providers (or any guarantor thereof):	(i) Short-term, unsecured and unsubordinated debt or counterparty obligations must be rated at least P-1 and long-term, unsecured and unsubordinated debt obligations must be rated at least A2 by Moody's (or, if the Swap Provider (or any guarantor thereof) is not the subject of a short-term rating by Moody's, the long-term, unsecured and unsubordinated debt obligations must be rated at least A1 by Moody's); and (ii) short-term, unsecured and unsubordinated debt obligations must be rated at least F1 and long-term, unsecured and unsubordinated debt obligations must be rated at least A by Fitch.	The consequences of breach may include the requirement to provide collateral or replace the relevant Swap Provider or procure a guarantee of such Swap Provider's obligations or such other remedial action acceptable to the Rating Agencies which would maintain the then current rating of the Notes. If none of these remedial measures is taken within the timeframes stipulated in the relevant Swap Agreement, such Swap Agreement may be terminated early and a termination payment may become payable either by the Issuer or the relevant Swap Provider. See the section entitled " <i>Key Structural Features – Ratings Downgrade of Swap Provider</i> ".
Account Bank:	(i) Short-term, unsecured, unguaranteed and unsubordinated debt obligations must be rated at least F1 by Fitch and P-1 by Moody's and (ii) long-term, unsecured and unsubordinated debt must be rated at least A by Fitch (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency).	The consequences of breach may include replacement of Account Bank or guarantee of Account Bank's obligations within 30 days from the date of such breach or such other remedial action acceptable to the Rating Agencies which would maintain the then current rating of the Notes.
Seller:	Long-term, unsecured and unsubordinated debt obligations from Fitch of at least BBB- and from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to the relevant Rating Agency) (a " Seller Downgrade Event ").	Under the Mortgage Sale Agreement, the Seller shall be obliged to prepare the documentation required to perfect legal title to the Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Loans or the Related Security to the Issuer. See the section entitled " <i>Sale of the Portfolio under the Mortgage Sale Agreement</i> ".

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
Administrator	<p>Long-term, unsecured and unsubordinated debt obligations from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to Moody's).</p> <p>Long-term, unsecured and unsubordinated debt obligations from Fitch above BBB- (or such other long term rating which is otherwise acceptable to Fitch).</p>	<p>Under the Administration Agreement the Administrator, with the assistance of the Back-Up Administrator Facilitator, shall, within 60 days, use best efforts to appoint a Back-Up Administrator which meets the requirements for a substitute administrator provided for by the Administration Agreement.</p> <p>Under the Administration Agreement the Administrator shall, within 60 days, use reasonable endeavours to enter into a back-up administration agreement with a Back-Up Administrator with suitable experience and credentials in such form as the Issuer and the Trustee shall reasonably require, subject to and in accordance with the Administration Agreement.</p>
Cash Manager	<p>Long-term, unsecured and unsubordinated debt obligations from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to Moody's).</p>	<p>Under the Cash Management Agreement the Issuer shall require the Cash Manager, within 60 days, use best efforts to appoint a Back-Up Cash Manager which meets the requirements for a substitute cash manager provided for by the Cash Management Agreement.</p>

In accordance with Fitch's counterparty criteria, current at the date hereof, when assessing a Fitch ratings trigger, a transaction party put on "Ratings Watch Negative" by Fitch shall be deemed, while they remain on "Ratings Watch Negative", to be rated one notch below their actual current Fitch rating, save in respect of the appointment of a Back-Up Administrator.

Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Consequence of Trigger
<p>Administrator Termination Event</p> <p>See the section entitled "<i>The Administrator</i>" for further information on this.</p>	<p>(i) Administrator payment default;</p> <p>(ii) Failure to comply with any of its other covenants or obligations; or</p> <p>(iii) Administrator Insolvency Event.</p>	<p>Substitute administrator to be appointed subject to approval by the Trustee.</p>
<p>Perfection Trigger Events</p> <p>See the section entitled "<i>The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement</i>" for further information on this.</p>	<p>Seller Insolvency Event.</p>	<p>The legal transfer by the Seller to the Issuer of all the Loans and their Related Security as soon as reasonably practicable.</p>

FEES

The following table sets out the estimated on-going annual fees to be paid by the Issuer to the specified Transaction Parties.

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Administration Fees	0.08 per cent. each year (inclusive of any applicable VAT) on the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash Management Fees	0.01 per cent. per annum of the Principal Amount outstanding of the Notes each year (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £40,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Expenses related to the admission to trading of the Notes	Estimated at £5,700 (exclusive of any applicable VAT)		On or about the Closing Date

WEIGHTED AVERAGE LIFE OF THE NOTES

Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security to the date of distribution to the investor of amounts distributed in net reduction of principal of such security (assuming no losses). The weighted average lives of the Notes will be influenced by, among other things, the actual rate of repayment of the Loans in the Portfolio.

The model used in this Prospectus for the Loans represents an assumed constant per annum rate of prepayment ("CPR") each month relative to the then current principal balance of a pool of mortgages. CPR does not purport to be either an historical description of the prepayment experience of any pool of loans or a prediction of the expected rate of prepayment of any Loans, including the Mortgages to be included in the Portfolio.

The following tables were prepared based on the characteristics of the Loans included in the Portfolio and the following additional assumptions (the "**Modelling Assumptions**"):

- (a) there are no arrears or enforcements;
- (b) no Loan is sold by the Issuer;
- (c) there is no debit balance on any of the sub-ledgers of the Principal Deficiency Ledger on any Interest Payment Date;
- (d) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (e) no Loan is repurchased by the Seller;
- (f) no Substitute Loans are purchased;
- (g) no Further Advances are made in respect of the Portfolio;
- (h) the portfolio mix of loan characteristics remains the same throughout the life of the Notes;
- (i) the Class A1 is £295m, the Class A2 is £737m and the Class B is £168m;
- (j) the interest rate on each Loan in the Portfolio is equal to the Seller Standard Variable Rate, the Tracker Rate or a fixed rate, with the addition of any relevant margins above or below the applicable index. The Seller Standard Variable Rate is equal to 4.95 per cent. and the Bank of England base rate is equal to 0.5 per cent. in respect of the Tracker Rate Loans;
- (k) the loans revert to their respective reversion margins in the first period after the reversion date;
- (l) the Notes are issued on 30 March 2011 and all payments on the Notes are received on the 20th day of every third calendar month commencing from September 2011. The collection dates are the end of each month preceding the interest payment date;
- (m) LIBOR is equal to 0.80 per cent.;
- (n) in the case of tables stating "with optional redemption", the Notes are redeemed at their Principal Amount Outstanding on the Step-Up Date;
- (o) the Notes will be redeemed in accordance with the Conditions;
- (p) no Security has been enforced;
- (q) 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;
- (r) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (s) the Mortgages continue to be fully performing;
- (t) the mortgages will pay the reversion rate beginning the period after the reversion date; and

- (u) the Initial Portfolio will be purchased on the Issue Date and is derived from the Initial Provisional Portfolio, which has the characteristics defined below.

Replines

Collateral Line	Current Balance (£)	Initial Payment Type	Reversion Payment Type	Interest Payment Type	Current Mortgage Rate	Reversion Margin (%)	WA Remaining Term to Maturity (months)	WA Months to Reversionary Rate
1	154,111,673.78	FIXED	TRACKER	REP	4.37%	4.43%	251	32
2	38,820,310.93	FIXED	TRACKER	10	4.08%	4.45%	187	34
3	399,608,345.25	FIXED	SVR	REP	5.58%	0.00%	229	32
4	204,335,779.48	FIXED	SVR	10	5.61%	0.00%	189	31
5	725,701.73	DISCOUNT	DISCOUNT	REP	3.42%	-1.53%	195	0
6	178,683.13	DISCOUNT	DISCOUNT	10	3.43%	-1.52%	115	0
7	293,049.10	DISCOUNT	SVR	REP	4.03%	0.15%	238	2
8	943,651.17	DISCOUNT	SVR	10	3.96%	0.00%	230	7
9	62,908,201.41	TRACKER	TRACKER	REP	2.70%	1.31%	215	0
10	66,143,817.94	TRACKER	TRACKER	10	2.50%	0.97%	171	0
11	64,407,298.88	TRACKER	TRACKER	REP	3.99%	4.45%	286	22
12	10,133,692.87	TRACKER	TRACKER	10	3.15%	4.45%	196	22
13	1,580,914.80	TRACKER	SVR	REP	1.40%	0.00%	189	16
14	2,163,731.78	TRACKER	SVR	10	1.26%	0.00%	142	16
15	238,282,510.91	SVR	SVR	REP	4.96%	0.01%	233	0
16	168,628,133.93	SVR	SVR	10	4.96%	0.01%	187	0
17	7,181,041.73	SVR	SVR	REP	5.95%	0.00%	234	45
18	1,249,322.14	SVR	SVR	10	5.95%	0.00%	168	43
19	45,166,391.90	CAPPED	SVR	REP	3.54%	0.00%	229	16
20	21,420,548.21	CAPPED	SVR	10	3.56%	0.00%	181	13

Collateral lines 1 - 4 indicate Loans where a fixed rate applies until reversion

Collateral lines 1, 2, 11, 12 indicate Loans where the Tracker Rate applies following reversion

Collateral lines 3, 4, 7, 8, 13 - 20 indicate Loans where the Seller Standard Variable Rate applies following reversion

Collateral lines 5, 6 indicate Loans where the Discount Rate applies for life

Collateral lines 7, 8 indicate Loans where the Discount Rate applies until reversion.

Collateral lines 9 - 10 indicate Loans where the Tracker Rate applies for life.

Collateral lines 11 - 14 indicate Loans where the Tracker Rate applies until reversion.

Collateral lines 15, 16 indicate Loans where the initial Seller Standard Variable Rate applies for life.

Collateral lines 17, 18 indicate Loans where the initial Seller Standard Variable Rate applies until reversion

Collateral lines 19, 20 indicate Loans where the initial rates are capped.

The actual characteristics and performance of the Loans are likely to differ from the assumptions. The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected

that the Loans will prepay at a constant rate until maturity, that all of the Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Loans. Moreover, the diverse remaining terms to maturity and mortgage rates of the Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity and weighted average mortgage rates of the Loans are as assumed. Any difference between such assumptions and the actual characteristics and performance of the Loans, or actual prepayment of loss experience, will affect the percentage of the initial amount outstanding of the Notes which are outstanding over time and cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage CPR.

The weighted average lives shown below were determined by (i) multiplying the net reduction, if any, of the Principal Amount Outstanding of each Class of Notes by the number of years from the date of issuance of the Notes to the related Interest Payment Date and (ii) adding the results and dividing the sum by the aggregate of the net reductions of the Principal Amount Outstanding described in (i) above.

Subject to the foregoing discussion and assumptions, the following tables indicate the weighted average lives of the Class A1 Notes, the Class A2 Notes and the Class B Notes. These average lives have been calculated on an 30/360 basis.

Percentage of the Original Principal Amount Outstanding of the Class A1 Notes at the Specified CPRs

Weighted Average Lives								
CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%
With Optional Redemption	3.95	2.02	1.27	0.95	0.77	0.66	0.60	1.08
Without Optional Redemption	5.30	2.02	1.27	0.95	0.77	0.66	0.60	1.08

Percentage of Original Principal Amount Outstanding (without Optional Redemption)

CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%
30-Mar-2011	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2011	96.5%	88.0%	79.2%	70.1%	60.7%	50.9%	40.8%	74.7%
20-Mar-2012	92.2%	73.9%	55.5%	37.0%	18.4%	0.0%	0.0%	46.2%
20-Sep-2012	87.8%	60.1%	33.1%	6.6%	0.0%	0.0%	0.0%	19.8%
20-Mar-2013	83.3%	46.8%	12.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2013	78.8%	33.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2014	74.0%	21.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2014	69.2%	8.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2015	64.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2015	59.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2016	53.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2016	48.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2017	43.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2017	37.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2018	31.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2018	25.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2019	19.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2019	13.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2020	7.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2020	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2021	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2021	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2022	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2022	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2023	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2024	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2025	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2026	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2026	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2027	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2027	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2028	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2028	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2029	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%
20-Sep-2029	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2030	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2030	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2031	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2031	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2032	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2032	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2033	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2033	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2034	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Sep-2034	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2035	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Percentage of the Original Principal Amount Outstanding of the Class A2 Notes at the Specified CPRs

Weighted Average Lives									
CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%	
With Optional Redemption	4.98	4.93	4.50	3.97	3.46	2.98	2.55	4.24	
Without Optional Redemption	14.53	10.19	6.90	4.96	3.82	3.08	2.55	5.79	
Percentage of Original Principal Amount Outstanding (without Optional Redemption)									
CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%	
30-Mar-2011	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2011	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Mar-2012	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	99.9%	92.4%	100.0%
20-Sep-2012	100.0%	100.0%	100.0%	100.0%	92.3%	82.3%	72.5%	100.0%	100.0%
20-Mar-2013	100.0%	100.0%	100.0%	91.6%	79.0%	67.2%	56.0%	98.1%	100.0%
20-Sep-2013	100.0%	100.0%	96.8%	81.4%	67.2%	54.2%	42.4%	89.0%	100.0%
20-Mar-2014	100.0%	100.0%	89.3%	72.1%	56.7%	43.1%	31.1%	80.5%	100.0%
20-Sep-2014	100.0%	100.0%	82.2%	63.6%	47.4%	33.5%	21.7%	72.6%	100.0%
20-Mar-2015	100.0%	98.7%	75.5%	55.8%	39.2%	25.3%	13.9%	65.2%	100.0%
20-Sep-2015	100.0%	94.0%	69.2%	48.7%	31.9%	18.3%	7.5%	58.4%	100.0%
20-Mar-2016	100.0%	89.4%	63.2%	42.1%	25.4%	12.3%	2.2%	52.1%	100.0%
20-Sep-2016	100.0%	84.9%	57.6%	36.2%	19.7%	7.1%	0.0%	46.2%	100.0%
20-Mar-2017	100.0%	80.6%	52.3%	30.7%	14.6%	2.7%	0.0%	40.8%	100.0%
20-Sep-2017	100.0%	76.4%	47.3%	25.8%	10.1%	0.0%	0.0%	35.7%	100.0%
20-Mar-2018	100.0%	72.3%	42.6%	21.2%	6.2%	0.0%	0.0%	31.0%	100.0%
20-Sep-2018	100.0%	68.2%	38.2%	17.1%	2.7%	0.0%	0.0%	26.7%	100.0%
20-Mar-2019	100.0%	64.3%	34.0%	13.3%	0.0%	0.0%	0.0%	22.6%	100.0%
20-Sep-2019	100.0%	60.5%	30.1%	9.9%	0.0%	0.0%	0.0%	18.9%	100.0%
20-Mar-2020	100.0%	56.8%	26.4%	6.7%	0.0%	0.0%	0.0%	15.5%	100.0%
20-Sep-2020	100.0%	53.2%	22.9%	3.9%	0.0%	0.0%	0.0%	12.2%	100.0%
20-Mar-2021	97.8%	49.7%	19.6%	1.3%	0.0%	0.0%	0.0%	9.3%	100.0%
20-Sep-2021	95.1%	46.3%	16.5%	0.0%	0.0%	0.0%	0.0%	6.5%	100.0%
20-Mar-2022	92.3%	43.0%	13.6%	0.0%	0.0%	0.0%	0.0%	4.0%	100.0%
20-Sep-2022	89.5%	39.7%	10.9%	0.0%	0.0%	0.0%	0.0%	1.7%	100.0%
20-Mar-2023	86.4%	36.4%	8.3%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2023	83.4%	33.4%	5.9%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2024	80.3%	30.4%	3.7%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2024	77.2%	27.5%	1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2025	73.9%	24.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2025	63.4%	18.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2026	57.7%	14.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2026	31.6%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2027	5.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2027	1.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2028	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2028	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2029	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2029	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2030	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2030	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2031	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2031	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2032	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2032	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2033	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2033	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2034	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Sep-2034	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
20-Mar-2035	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

Percentage of the Original Principal Amount Outstanding of the Class B Notes at the Specified CPRs

Weighted Average Lives								
CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%
With Optional Redemption	4.98	4.98	4.98	4.98	4.98	4.98	4.98	4.98
Without Optional Redemption	18.54	16.98	15.82	13.66	11.32	9.38	7.85	14.84
Percentage of Original Principal Amount Outstanding (without Optional Redemption)								
CPR	0.0%	5.0%	10.0%	15.0%	20.0%	25.0%	30.0%	12.5%
30-Mar-2011	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2011	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Mar-2012	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2012	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Mar-2013	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2013	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Mar-2014	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2014	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Mar-2015	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2015	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Mar-2016	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
20-Sep-2016	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	90.4%	100.0%
20-Mar-2017	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	74.5%	100.0%
20-Sep-2017	100.0%	100.0%	100.0%	100.0%	100.0%	95.4%	61.3%	100.0%
20-Mar-2018	100.0%	100.0%	100.0%	100.0%	100.0%	81.3%	50.4%	100.0%
20-Sep-2018	100.0%	100.0%	100.0%	100.0%	100.0%	69.2%	41.5%	100.0%
20-Mar-2019	100.0%	100.0%	100.0%	100.0%	98.1%	58.8%	34.1%	100.0%
20-Sep-2019	100.0%	100.0%	100.0%	100.0%	86.1%	50.0%	28.0%	100.0%
20-Mar-2020	100.0%	100.0%	100.0%	100.0%	75.5%	42.4%	22.9%	100.0%
20-Sep-2020	100.0%	100.0%	100.0%	100.0%	66.1%	36.0%	18.8%	100.0%
20-Mar-2021	100.0%	100.0%	100.0%	100.0%	57.9%	30.5%	15.4%	100.0%
20-Sep-2021	100.0%	100.0%	100.0%	95.1%	50.6%	25.8%	12.6%	100.0%
20-Mar-2022	100.0%	100.0%	100.0%	85.7%	44.2%	21.8%	10.3%	100.0%
20-Sep-2022	100.0%	100.0%	100.0%	77.0%	38.6%	18.5%	8.4%	100.0%
20-Mar-2023	100.0%	100.0%	100.0%	69.0%	33.5%	15.5%	6.8%	97.5%
20-Sep-2023	100.0%	100.0%	100.0%	61.9%	29.2%	13.1%	5.6%	88.7%
20-Mar-2024	100.0%	100.0%	100.0%	55.5%	25.3%	11.0%	4.5%	80.6%
20-Sep-2024	100.0%	100.0%	100.0%	49.6%	22.0%	9.2%	3.7%	73.2%
20-Mar-2025	100.0%	100.0%	97.9%	44.2%	19.0%	7.7%	3.0%	66.2%
20-Sep-2025	100.0%	100.0%	82.8%	36.3%	15.2%	6.0%	2.2%	55.2%
20-Mar-2026	100.0%	100.0%	73.4%	31.3%	12.7%	4.8%	1.7%	48.2%
20-Sep-2026	100.0%	100.0%	47.0%	19.5%	7.7%	2.8%	1.0%	30.5%
20-Mar-2027	100.0%	55.4%	23.4%	9.4%	3.6%	1.3%	0.4%	15.0%
20-Sep-2027	100.0%	45.1%	18.6%	7.3%	2.7%	0.9%	0.3%	11.7%
20-Mar-2028	88.7%	37.2%	14.9%	5.7%	2.0%	0.7%	0.2%	9.3%
20-Sep-2028	72.3%	29.6%	11.5%	4.3%	1.5%	0.5%	0.1%	7.1%
20-Mar-2029	55.8%	22.2%	8.4%	3.0%	1.0%	0.3%	0.1%	5.1%
20-Sep-2029	39.5%	15.4%	5.7%	2.0%	0.6%	0.2%	0.1%	3.4%
20-Mar-2030	22.9%	8.7%	3.1%	1.1%	0.3%	0.1%	0.0%	1.8%
20-Sep-2030	15.7%	5.8%	2.0%	0.7%	0.2%	0.1%	0.0%	1.2%
20-Mar-2031	12.2%	4.4%	1.5%	0.5%	0.1%	0.0%	0.0%	0.9%
20-Sep-2031	8.5%	3.0%	1.0%	0.3%	0.1%	0.0%	0.0%	0.6%
20-Mar-2032	5.7%	1.9%	0.6%	0.2%	0.1%	0.0%	0.0%	0.3%
20-Sep-2032	4.7%	1.6%	0.5%	0.1%	0.0%	0.0%	0.0%	0.3%
20-Mar-2033	3.7%	1.2%	0.4%	0.1%	0.0%	0.0%	0.0%	0.2%
20-Sep-2033	2.7%	0.8%	0.3%	0.1%	0.0%	0.0%	0.0%	0.1%
20-Mar-2034	1.6%	0.5%	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%
20-Sep-2034	0.5%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
20-Mar-2035	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

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 the purposes of this Prospectus, "Seller Standard Variable Rate" means any variable mortgage rate set by Skipton Building Society by reference to the general level of interest rates and competitor rates in the UK mortgage market.

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*".

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.

An investment in the Notes is only suitable for investors experienced in financial matters who are in a position to fully assess the risks relating to such an investment and who have sufficient financial means to suffer any potential loss stemming therefrom.

The Issuer believes that the risks described below are the material risks inherent in the transaction for Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks relating to the Notes are exhaustive. Additional risks or uncertainties not presently known to the Issuer or that the Issuer currently considers immaterial may also have an adverse effect on the Issuer's ability to pay interest, principal or other amounts in respect of the Notes. Prospective Noteholders should read the detailed information set out in this document and reach their own views, together with their own professional advisers, 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 Revenue Receipts and Principal Receipts in respect of the Loans in the Portfolio, interest earned on the GIC Account, the receipts under the Swap Agreements and amounts standing to the credit of the General Reserve Fund. 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 Priority of Payments. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Secured Creditors, subject to the applicable Priority of Payments. The Issuer will have no recourse to the Seller, save as provided in the Mortgage Sale Agreement (see further the section entitled "*The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement*").

Limited recourse

The Notes will be limited recourse obligations of the Issuer. Other than the receipts from the Loans in the Portfolio, interest earned on the GIC Account, the receipts under the Swap Agreements and amounts standing to the credit of the General Reserve Fund, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes. If at any time following:

- (a) the occurrence of either:
 - (i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or
 - (ii) the service of an Enforcement Notice; and
- (b) realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Priority of Payments,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority of Payments, to pay in full all amounts then due and payable under any Class of Notes, then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes junior to that

Class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer. "**Realisation**" is defined in Condition 10 (*Limited Recourse*).

Each Secured Creditor agrees that if any amount is received by it (including by way of set-off) in respect of any secured obligation owed to it other than in accordance with the provisions of the Deed of Charge, then an amount equal to the difference between the amount so received by it and the amount that it would have received had it been paid in accordance with the provisions of the Deed of Charge shall be received and held by it as trustee for the Trustee and shall be paid over to the Trustee immediately upon receipt so that such amount can be applied in accordance with the provisions of the Deed of Charge.

Deferral of interest payments on the Notes

If, on any Interest Payment Date, the Issuer has insufficient funds to make payment in full of all amounts of interest (including any accrued interest thereon) payable in respect of any Class of Notes, (other than the Class A Notes), after having paid or provided for items of higher priority in the Pre-Enforcement Revenue Priority of Payments, then that amount shall not be due and payable and the Issuer will be entitled under Condition 8.11 (*Interest Accrual*) to defer payment of that amount (to the extent of the insufficiency) until the following Interest Payment Date or such earlier date as interest in respect of such Class of Notes becomes immediately due and repayable in accordance with the Conditions and it shall not constitute an Event of Default. To the extent that there are insufficient funds on the following Interest Payment Date or such earlier date as interest in respect of such Class of Notes is scheduled to be paid in accordance with the Conditions, the deferral of interest shall continue until the Final Maturity Date.

Credit risk

The Issuer is subject to the risk of default in payment by the Borrowers and the failure by the Administrator, on behalf of the Issuer, to realise or recover sufficient funds under the arrears and default procedures in respect of the Loan and Related Security in order to discharge all amounts due and owing by the relevant Borrowers under the Loans, which may adversely affect payments on the Notes. This risk is mitigated to some extent by certain credit enhancement features which are described in the section entitled "*Key Structural Features*". However, no assurance can be made as to the effectiveness of such credit enhancement features, or that such credit enhancement features will protect the Noteholders from all risk of loss.

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 Collection Period. This risk is addressed in respect of the Notes by the provision of liquidity from alternative sources as described in the section entitled "*Key Structural Features*". However, no assurance can be made as to the effectiveness of such credit enhancement features, or that such credit enhancement features will protect the Noteholders from all risk of loss.

Payment of Principal in respect of the Class A Notes is sequential

Prior to the service of an Enforcement Notice by the Trustee, the payment of principal amongst the Class A Notes will be made in Sequential Order as set out in "*Key Structural Features*".

Payment of principal and interest in respect of the Class B Notes is sequential.

The Class B Notes are subordinated in right of payment of interest and principal to the Class A Notes as set out in "*Key Structural Features*". Further, Available Revenue Receipts will be applied to credit the General Reserve Fund prior to payment of interest on the Class B Notes. There is no assurance that these subordination provisions will protect the holders of the Class A Notes from all risk of loss.

Basis risk

The Issuer is subject to:

- the risk of a mismatch between (i) the fixed rates of interest payable on the Fixed Rate Loans and the interest rate payable in respect of the Notes; and (ii) the interest rate on BoE Base Rate linked Loans and standard variable rate linked Loans being determined on different bases than that on

which the interest rate payable on the Notes is determined, which risks are mitigated by the Swap Transactions;

- the risk that any cash held by or on behalf of the Issuer may earn a rate of return below the rate of interest payable on the Notes, which risk is mitigated by (i) the GIC Account, which pays a guaranteed rate of interest on funds standing to the credit thereof and from which, the Issuer (or the Cash Manager on its behalf) may invest sums in Authorised Investments, and (ii) (for so long as the Loans are fully performing) the availability of excess Available Revenue Receipts, each of which are available to meet payments of interest due under the Notes and the other expenses of the Issuer.

The Swap Transactions are not designed to provide a perfect hedge for the Loans included in the Portfolio or eliminate all risks associated with the rates payable in respect of such Loans. In particular, the notional amount of the Swap Transactions will be set at the end of the Collection Period ending immediately prior to the Interest Payment Date corresponding to the first day of a calculation period of the Swap Transactions and will not be reset on a monthly basis. In addition, if, following a failure in meeting the relevant conditions allowing the sale of a Further Advance to the Issuer, a Product Switch or a Substitution, the Seller fails to repurchase any Loan that was subject to such Further Advance, Product Switch or Substitution as required under the terms of the Mortgage Sale Agreement, then the balance of such Loan will not be included in the calculation of the notional amount of the relevant Swap Agreement.

Swap Provider Risk and Swap Termination Payment

In the event that any Swap Provider does not pay the amount payable under a Swap Agreement when due, available funds of the Issuer may be less than would otherwise be the case and this could result in reduced payments to Noteholders.

If a Swap Agreement is terminated for any reason, the Cash Manager (on behalf of the Issuer) may be obliged to use available funds of the Issuer to pay any termination payment due to the relevant Swap Provider under such Swap Agreement. Any termination payment due by the Issuer to a Swap Provider will be paid first out of amounts standing to the credit of the relevant Swap Collateral Account in accordance with the relevant Swap Collateral Account Priority of Payments and then, to the extent that there are insufficient funds standing to the credit of the relevant Swap Collateral Account, using available funds in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments. Any termination payment due by the Issuer to a Swap Provider (except for any Swap Subordinated Amounts) will rank in priority to amounts due on the Notes both in the Pre-Enforcement Revenue Priority of Payments and the Post-Enforcement Priority of Payments.

If the Issuer is obliged to make a termination payment to a Swap Provider, this may reduce or adversely affect the amount of funds which the Issuer has available to make payments on the Notes. 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 will have sufficient funds to make subsequent payments to the Noteholders in respect of the Notes.

Furthermore, if any Swap Provider were to default in respect of its obligations under a Swap Agreement so as to result in a termination of such Swap Agreement, the Issuer will use commercially reasonable efforts to enter into a replacement arrangement with another appropriately rated entity, which may require the Issuer to make a payment to the replacement swap provider. A failure to enter into such a replacement arrangement may result in a downgrading on the rating of the Class A Notes, and may reduce the amount of funds available to make payments on the Notes. In addition, if the Issuer fails to enter into such replacement arrangement, the Portfolio will remain unhedged.

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, as well as that of the Loans.

To mitigate this risk, under the terms of the Swap Agreements, in the event that the relevant ratings of a Swap Provider fail to meet the 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 time frame stipulated in the relevant Swap Agreement and 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 required ratings, 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 or restoring such rating to the level prior to the downgrade event. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be provided by the Swap Provider or that another entity with the required rating will be available or willing to become a replacement swap provider, co-obligor or guarantor. Other than a Swap Collateral Account Surplus, collateral provided will not generally be available to meet the Issuer's obligations under the Notes or the Transaction Documents.

Moody's rating of UK banks and building societies

Moody's consider that, since September 2008, the UK banking system and the UK mutual sector has benefitted from extraordinary support provided by both the UK government and the Bank of England and these support assumptions were factored into its debt and deposit ratings. Due to the systemic nature of the crisis, whereby the failure of any bank or building society had implications for the overall system, Moody's increased its assumptions for the probability of the provision of government support for a number of UK institutions during the crisis, including, in the context of this transaction, Skipton Building Society, The Royal Bank of Scotland plc and Barclays Bank PLC.

In March 2010 Moody's announced that, as the financial sector emerges from the crisis, its assessment of the probability of the UK government and the Bank of England providing support will revert back to a case-by-case base assessment of the impact of each bank or building society's hypothetical failure on financial stability. In March 2010 Moody's expected gradually to reduce the extraordinary support assumption factored into its debt and deposit ratings for the relevant UK institutions and return to its lower pre-crisis support assumptions for such UK institutions. Moody's have stated that how and when it reduces the support assumptions will depend upon a number of factors, including the importance of the bank or building society and the pace in the recovery of the UK economy.

Moody's have also reiterated these intentions in subsequent announcements in December 2010 and February 2011. In December 2010 Moody's announced that they expected to reduce the level of support incorporated in senior debt ratings over the next one to two years from the date of that announcement. As such, there can be no assurance for investors as to the timeframe or impact of any reduction by Moody's to these support assumptions. The Issuer has mitigated the risk of certain transaction counterparties being downgraded through the downgrade provisions in the Transaction Documents – see "*Triggers Table – Rating Triggers Table*".

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 Loan and repurchases of Loans required to be made under the Mortgage Sale Agreement) on the 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 Loans. Furthermore, if the conditions for the purchase of Further Advances by the Issuer are not met, then the Issuer will not be able to purchase such Further Advances which may result in Principal Receipts in the form of repurchase proceeds payable by the Seller, instead being used to prematurely repay the Notes. See also "*Risk Factors – Product Switches, Further Advances and Substitutions*".

The rate of prepayment of Loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. Subject to the terms and conditions of the 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 Portfolio will experience. See also the section entitled "*The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement*".

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

On any Interest Payment Date from and including the Step-Up Date or Interest Payment Date on which the aggregate Principal Amount Outstanding of all the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of all such Notes on the Closing Date, the Issuer may, subject to certain conditions, redeem all of the Notes. In addition, the Issuer may, subject to the Conditions, redeem all of the Notes if a change in tax law results in the Issuer or the Swap Providers being required to make a Tax Deduction in respect of any payment in respect of the Notes or a Swap Agreement, respectively, or the Issuer would be subject to UK corporation tax in an accounting period on an amount which materially exceeds the Issuer Profit Amount retained during that accounting period. See Condition 9.4 (*Optional Redemption in whole for taxation reasons*) for further information.

Early redemption of the Notes may adversely affect the yield on the Notes.

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 or withdrawn. A qualification, downgrade or withdrawal of any of the ratings mentioned above may impact upon the value of the Notes. The Class B Notes will not be rated by the Rating Agencies.

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

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

The terms of certain Transaction Documents require the Rating Agencies to confirm that certain actions 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 prejudicial to, Noteholders. While entitled to have regard to the fact that the Rating Agencies have confirmed that the then current rating of the relevant class (or sub-Class) of Notes would not be adversely affected, the above does not impose or extend any actual or contingent liability on the Rating Agencies to the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person or create any legal relationship between the Rating Agencies and the Secured Creditors (including the Noteholders), the Issuer, the Trustee or any other person whether by way of contract or otherwise.

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

Certain Rating Agencies have indicated that they will no longer provide 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 in general is experiencing disruptions resulting from reduced investor demand for such securities. At times this has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities similar to the Notes experiencing limited liquidity. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. It is not known for how long these market conditions will continue or whether they will worsen.

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

If, in the opinion of the Trustee, there is a conflict between the interests of holders of different classes of Notes, the Trustee will have regard only to the interests of the holders of the Most Senior Class.

Conflict Between Noteholders and other Secured Creditors

The Trust Deed provides that the Trustee shall, except where expressly provided otherwise and prior to the redemption in full of the Notes, have regard solely to the interests of the Noteholders and shall have regard to the interests of the other Secured Creditors only to pay such parties any monies received and payable to it and to act in accordance with the Post-Enforcement Priority of Payments. J.P. Morgan Securities Ltd., in its capacity as a Swap Provider, is a Secured Creditor and, pursuant to the Securities Lending Transaction, J.P. Morgan Securities Ltd. (or one of its affiliates) will also be a Noteholder. JPMorgan Chase Bank, National Association may exercise voting rights which may have a prejudicial effect on other Noteholders. Actual or potential conflicts may arise between the interests of J.P. Morgan Securities Ltd. (or one of its affiliates) and the interests of the Issuer and the other Noteholders.

The Mortgages

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

The sale by the Seller to the Issuer of certain Loans secured by English Mortgages (the "**English Loans**") and their Related Security (until legal title is conveyed) takes effect in equity only. The sale of the Scottish Loans and their Related Security from the Seller to the Issuer will be given effect by Scottish Declarations of Trust by the Seller (and any sale of any Further Advance in respect of a Scottish Loan and its Related Security will be given effect to by a further Scottish Declaration of Trust, if necessary, 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 the Registers of Scotland, until certain trigger events occur under the terms of the Mortgage Sale Agreement (see "*The Portfolio — Sale of the Mortgages and their Related Security*", below).

The Issuer has not and will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the English Mortgages and their Related Security and no steps will be taken to complete or perfect its title to the Scottish Mortgages and their Related Security with the Registers of Scotland.

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

- (a) a *bona fide* purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. If this occurred, then the Issuer would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. 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 Administration Agreement, the Seller has agreed that it will not vary any of the terms of the Loans or their Related Security except that it may in its capacity as Administrator vary certain terms in certain circumstances as set out in the Administration Agreement, as between any Borrower and the Issuer, if the Seller was to modify the terms of the 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 (i) notice of the assignment was given to a Borrower who is a creditor of the Seller in the context of the English Loans and their Related Security and (ii) an assignation of the Scottish Loans and their Related Security is effected by the Seller to the Issuer and notice thereof is then given to a Borrower who is a creditor of the Seller, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the Loan. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment is given to the Borrower or an assignation is effected and notice thereof is given, however, some rights of set-off may not arise after the date notice is given;
- (d) once notice has been given to the Borrowers of the assignment of the English Loans and their Related Security to the Issuer or an assignation of the Scottish Loans and their Related Security is effected, 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 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 is given to the Borrowers or an assignation is effected and notice thereof is given, the Issuer would not be able to enforce any Borrower's obligations under a 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 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 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 Loans and their Related Security.

If any of the risks described above were to occur then the realisable value of the Portfolio or any part thereof may be 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 Loans and their Related Security on the occurrence of a Perfection Trigger Event.

Set-off risk may adversely affect the value of the 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 Declarations 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 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 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 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 Loans and the Mortgages in the Portfolio, the Issuer's) claim for payment of principal and/or interest under the relevant 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 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 analogous rights in Scotland) against his or her mortgage payments. In that case, the Administrator 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 Portfolio and/or the ability of the Issuer to make payments under the Notes.

Income and Principal Deficiency

If, on any Interest Payment Date, as a result of shortfalls in Available Revenue Receipts relative to interest due on the Class A Notes, amounts ranking in priority to the payment of interest on the Class A Notes and amounts necessary to eliminate any debit balances on the Principal Deficiency Ledger (excluding the Class B Principal Deficiency Sub-Ledger), there is an Income Deficit, then subject to certain conditions set out in "Key Structural Features", the Issuer may apply the General Reserve Fund. If following application of the General Reserve Fund, there is a Remaining Income Deficit, then (again subject to certain conditions) the Issuer may apply Principal Receipts (if any). In this event, the consequences set out in the following paragraph may result.

Application, as described above, of any Principal Receipts to meet any Remaining Income Deficit (in addition to any Losses) will be recorded first on the Class B Principal Deficiency Sub-Ledger until the

balance of the Class B Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class B Notes then outstanding, and next on the Class A Principal Deficiency Sub-Ledger until the balance of the Class A Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class A Notes then outstanding.

It is expected that during the course of the life of the Notes, principal deficiencies will be recouped from Available Revenue Receipts and, other than in respect of the Class B Notes, amounts standing to the credit of the General Reserve Fund. Available Revenue Receipts will be applied, after meeting prior ranking obligations as set out under the Pre-Enforcement Revenue Priority of Payments, to credit first the Class A Principal Deficiency Sub-Ledger and second the Class B Principal Deficiency Sub-Ledger. Amounts standing to the credit of the General Reserve Fund will be applied, after meeting prior ranking obligations as further described in "*Key Structural Features*", to credit the Class A Principal Deficiency Sub-Ledger.

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

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

Product Switches, Further Advances and Substitutions

A Loan and its Related Security may be repurchased where a Product Switch or Further Advance or substitution is made in the circumstances and for the consideration set out in "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*". There can be no assurance that the Seller will have the financial resources to honour its repurchase obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments on the Notes. The yield to maturity of the Notes may be affected by the repurchase of Loans subject to Product Switches, Further Advances and substitution.

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

Selection of the Portfolio

The information in the section headed "*Statistical Information on the Portfolio*" has been extracted from the systems of the Seller as at 31 January 2011 (the "**Cut-off Date**"). The pool of Loans from which the Portfolio will be selected (the "**Provisional Portfolio**") comprises of 18,463 Loans with a Current Balance of £1,488,282,801. The characteristics of the Portfolio as at the Closing Date will vary from those set out in the tables in this Prospectus as a result of, *inter alia*, repayments and redemptions of Loans prior to the Closing Date and the operation of a random selection process.

Administration and Third Party 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 to the Issuer, the Administrator has agreed to service the Portfolio, the Cash Manager has agreed to provide cash management services and the Paying Agents, the Registrar, the Back-Up Administrator Facilitator has agreed to assist in appointing a Back-Up Administrator and the Agent Bank have all agreed to provide services with respect to the Notes. In the event that any of the above parties were to fail to perform their

obligations under the respective agreements to which they are a party, payments on the Notes may be adversely affected.

Ability to appoint Substitute Administrator

If the Administrator is removed in accordance with the terms of the Administration Agreement, there is no guarantee that a substitute administrator would be found, which could delay collection of payments on the relevant Loans and ultimately could adversely affect payments of interest and principal on the Notes. Such risk is mitigated by the provisions of the Administration Agreement pursuant to which the Back-Up Administrator Facilitator, in certain circumstances, assists the Issuer in appointing a Back-Up Administrator.

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

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

The Administrator has no 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 enforce the provisions of the Notes or the Trust Documents (including the Conditions) or of the other Transaction Documents to which it is a party and at any time after the service of an Enforcement Notice, the Trustee may, at its discretion and without notice, take such proceedings, actions or steps as it may think fit to enforce the Security. However, the Trustee shall not be bound to take any such proceedings, actions or steps (including, but not limited to, the giving of an Enforcement Notice in accordance with Condition 13 (*Events of Default*)) unless it shall have been directed to do so by an Extraordinary Resolution of the Most Senior Class of Noteholders or in writing by the holders of at least 25 per cent. in Principal Amount Outstanding of the Most Senior Class of Notes then outstanding and it shall have been indemnified and/or secured and/or prefunded 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 to remain a counterparty to the Issuer.

These criteria may 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 the Rating Agencies. 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. 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 (but shall not be obliged to) agree to amend or waive certain of the terms of such document, including the applicable criteria, in order to avoid the need for a replacement entity to be appointed. The consent of Noteholders may not be required in relation to such amendments and/or waivers.

The Portfolio

Default by Borrowers in paying amounts due on their Loans

Borrowers may default on their obligations under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. 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 Loans.

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

Other factors in Borrowers' personal or financial circumstances may affect the ability of Borrowers to repay the 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 Loans. In addition, the ability of a Borrower to sell a property given as security for a Loan at a price sufficient to repay the amounts outstanding under that 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 Loan and the related Property is repossessed, the likelihood of there being a net loss on disposal of the Property is increased by a higher "loan to value" ratio.

In order to enforce a power of sale in respect of a Property, the relevant mortgagee (which may be the Seller or the Issuer) 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 assuming certain risks. If obtaining possession of properties in such circumstances is lengthy or costly, the Issuer's ability to make payments on the Notes may be reduced. The Issuer's ability to make such payment may be reduced further if the mortgagee's method for obtaining possession of properties permitted by law is restricted in the future.

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

Borrowers with a Loan subject to a variable rate of interest or with a Loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, may be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a 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 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, ultimately 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. Furthermore, where the reversionary rate is the current Standard Variable Rate, in the Seller's mortgage terms, the reversionary rate for Borrowers reaching the end of their fixed or tracker periods may be lower than prevailing market rates. This would mean that it is less likely that they will refinance. These events, alone or in combination, may contribute to higher delinquency rates, slower prepayment spreads and higher losses.

These events, alone or in combination, may contribute to higher delinquency rates, slower prepayment spreads and higher losses on the 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 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 Great Britain should experience an overall decline in property values, such a decline could in certain circumstances result in the value of the Related Security being significantly reduced and, in the event that the Related Security is required to be enforced, may result in an adverse effect on payments on the Notes.

The Issuer cannot guarantee that the value of a property will remain at the same level as on the date of origination of the related Loan. The recent downturn in the United Kingdom economy has had a negative effect on the housing market. The fall in property prices resulting from the deterioration in the housing market could result in losses being incurred by lenders where the net recovery proceeds are insufficient to redeem the outstanding loan. If the value of the Security backing the Loans is reduced this may ultimately result in losses to Noteholders if the Security is required to be enforced and the resulting proceeds are insufficient to make payments on all Notes.

Borrowers may have insufficient equity to refinance their Loans with lenders other than the Seller and may have insufficient resources to pay amounts in respect of their loans as and when they fall due. This could lead to higher delinquency rates and losses which in turn may adversely affect payments on the Notes.

Geographic Concentration Risks

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

Interest Only Loans

Each Loan in the 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 Portfolio – The Loans — Characteristics of the Loans – Repayment Terms*"). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. Whilst the Seller does not verify or does not require proof that such repayment mechanism is in place and does not

take security over any investment policies taken out by Borrowers, the Seller will review the repayment mechanism in line with the size of the loan, applicant's age, income and likelihood of the repayment mechanism accumulating sufficient value to repay the loan and will decline the application if this repayment mechanism is deemed to be unacceptable. Affordability for interest only loans is always calculated on a capital and interest basis, over a 25 year term at SVR plus 2%. The Seller also recommends that the Borrower takes out term life assurance cover in relation to the Loan, although the Seller, again, does not verify or 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 Loan. Thus the ability of such a Borrower to repay an Interest Only Loan at maturity without resorting to the sale of the underlying property depends on such Borrower's responsibility in ensuring that sufficient funds are available from a given source such as pension policies, PEPs, ISA or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. If a Borrower cannot repay an Interest Only Loan and a Loss occurs, this may affect repayments on the Notes if the resulting Principal Deficiency Ledger entry cannot be cured.

Buildings insurance

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

Redemption of Scottish Mortgages

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender and expenses incurred by the lender in relation to that standard security and interest. The specified sums recoverable under the standard security may be less than expected, which in turn may affect the ability of the Issuer to make payments of interest and principal on the Notes.

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

The Seller will give certain warranties to each of the Issuer and the Trustee regarding its respective Loans and their Related Security to be sold to the Issuer on the Closing Date (see "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*" below for a summary of these).

Neither the Trustee, the Arrangers, the Joint Lead Managers nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Loan or its Related Security in the Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreement by the Seller. Loans which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the Related Security not being accepted as security for a Loan had such matters been revealed. The primary remedy of the Issuer against the Seller if any of the warranties made by the Seller is materially breached or proves to be materially untrue as at the Closing Date or, as the case may be, any relevant Advance Date, Switch Date or Substitution Date and is not remedied within 30 Business Days of receipt by the Seller of a notice from the Issuer, shall be to require the Seller to repurchase any relevant Loan and its Related Security. There can be no assurance that the Seller will have the financial resources to honour such obligations under the Mortgage Sale Agreement. This may affect the quality of the Loans and their Related Security in the Portfolio and accordingly the ability of the Issuer to make payments due on the Notes.

Certain Regulatory Considerations

Mortgages Regulated under FSMA

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

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

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. 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 carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to administration agreement by an entity having the required FSA authorisation and permission. If such an administration agreement terminates, however, the Issuer will use reasonable endeavours to arrange for mortgage administration to be carried out by a replacement administrator having the required FSA authorisation and permission.

The Issuer will not itself be an authorised person under the FSMA. However, in the event that a mortgage 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 appropriately authorised entity. In addition, on and after the Mortgage Regulation Date no variation has been or will be made to the Loans and no Further Advance or Product Switch has been or will be made in relation to a Loan, where it would result in the Issuer arranging or advising in respect of, administering or entering into a Regulated Mortgage Contract or agreeing to carry on any of these activities, if the Issuer would be required to be authorised under the FSMA to do so.

Any credit agreement intended to be a Regulated Mortgage Contract under the FSMA might instead be wholly or partly regulated by the Consumer Credit Act 1974 (the "**CCA**") or treated as such, or unregulated, and any credit agreement intended to be regulated by the CCA or treated as such, or unregulated, might instead be a Regulated Mortgage Contract under the FSMA, because of technical rules on (a) determining whether the credit agreement or any part of it falls within the definition of Regulated Mortgage Contract and (b) changes to credit agreements.

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

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

So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA. Certain regulations made in 2005 and 2008 under FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after the Mortgage Regulation Date. Credit agreements made before the Mortgage Regulation Date but subsequently changed such that a new contract is entered into on or after the Mortgage Regulation Date and constitutes a separate Regulated Mortgage Contract.

The Seller will make certain warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each relevant Loan and its Related Security is enforceable (subject to certain exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 30 Business Days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase the Loans under the relevant mortgage account and their Related Security from the Issuer.

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 Loans originated by the Seller on or after the Mortgage Regulation Date were intended to be Regulated Mortgage Contracts under FSMA.

Proposed expansion of MCOB 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 follows the announcements on mortgage regulation made in the July 2009 "Reforming financial markets" consultation, which set out the Governments' 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 including the activities of special purpose vehicles (such as the Issuer) used in the wholesale mortgage markets. The Treasury is continuing to address this concern and is expected to publish revised proposals on the sale of mortgage books during the course of 2011.

On 26 January 2011, the Treasury announced a package of measures intended to enhance consumer protection in the mortgage market. These measures will transfer the regulation of new and existing second charge residential mortgages from the OFT to the FSA; ensure consistent standards of consumer protection and simplify the regulatory environment for lenders and borrowers; ensure consumer protections are maintained when a mortgage book is sold by a mortgage lender to an unregulated firm; and extend the current regulation of the sale and rent back market to all providers, to ensure appropriate protection for consumers. The statutory instruments introducing these measures are expected to be published during the course of 2011.

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

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

A credit agreement is regulated by the CCA where (a) the borrower is or includes an "individual" as defined in the CCA, (b) if the credit agreement was made before the financial limit was removed (as described below), the amount of "credit" as defined in the CCA does not exceed the financial limit of £25,000 for credit agreements made on or after 1 May 1998, or lower amounts for credit agreements made before that date and (c) the credit agreement is not an exempt agreement under the CCA (for

example, it is intended that a Regulated Mortgage Contract under the FSMA is an exempt agreement under the CCA).

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

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

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

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

Consumer Credit Act

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

Under the CCA, the "extortionate credit" regime has been replaced by an "unfair relationship" test. The "unfair relationship" test applies to all existing and new credit agreements, except Regulated Mortgage Contracts under the FSMA. The test explicitly imposes liability to repay amounts received from a borrower on both the originator and any assignee such as the Issuer. In applying the "unfair relationship" test, the courts will be able to consider a wider range of circumstances surrounding the transaction, including the creditor's conduct before and after making the agreement. There is no statutory definition of the word "unfair" as the intention is for the test to be flexible and subject to judicial discretion. However, the word "unfair" is not an unfamiliar term in UK legislation due to the UTCCR (as defined below).

The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The FSA "Principles for Businesses" may also be relevant and apply to the way contract terms are used in practice and not just the way they are drafted. Once the debtor alleges that an "unfair relationship" exists, the burden of proof is on the creditor to prove the contrary.

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

Tribunal under the Transfer of Functions of the Consumer Credit Appeals Tribunal Order 2009/1835 on 1 September 2009.

The financial limit of £25,000 for CCA regulation has been removed for credit agreements made on or after 6 April 2008, except for certain changes to credit agreements.

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

The Seller has interpreted certain technical rules under the CCA in a way common with many other lenders in the mortgage market. If such interpretation were held to be incorrect by a court or the scheme provided under Part XVI FSMA to investigate complaints against authorised persons (as defined in FSMA) (the "**Financial Ombudsman Service**"), then a Loan, to the extent that it is regulated by the CCA or treated as such, would be unenforceable as described above. If such interpretation were challenged by a significant number of Borrowers, then this could lead to significant disruption and shortfall in the income of the Issuer.

Court decisions have been made on technical rules under the CCA against certain mortgage lenders, but such decisions are very few and are generally county court decisions which are not binding on other courts.

The Seller has given or, as applicable, will give warranties to the Issuer in the Mortgage Sale Agreement that, among other things, each Loan and its Related Security is enforceable (subject to exceptions). If a Loan or its Related Security does not comply with these warranties, and if the default (if capable of remedy) cannot be or is not cured within 20 Business Days, then the Seller will, upon receipt of notice from the Issuer, be required to repurchase all of the relevant Loans secured on the same Property (together, forming one "**Mortgage Account**") and their Related Security from the Issuer.

European Directive on Consumer Credit

In April 2008, the European Parliament and the Council adopted a second directive on consumer credit, Directive 2008/48/EC of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC (the Consumer Credit Directive), which provides that, subject to exemptions, loans of at least €200 and not exceeding €75,000 between credit providers and consumers will be regulated. This directive requires member states to implement the directive by measures coming into force from 11 June 2010. Draft proposals for implementation were published in July and October 2009.

Loans secured by a land mortgage are, however, exempted from the Consumer Credit Directive and from the first consumer credit directive. The European Commission published a White Paper on mortgage credit in December 2007 (as described below), setting out its tasks for 2008 and 2010 including, amongst other things, an assessment of the regulation of early repayment charges and 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.

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

Proposed Mortgage Credit Directive

The European Commission has published a series of separate papers and commissioned a number of studies on mortgage credit over the past five years. Most recently, the Commission announced an intention to propose EU measures on responsible lending and borrowing, although no fixed deadline was published for any proposals. No assurance can be given that any such initiatives will not adversely affect the ability of the Issuer to make payments under the Notes.

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 Loans, the Seller, the Issuer and their respective businesses and operations. This may adversely affect the Issuer's ability to make payments in full on the Notes when due.

Distance Marketing Regulations

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

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

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

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

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 passed the Home Owner and Debtor Protection (Scotland) Act 2010 (the "**2010 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 2010 Act amends the sections of the Conveyancing and Feudal Reform (Scotland) Act 1970 which previously permitted a

heritable creditor to proceed to sell the secured property where the formal notice calling up the standard security has expired without challenge (or where a challenge has been made but not upheld). In terms of the 2010 Act, the heritable creditor will now have to obtain a court order to exercise its power of sale, unless the Borrower has surrendered the property voluntarily. In addition, the 2010 Act requires the heritable creditor, in applying for a court order to demonstrate that it has taken various preliminary steps, to attempt to resolve the Borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the Seller as heritable creditor of the Scottish Mortgages to exercise its power of sale and this could affect the Issuer's ability to make payments on the Notes.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

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

The UTCCR provides that a consumer (which would include a Borrower under all or almost all of the Loans) may challenge a standard term in an agreement on the basis that it is "unfair" within the UTCCR and therefore not binding on the consumer (although the rest of the agreement will remain enforceable if it is capable of continuing in existence without the unfair term).

The UTCCR will not affect terms which define the main subject matter of the contract, such as the Borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be terms which define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees. If any term of the Loans is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the Issuer to make payments to Noteholders on the Notes.

Under agreements between the FSA and the OFT, most recently in November 2009, the division of responsibility for the enforcement of the UTCCR in loan agreements was agreed to be allocated by them, generally, to the FSA in relation to Regulated Mortgage Contracts under FSMA originated by lenders authorised by the FSA and to the OFT in relation to other mortgages. In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in Borrowers, a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the administration services that the lender provides when a Borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came into force. This guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

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 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 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 and their respective businesses and operations.

Pre-action Protocol for mortgage possession cases

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

The FSA's MCOB from 25 June 2010 (formerly these were matters of non-binding guidance) prevents, 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.

There can be no assurance that any delay in starting and/or completing repossession actions by the Seller would not result in the amounts recovered being less than if the Seller did not allow any such delays (which may ultimately affect the ability of the Issuer to make payments of interest and principal on the Notes when due). The protocol and MCOB requirements for mortgage possession cases 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.

Mortgage Market Review

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

Financial Ombudsman Service

Under FSMA, the Financial Ombudsman Service is required to make decisions on, among other things, complaints relating to activities and transactions under its jurisdiction on the basis of what, in the Financial Ombudsman Service's opinion, would be fair and reasonable in all circumstances of the case, taking into account, among other things, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code, the "CML Code" issued by the Council of Mortgage Lenders occurring before the Mortgage Regulation Date may be dealt with by the Financial Ombudsman Service.

Complaints brought before the Financial Ombudsman Service for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Financial Ombudsman Service. As the Financial Ombudsman Service is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to a complaining Borrower, it is not possible to predict how any future decision of the Financial Ombudsman Service would affect the ability of the Issuer to make payments to Noteholders.

Consumer Protection from Unfair Trading Regulations 2008

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

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

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

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the 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.

The Mortgage Repossession (Protection of Tenants etc) Act 2010

The Mortgage Repossession (Protection of Tenants etc) Act 2010 (the "**Repossession Act**") came into force in October, 2010. The Repossession 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. The Repossession Act 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.

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 Administrator 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 Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and granted by way of security to the Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent which may lead to the ability to realise the Security being delayed and/or the value of the Security being impaired.

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).

Fixed charges may take effect under English law as floating charges

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

The interest of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to debts due to the holder of a floating charge) but 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 (which would otherwise be available to satisfy the claims of the Issuer's secured creditors under the Deed of Charge) would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

Validity of priorities of payments

The validity of contractual priorities of payments 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 payment 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 & Anor v BNY Corporate Trustee Services Ltd & Ors* [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 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 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 early March 2011 and the judgement 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 and/or the market value of the Notes. It may also lead to changes in the Rating Agencies' ratings methodologies and/or ratings downgrades. 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.

Risks relating to the Banking Act 2009

If an instrument or order were to be made under the Banking Act 2009 in respect of a UK-incorporated institution with permission to accept deposits pursuant to Part IV of the Financial Services and Markets Act 2000 (the "**FSMA**") (such as the Seller, the BBR Swap Provider, the SVR Swap Provider, the Account Banks, etc), such instrument or order may (amongst other things) affect the ability of such entities to satisfy their 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 events and (in the case of the Seller) trigger events in respect of perfection of legal title to the 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 and may result in a change in the contractual terms applicable to the Notes without the consent of the Noteholders. 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. As at the date of this Prospectus, none of the FSA, HM Treasury or the Bank of England have made an instrument or order under the Banking Act 2009 in respect of the relevant entities referred to above and there has been no indication that the FSA, HM Treasury or the Bank of England 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.

In addition, on 8 April 2010, the Building Societies (Financial Assistance) Order 2010 (the "**Financial Assistance Order**") came into force in exercise of certain powers under the Banking Act 2009 for the purpose of modifying the application of the Building Societies Act in certain circumstances to facilitate the provision of relevant financial assistance by the UK Treasury, the Bank of England, other central

banks of Member States and the European Central Bank (i.e. assistance for the purpose of maintaining the stability of the financial system in the UK). Most significantly, the Financial Assistance Order would permit the UK Treasury, the Bank of England, other central banks of Member States or the European Central Bank to provide such assistance without it counting for the purpose of the 50 per cent. limit on a building society's non-member funding. It would also permit the society to create a floating charge over its assets in favour of the UK Treasury, the Bank of England, other central banks of Member States and or European Central Bank, as applicable, in respect of such assistance. Because of the new power for a building society to create a floating charge over its assets, the Financial Assistance Order also allows for an administrative receiver to be appointed over the assets of the building society.

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 of the Notes should consult its legal advisers to determine whether and to what extent (1) the Notes are legal investments for it, (2) the 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 the Notes under any applicable risk-based capital or similar rules.

Securitisation Company Tax Regime

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

If the TSC Regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents. Based on advice received, the Issuer expects to be taxed under the special tax regime for which provision is made by the TSC Regulations.

Investors should note, however, that the TSC Regulations are in short-form and it is expected that advisors will rely significantly upon guidance from the UK tax authorities when advising on the scope and operation of the TSC Regulations including whether any particular company falls within the new regime.

Prospective Noteholders should note that if the Issuer did not fall to be taxed under the new regime provided for by TSC Regulations then its profits or losses for tax purposes might be different from its cash position. Any unforeseen taxable profits in the Issuer could have an adverse affect on its ability to make payments to the Noteholders.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent.. 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.

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

European Monetary Union

It is possible that, prior to the maturity of the Notes, the United Kingdom may become a participating Member State in the European economic and monetary union and that the Euro may become the lawful currency of the United Kingdom. In that event (i) all amounts payable in respect of the Notes may become payable in Euro; (ii) law may allow or require the Notes to be redenominated into Euro and additional measures to be taken in respect of such Notes; and (iii) there may no longer be available published or displayed rates for deposits in Sterling used to determine the rates of interest on the Notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the Euro could also be accompanied by a volatile interest rate environment which could adversely affect a Borrower's ability to repay its Loan as well as adversely affect investors in the Notes.

Book-Entry Interests

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

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

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

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

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

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

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

Meetings of Noteholders, modification and waiver

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

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

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

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

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

Change of law

The structure of the transaction as described in this Prospectus 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 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 for certain investors 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, including, without limitation Article 122a of Directive 2006/48/EC (as amended by Directive 2009/111/EC) referred to as the Capital Requirements Directive ("**CRD 2**") and under Directive 2009/138/EC ("**Solvency II**") 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 Joint Lead Managers, the Arrangers or the Seller makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment on the Closing Date or at any time in the future.

Investors should be aware of Article 122a of the CRD 2 which applies where credit institutions become exposed to the credit risk of a securitisation position under a securitisation established after 31 December 2010. Article 122a of the CRD 2 restricts an EU regulated credit institution from becoming exposed to the credit risk of a securitisation position unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a material net economic interest of not less than 5% in respect of certain specified credit risk tranches or exposures as contemplated by Article 122a of the CRD 2. Skipton Building Society has committed to retain a net economic interest of not less than 5% of the nominal value of the securitised exposures. Article 122a of the CRD also requires an EU regulated credit institution to be able to demonstrate that it has established formal procedures that are appropriate to its trading book and non-trading book and commensurate with its risk profile in order to monitor performance information on its underlying securitisation positions and to analyse and record certain risk characteristics and information in relation to its securitisation positions. Failure to comply with one or more of the requirements set out in Article 122a of the CRD 2 may result in the imposition of a penal regulatory capital charge on the Notes acquired by the relevant investor. Skipton Building Society has undertaken to comply with its obligations under paragraph 7 of Article 122a of the CRD 2, subject always to any requirement of law, provided that it will not be in breach of such undertaking if it fails to so comply due to events, actions or circumstances beyond its control.

There remains considerable uncertainty with respect to Article 122a of the CRD 2 and it is not clear what is 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 capital 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 of the CRD 2 have been or are expected to be implemented for other EU regulated investors (such as investment firms, insurance and reinsurance undertakings, UCITS funds and certain hedge fund managers) in the future.

Article 122a of the CRD 2 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.

USE OF PROCEEDS

The Issuer will use the gross proceeds of the Notes (and, if required, the Initial Consideration Advance) to pay the Initial Consideration of £1,200,016,770.65 payable by the Issuer for the Portfolio to be acquired from the Seller on the Closing Date (see "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*").

ISSUER

The Issuer was incorporated in England and Wales on 25 November 2010 (registered number 07451854) and is a public limited company under the Companies Act 2006 (as amended). The name of the Issuer was changed to Darrowby No. 1 plc on 8 December 2010. The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is 020 7398 6300.

The issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 49,999 shares of which are partly paid to £0.25 each and 1 of which is fully paid and all of which are beneficially owned by Holdings (see the section entitled "*Holdings*" below).

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

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the proposed issue 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. Save as disclosed in this Prospectus, 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 2011.

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

Directors and secretary

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

<u>Name</u>	<u>Business address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Richard Twigg	The Bailey, Skipton, North Yorkshire BD23 1DN	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
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director

Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Helena Whitaker	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 Kapadin	35 Great St Helen's, London EC3A 6AP	Company Secretary

The business address of each of the directors of SFM Directors Limited and SFM Directors (No.2) Limited is 35 Great St Helen's, London EC3A 6AP.

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 30 September 2010 (registered number 07393546) as a private limited company under the Companies Act 2006 (as amended). The name of Holdings was changed to Darrowby Holdings Limited on 8 December 2010. The registered office of Holdings is 35 Great St. Helens, London EC3A 6AP. The telephone number of Holdings' registered office is 020 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 or any other similar vehicle.

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 or any other similar vehicle.

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
J-P Nowacki	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>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
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	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
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Company Secretary

Abu Kapadin

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.

Holdings has no employees.

SKIPTON BUILDING SOCIETY

Introduction to the Society

Skipton Building Society (the "**Society**") was established originally in 1853. It was incorporated in England under the Building Societies Act 1874 (the "**Act**") as the Skipton and District Permanent Benefit Building Society and adopted its present name in 1929. The principal office of the Society is The Bailey, Skipton, North Yorkshire BD23 1DN and its telephone number is +44 (0)1756 705 000. On 30 March 2009, the Society merged with the former Scarborough Building Society and subsequently on 1 June 2010 the Society merged with Chesham Building Society to form a newly enlarged Skipton Building Society.

The Society distributes products through multiple channels including 104 branches and 3 agencies, a central mortgage service centre, by telephone and the internet. In 2010 the Society employed an average of 720 full- and part-time staff at its principal office and administrative centres, 554 staff at its branches and 6,959 staff within its subsidiaries.

As at 31 December 2010 the Society, together with its subsidiaries (the "**Group**"), had total Group assets of £13,739 million, making it the fourth largest building society in the United Kingdom. These financial results are the first since the Group completed the merger with the Chesham Building Society; as a result of the merger, the Group's assets increased by £212 million.

Constitution

The Society is incorporated under the Act for an unlimited duration. The Society is a building society and is regulated by the FSA under the Act and the FSMA, with reference number 153706.

The Society, as a building society, is a mutual organisation and, unlike a company incorporated under the Companies Act 2006, does not have equity shareholders in the usual sense. A share in the Society is not the same as a share in a company and voting power is not weighted according to the number or value of shares held. No individual member is entitled to more than one vote on any resolution proposed at a General Meeting. Holders of investment shares may withdraw funds from their share accounts subject to the Rules of the Society and the terms upon which their shares are issued. Depositors with, and lenders to, the Society are not members and accordingly have no voting rights.

Principal business areas and subsidiaries

General

The principal purpose of the Society, as stated in Clause 3 of its Memorandum, is that of making loans which are secured on residential property and funded substantially by its members. The Society's objective is to continue to be an independent, highly efficient and innovative seller of financial services while at the same time balancing the needs of its various stakeholders. To help achieve this objective the Society has a long term strategy of investing in related businesses where appropriate opportunities are identified. The Group offers a range of financial services products and services to individuals, from mortgages and investments, financial advice, estate agency services and life and other insurance sales. The diverse Group also provides a comprehensive range of mortgage, computer and credit related services to businesses, including outsourced mortgage administration, mortgage broking and business finance through mortgages and debt factoring.

Mortgage lending

The Society competes in the UK residential mortgage market with a broad range of products targeted at different customer segments. The competitive nature of the UK mortgage market means that innovation is a key marketing competence. The Society continually reviews its product offerings and aims to deliver innovative and keenly priced mortgages. The Society's mortgage lending is supplemented by Skipton International Limited, a subsidiary providing mortgages in Guernsey and Jersey. Amber Homeloans, a specialist lending subsidiary, ceased new lending in March 2008 following a review of the risks surrounding this business and is now concentrating on managing its portfolio of loans. North Yorkshire Mortgages, a further specialist lending subsidiary, likewise ceased new lending in February 2008.

While innovation is the Group's key marketing competence, its operational expertise lies in timely mortgage processing and arrears management. The Group continues to take all appropriate action to minimise losses on non-performing accounts and actively monitors the prudence of its lending policies, taking account of economic and other market conditions.

Savings

The Group continues to obtain the majority of its funding through retail member deposits. Competition in this market is intense; however the Group aims to offer members a varied and innovative mix of savings products which consistently offer good value to the customer. During 2010, the Group followed a strategy to shrink its balance sheet in the short term to further strengthen its capital position, and as a result the Group saw net outflows of retail deposits in the period.

Offshore deposits are also accepted via Skipton International Limited.

Mortgage services

The Group provides outsourced mortgage servicing to other lenders through Homeloan Management Limited ("**HML**") which was established in 1988. HML is the largest third party mortgage servicer in the UK with total assets under management of £44.5 billion. In 2009, as part of the merger with Scarborough Building Society, the Society acquired Specialist Mortgage Services ("**SMS**"), which performs similar services and during 2010 the SMS business was integrated into HML. HML also provides enhanced analytics and reporting to its clients through Baseline Capital Limited.

Estate agency

The Group offers estate agency services through the Connells group of companies which has 466 estate agency branches. In addition to this Connells also provides residential survey and valuation services to homebuyers, lenders and other participants in the residential property market. Connells also offers panel management services, which administer surveys and valuations on behalf of clients and employs more than 143 Chartered Surveyors plus 55 consultants across England, Scotland, Wales and Northern Ireland. Connells benefits from its own diversification and, through The Asset Management Group and Connells Asset Management, is now the UK's leading provider of asset recovery services to lenders, which has proved to be a natural mitigant in these times when core estate agency business is depressed.

The first half of 2010 saw volumes of agreed second hand house sales consistent with the levels achieved in the same period of 2009 and as a result of the strong pipeline when entering 2010, operating profits for the first half of 2010 were ahead of the same period in 2009. However, volumes began to fall away in the second half of 2010 resulting in full year fee income of £208 million compared with £215 million in 2009.

Connells continues to focus on improving revenues and maintaining a tight control of costs. As a result, the operating profit for the Connells group was £48.2 million in 2010 (2009: £54.1 million).

Financial advice

The financial services operations of the Group are carried out through four subsidiaries: Skipton Financial Services Limited; Pearson Jones plc; Torquil Clark Holdings Limited and Thomson Shepherd Limited. Each has its own brand, customer proposition and investment philosophy, differentiated either geographically or by sector, enabling the Group to maximise the potential from the financial advice services offered to customers.

Investment portfolio

The Group's other subsidiary businesses are lesser in size and therefore make a lower financial contribution. The subsidiaries include: Skipton Business Finance, an invoice discounting business; Sterling International Brokers, a money broker; and The Private Health Partnership, a medical insurance intermediary.

On 30 November 2010, the Group sold its investment in Pink Homeloans and its subsidiary, BDS Mortgages Group.

Management

Board of Directors

The affairs of the Society are conducted and managed by a Board of Directors (the "**Board**") who are responsible for the Society's strategy and policy and are elected and serve in accordance with the Society's rules and Memorandum. The Board is responsible to the members for the proper conduct of the affairs of the Society and in turn appoints and monitors executives who are responsible for the daily management of the Society.

The business address of the Society's Directors is at The Bailey, Skipton, North Yorkshire BD23 1DN. There are no potential conflicts between the duties to the Society of the Directors and their private interests and/or other duties. The members of the Board, their roles within the Society and their principal business occupation(s) are as follows:

<i>Director/Date of Birth</i>	<i>Responsibility</i>	<i>Business Occupation</i>	<i>Date of Appointment</i>
D J Cutter (01/01/62)	Chief Executive	Building Society Executive Director	01/01/00
A I Findlay (01/04/52)	Chairman	Company Director	12/06/06
P R Hales (21/10/46)	Non-Executive Director	Company Director	29/05/07
C N Hutton (04/11/49)	Vice Chairman and Senior Independent Director	Retired Solicitor	28/06/04
A B E Kinney (30/05/58)	Non-Executive Director	Retired Partner of a leading firm of Chartered Accountants and Consultants	15/07/03
P J S Thompson (28/09/46)	Non-Executive Director	Company Director	01/04/09
R J Twigg (12/02/65)	Group Finance Director	Building Society Executive Director	01/03/02
W R Worsley (12/09/56)	Non-Executive Director	Chartered Surveyor	24/04/09

THE PORTFOLIO

THE LOANS

1. Introduction

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

2. Characteristics of the Loans

Origination of the Loans

The Mortgages included in the Provisional Portfolio were all made no earlier than 1 June 2001 and on or before 30 November 2010 and the Seller derived their mortgage lending business at the relevant times from the following sources:

- its branch networks throughout the United Kingdom;
- a centralised telephone-based lending operation; and
- intermediaries that included mortgage brokers and independent financial advisors.

Interest Payments

The Loans in the Portfolio have one or more of the following interest terms:

- **Fixed Rate Loans:** Loans subject to a fixed interest rate for a specified period of time and which at the expiration of that period generally convert to Variable Rate Loans or Tracker Rate Loans. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term of the fixed interest rate.
- **Tracker Rate Loans:** Loans subject to a variable rate of interest that is linked to the Bank of England base rate (the "**BoE Base Rate**") plus an additional fixed percentage (the "**Tracker Rate**"), usually for a fixed period but, in some instances, for the life of the loan (the "**Life Tracker Rate Loans**"). At the end of any fixed period, generally the loans may convert to Variable Rate Loans or remain as Tracker Rate Loans.
- **Discount Rate Loans:** Loans which allow the Borrower, for a set period of time or for the life of the loan, to pay interest at a specified discount to the Standard Variable Rate. At the end of the discounted period, generally the mortgages convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term of the discounted interest rate.
- **Capped (BoE Base Rate) Loans:** Tracker Rate Loans which have a rate of interest which will not increase above a specified rate for a set period of time or for the life of the loan. At the end of the period, generally the mortgages convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term of the capped interest rate.
- **Floored (BoE Base Rate) Loans:** Tracker Rate Loans which have a rate of interest which will not decrease below a specified rate for a set period of time or for the life of the loan. At the end of the period, generally the mortgages convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these loans for a set period of time, which generally corresponds with the term during which the interest rate will not decrease below the fixed rate.
- **Capped (SVR) Loans:** Variable Rate Loans which have a rate of interest which will not increase above a specified rate for a certain period of time. At the end of the period, generally the mortgages convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these loans for a set period of time.

- **Variable Rate Loans:** Loans subject to a rate of interest linked to the Standard Variable Rate, for the life of the loan or until an alternative product that the Borrower qualifies for is selected by the Borrower. The Standard Variable Rate is set by the Seller by reference to the general level of interest rates and competitor rates in the UK mortgage market. Variable Rate Loans will not usually have an early repayment charge.

Repayment Terms

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

- **Repayment Loans:** the Borrower makes monthly payments of both interest and principal so that, when the loan matures, the Borrower will have repaid the full amount of the principal of the loan.
- **Interest Only Loans:** the Borrower makes monthly payments of interest but not of principal; when the loan matures, the entire principal amount of the loan is still outstanding and the Borrower must repay that amount in one lump sum. Where Loans are interest only, proof is required that a suitable repayment mechanism has been put in place.
- **Part and Part Loans:** the Borrower is required to repay part of the principal amount of the Loan by making monthly payments of both interest and principal and to repay the remaining part of the principal amount of the Loan in one lump sum when the Loan matures.

Calculation of Current Balance

Skipton Building Society employs the methodology set out below in order to determine the balance of each Loan and the collections in respect of it.

The "**Current Balance**" of a Loan means, on any date, the aggregate balance of the amounts charged to the Borrower's account in respect of a Loan at such date (but avoiding double counting) including:

- (a) the original principal amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and
- (b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or capitalised in accordance with the Seller's normal charging practices and added to the amounts secured or intended to be secured by the related Mortgage; and
- (c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or in accordance with the Seller's normal charging practices but which is secured or intended to be secured by the related Mortgage, as at the end of the Business Day immediately preceding that given date,

less any repayment or payment (including, if permitted, by way of set-off, withholding or counterclaim) of any of the foregoing made on or before the end of the Business Day immediately preceding that given date and excluding any retentions made but not released and any Further Advances committed to be made but not made by the end of the Business Day immediately preceding that given date.

Interest is charged on the Current Balance of each Loan (other than any part thereof which represents an insurance premium not due for payment by the Borrower).

"**Revenue Receipts**" means (a) payments of interest (excluding payments in respect of Accrued Interest and Arrears of Interest as at the Closing Date or the relevant Substitution Date of a Loan, as applicable) of the Loans (including any early repayment fees) and other amounts received by the Issuer in respect of the Loans other than Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced, (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed and (d) certain fees (which do not fall

within paragraph (e) of the definition of "Principal Receipts") which have been allocated by the Seller (in accordance with its collection policies) as interest payments and charged by the Administrator in respect of servicing the loans, which have been charged and repaid by a means other than the Borrower's monthly instalment.

"Accrued Interest" means in respect of a Loan as at any date the aggregate of all interest charged to the Borrower's account (i) in the month immediately preceding the Closing Date or (ii) in the month of the relevant Substitution Date in respect of a Loan, as applicable, which remains unpaid to (but excluding) the relevant date.

"Arrears of Interest" means as at any date in respect of any Loan, the aggregate of all interest (other than Capitalised Arrears, Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date.

"Capitalised Interest" means, for any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date).

"Capital Balance" means in respect of a Loan at any date the principal balance of that Loan to which the Administrator applies the relevant interest rate and on which interest on the Loan accrues.

"Principal Receipts" means (a) principal repayments under the Loans (b) payments in respect of Accrued Interest and Arrears of Interest as at the Closing Date or the relevant Substitution Date in respect of a Loan, as applicable, Capitalised Interest and Capitalised Expenses and Capitalised Arrears, (c) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property), (d) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio, (e) and any disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the Seller's normal charging practices and repaid via a Borrower's monthly instalment, provided that payments received in respect of any fees which have been allocated by the Seller (in accordance with its collection policies) as interest payments, shall not constitute Principal Receipts, (f) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

"Capitalised Arrears" means for any Loan at any date, arrears in respect of that Loan and which as at that date have been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

"Capitalised Expenses" means, for any Loan at any date, any disbursements, legal expenses or fees which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

Early Repayment Charges

If a Borrower wishes to repay the whole of an advance before the time agreed, the Borrower may do so. A Borrower may repay part of an advance before the time agreed provided such partial repayment is not prohibited under the terms of the loan. In the case of repayment in full, the Borrower must pay to the Seller all sums owing to it in respect of such advance by way of principal, interest and costs (including, if the terms of the advance so provide, an early repayment charge) together with the Seller's expenses reasonably and properly incurred in connection with such repayment. Not all products offered by the Seller carry an early repayment charge.

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

Payment Holidays

Once Borrowers have held their mortgage for six months or more they may take payment holidays. Borrowers will need to give at least 14 days prior written notice of a proposed payment holiday. As long as Borrowers have had no arrears, the holiday proposed would not take the loan to value above 95%, and there are sufficient surplus payments to cover all amounts due during the proposed payment holiday, Borrowers may take up to three consecutive months' holiday. Borrowers cannot take more than a total of six months in any 12 month period. Interest will be capitalised during any payment holiday.

Standard Variable Rate

The Seller's mortgage standard variable rate was formerly capped at 3 per cent. above base rate; however, given the continuation of exceptional circumstances in the economy, the Seller exercised its contractual right to remove this cap in exceptional circumstances, and increased its standard variable rate from 3.5 per cent. to 4.95 per cent. from 1 March 2010. The Seller intends to revert to the cap of 3 per cent. above base rate when it determines that exceptional circumstances (as described below) no longer exist.

The Seller's board agreed to apply two tests to define whether or not circumstances are exceptional, and determined that it would treat the general economic circumstances as exceptional where one or both of the following tests remains satisfied:

- (a) That the Bank of England Base Rate is less than or equal to 2.7%; and
- (b) That the Bank of England Base Rate minus the UK average Branch Instant Access savings rate (as published monthly by the Bank of England) is less than or equal to 2.5% for each of the three preceding months.

The general economic circumstances will be considered to remain exceptional for as long as either one of these tests continues to be satisfied.

Further Advances

A Borrower may apply to the Seller for a further amount to be lent to him or her under his or her Loan. This further amount will be secured by the same Property as the Loan, and will be added as a separate sub-account to the Loan. Any Further Advance made by the Seller and purchased by the Issuer will be added to the Current Balance of that Borrower's Loan on the relevant Advance Date. The aggregate of the outstanding amount of the Loan and the Further Advance may be greater than the original amount of the Loan.

Product Switches

From time to time a Borrower may request, or the Seller or the Administrator (on behalf of the Seller) may offer, in limited circumstances, a variation in the financial terms and conditions applicable to the Borrower's Loan. In addition, in order to promote the retention of Borrowers, the Seller may periodically contact certain Borrowers in respect of the Seller's total portfolio of outstanding residential mortgage loans in order to encourage a Borrower to review the Seller's other residential mortgage loans and to discuss moving that Borrower to an alternative mortgage product. Any such variation (subject to certain exceptions) is called a "**Product Switch**".

A Loan which is subject to a Product Switch may remain in the Portfolio subject to the terms contained in the Mortgage Sale Agreement. See "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*".

Underwriting

The underwriting approach of the Seller has changed over time. Loans in the Portfolio may have been originated in accordance with different underwriting criteria from those set out here, depending on their date of origination. The Seller has always adopted a rigorous manual underwriting assessment and since 2006 supported that by an automated credit scoring system, thus providing a combined scoring and system based approach to lending assessment. This assessment is made with reference to a number of components including:

- (a) credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data; and
- (b) affordability: calculation of an individualised lending amount that reflects the applicant's income and expenditure net of tax and national insurance and essential financial commitments. All loans are underwritten on an affordability principle and verified by reference to appropriate documentation. Affordability is calculated by reference to free disposable income net of all tax, national insurance and personal expenditure and includes a manual assessment against total outstanding debt.
- (c) Valuations are carried out in full on all proposed new loans, a restricted AVM policy on remortgaging existed between 2007 and 2009 since which time full valuations have been carried out on all business.

The lending system is supported by a mandate structure within the processing up to offer stage, with authority limits varying according to seniority. This delegated authority which is restricted to management level. Completions is a segregated function from the processing function.

System architecture has highly developed rules and policies with restricted access rights which when combined together provide further controls in what can be agreed, control of this system is by a separate and segregated function.

Lending managers carry out sample checking at offer stage and file checking at completion stage to ensure adherence to policy and underwriting process. Since late 2010 that is further supported by an independent check in Credit Risk. The Seller's MIG insurers also carry out quarterly audit checks on higher LTV cases above 75% to ensure policy adherence.

Lending Criteria

The following is a summary of the lending criteria (the "**Lending Criteria**") applied by the Seller in originating the Loans, subject to any underwriting exception (as described below).

It should be noted that the Lending Criteria have changed over time and not all Loans in the Initial Mortgage Pool will have been originated under these terms. However, the lending criteria relevant to the origination of the Loans in the Initial Mortgage Pool were substantially similar to those set out below.

(a) *Property - location*

Each property on which a Loan is secured is situated in either England, Wales or Scotland.

(b) *Property - Borrower's title*

Each property is (i) a freehold, leasehold or commonhold residential property in England and Wales, the legal title to which is vested in the Borrower and is a good and marketable title or (ii) a heritable or long leasehold residential property in Scotland the title to which is vested in the Borrower and is a valid and marketable title.

(c) *Property – leasehold term*

In the case of a leasehold residential property located in England, Wales or Scotland, the term of the lease must exceed the term of the mortgage by at least 30 years.

(d) *Property - valuation*

A valuation report is required, to be performed by a panel valuer, being an Associate or Fellow of the Royal Institution of Chartered Surveyors with a minimum of 2 years' post-qualified experience at the time of such valuation listed in the Seller's panel of valuers (or in limited circumstances one of the Seller's own surveyors) or is otherwise acceptable to the Seller acting as a Prudent Mortgage Lender. The Seller has previously also used automated valuation models, including in conjunction with drive-by valuations.

(e) *Property - construction*

The property must be of a traditional construction (as defined by the valuer), in a satisfactory condition and of a suitable type. For properties less than ten years old, a suitable certificate or guarantee is required.

(f) *Property - occupiers*

Each Borrower must disclose the details of every person who, at the date upon which the Loan is entered into had attained the age of 17 and is in or about to be in actual occupation of the relevant property and each such person must either be named as a Borrower or have signed a deed of consent in the form of the pro forma contained in the Standard Documentation which was applicable at the time the mortgage was executed and which has the effect of postponing any present or future rights or interests as he or she may have or acquire over or in respect of the relevant property, and making such interests subject to the rights, interests and remedies of the Seller under the relevant mortgage. In relation to each Scottish Loan, where the mortgage securing the property is not in joint names, the Borrower must grant or (as applicable) obtain an affidavit, declaration, consent or renunciation, in terms of Matrimonial Homes (Family Protection) (Scotland) Act 1981 and/or (as applicable) the Civil Partnership Act 2004 in connection with such Scottish Loan and its related mortgage so as to ensure that the relevant property is not subject to any right of occupancy.

(g) *Property – use*

A Loan will not be granted in relation to property which is used for commercial purposes (other than on an informal basis e.g. use of a room as an office).

(h) *Loan - loan to value ratio*

The LTV is calculated by dividing the initial principal amount advanced at completion of the Loan (excluding any completion fees) by the lesser of the valuation or purchase price of the property. For the purpose of calculating the applicable LTV, any builder's deposit or incentives are accounted for in the relevant valuation or deducted from the relevant purchase price.

What is an acceptable LTV will depend on the nature of the product and borrowers (e.g. first time buyers or buy-to-let loans), the value of the property and the credit rating of the borrowers.

(i) *Loan – repayment methods*

Loans may be capital and interest repayment loans, part and part loans or interest only loans. Where Loans are interest only, proof is required that a suitable repayment mechanism has been put in place.

(j) *Loan - term*

Loans usually have a term of up to 25 years. Loans with a term of up to 35 years are considered on a repayment (capital and interest) basis only.

(k) *Borrower - capacity and status*

Borrowers must all be private individuals. Borrowers must have a minimum age of 18 and must have been in continuous employment for at least six months (or twelve months for first time buyers).

(l) *Borrower - credit history*

The Borrower's credit and employment history may be assessed with the aid of one or more of the following:

- (i) electoral register or other proof of occupancy;
- (ii) full credit search for the previous three years supplied by a credit reference agency;
- (iii) copy of the most recent pay slips, P60s, personal and or business bank statements, employment contracts and/or confirmation of salary details from employer;

- (iv) historical business accounts (for example if self-employed/owner of limited company), audited by qualified accountants where applicable; or
 - (v) previous mortgage statements.
- (m) *Borrower – income and affordability*

A full income and expenditure assessment will be carried out to calculate free disposable income to ensure that the Loan is affordable, at the point of origination and going forwards. Affordability and reasonableness checks are carried out to validate income and expenses.

Lending decisions are based on an assessment of affordability for each individual application. Consideration is given to the lifestyle and spending pattern of applicants and consideration is given to long-term affordability to allow for future rate increases. FSA guidelines on Responsible Lending require that lenders no longer rely on standard income multiples across the board. Prior to 2005, the Seller employed standard income multiples as part of its lending criteria.

Monthly outgoings are deducted from the applicant's gross income figure (calculated from payslips, P60s or accounts) and a nominal figure of 30% to cover tax and national insurance is deducted to arrive at the net disposable income used in the final income assessment. This income will continue to be measured against the overall CMS stressed (floor level is 5.5%) at the prevailing standard variable interest rate on Capital & Interest basis over a 25 year term to arrive at the overall affordability ratio.

- (n) *Borrower – Deposit*

Applicants should be able to demonstrate having saved a personal deposit. Applicants with builder or vendor deposit funding are not accepted.

For the purposes of this section and where used elsewhere in this Prospectus, the following words shall have the meanings set out below:

"Prudent Mortgage Lender" means a prudent residential mortgage lender lending to borrowers in England and Wales and Scotland who generally satisfies the lending criteria of traditional sources of residential mortgage capital.

Underwriting exception

On a case-by-case basis the Seller may have determined that, based upon compensating factors, an applicant that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. Compensating factors may be considered including, but not limited to, a low LTV ratio, overall affordability position and track record with the organisation. Any such exceptions would have been approved by a management level employee of the Seller.

Interest Only Loans

In relation to Interest Only Loans, the Seller recommends that the Borrower has a suitable repayment mechanism in place and will only accept a limited range of such vehicles. The Seller will review the repayment mechanism in line with the size of the loan, applicant's age and income and likelihood of the repayment mechanism accumulating sufficient value to repay the loan and will decline the application if this repayment mechanism is deemed to be unacceptable. The Seller does not verify or does not require proof that such repayment mechanism is in place and does not take security over any investment policies taken out by Borrowers.

Insurance Policies

- (a) *Borrower's Insurance*

It is a condition of each Loan that each Borrower is to effect and maintain (at their own expense) a property insurance policy (or, in the case of leasehold properties, provide full details of such policy to the Seller) in an amount sufficient to recover the reinstatement value of the property.

(b) *Contingency and Block Insurance*

In addition to the requirement that each Borrower effect and maintain a property insurance policy in relation to any property upon which a Loan is secured, the Seller has, separately, taken out "failure to insure" protection insurance (the "**Contingency Insurance**") which is underwritten by Lloyd's of London. This Contingency Insurance is intended to cover circumstances where a Borrower has failed to effect buildings insurance in relation to any Property, a Borrower has arranged such insurance but this insurance has lapsed or been cancelled, where a Property is under-insured or where the insurer with whom the Borrower has taken out insurance in relation to a Property is unable to meet its obligations in relation to such insurance policy. In such circumstances, the Seller is insured against financial losses it incurs as a result of damage to a Property (provided that such damage is as a result of certain listed insured events) which is a direct result of the failure of the Borrower to recover the cost of such damage as a result of such Borrower's failure to adequately insure the Property as contemplated above.

Where the Seller discovers a Borrower does not have buildings insurance in place it effects buildings insurance on behalf of the Borrower and debits the Borrower's account for such amount (the "**Block Insurance**").

(c) *Contingency Insurances*

The Seller also has policies in place to cover the following risks:

- Forfeiture or irritancy of lease – this policy applies to Loans relating to a leasehold interest. The policy covers the cost of attempting to prevent a termination of a lease following the breach of its terms by a Borrower or, following a termination of the lease, the shortfall in recoveries as a result of such termination (the "**Lease Insurance**").
- Further Advance Indemnity – where the Mortgage in respect of a Loan is enforced following the making of a Further Advance this policy covers the shortfall in recoveries attributable to any adverse entries against the property between the date of the original Loan and the date of the Further Advance which would have been discovered had a local search been undertaken at the time of the relevant Further Advance (the "**Further Advance Insurance**").
- Local Search Indemnity – this policy covers losses due to adverse entries in respect of local search and defective titles as at the date of the original advance under the Loan (the "**Local Search Insurance**").

Selection of the Portfolio

The Loans in the Portfolio were selected using a random selection process from the mortgage loans in the Seller's mortgage book which met the warranties set out in "*Sale of the Portfolio under the Mortgage Sale Agreement – Mortgage Sale Agreement – Representations and Warranties*".

SALE OF THE PORTFOLIO UNDER THE MORTGAGE SALE AGREEMENT

Mortgage Sale Agreement

The following section contains an overview of the material terms of the Mortgage Sale Agreement. The overview does not purport to be complete and is subject to the provisions of the Mortgage Sale Agreement.

The Portfolio

Pursuant to the terms of the Mortgage Sale Agreement, the Seller will sell its interest in a portfolio of residential mortgage loans (the "**Loans**") and their associated mortgages (the "**Mortgages**" and, together with the other security for the Loans, the "**Related Security**") and all moneys derived therefrom from time to time (collectively referred to herein as the "**Portfolio**") to the Issuer on the Closing Date. The sale by the Seller to the Issuer of the Loans in the Portfolio (including pursuant to a substitution, as described below) will be given effect to by (a) as regards English Loans, an assignment and (b) as regards Scottish Loans, a Scottish Declaration of Trust. The consideration due to the Seller in respect of the Portfolio will be the aggregate of:

- (a) £1,200,016,770.65 as Initial Consideration; and
- (b) an obligation of the Issuer to pay, at a later date, the Deferred Consideration in respect of the sale of the Portfolio.

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

The Issuer shall, subject to the satisfaction of certain conditions, purchase Further Advances made by the Seller under a Loan.

Perfection Trigger Events

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

Legal assignment or assignation (as applicable) of the Loans and their Related Security to the Issuer (including, where applicable, their registration or recording in the relevant property register) will be completed as soon as reasonably practicable after the earliest to occur of any of:

- (a) the Seller, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (b) below, ceases or, through an authorised action of its board of directors, threatens to cease to carry on all or substantially all of its business or its mortgage administration business or is deemed unable to pay its debts as and when they fall due within the meaning of Section 123(1)(a) of the Insolvency Act 1986 (on the basis that the reference in such section to £750 was read as a reference to £10 million), Section 123(1)(b), (d) and (e), 123(1)(c) (on the basis that the words "for a sum exceeding £10 million" were inserted after the words "extract registered bond" and "extract registered protest") or 123(2) of the Insolvency Act 1986 (as that Section may be amended); or
- (b) an order is made or an effective resolution is passed for the winding-up of the Seller, except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction (a) with or by any of its subsidiaries or (b) the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the Most Senior Class of Noteholders; or
- (c) proceedings shall be initiated against the Seller under any applicable liquidation, insolvency, bankruptcy, composition, reorganisation (other than a reorganisation where the Seller is solvent) or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for the appointment of an

administrator, the service of a notice of intention to appoint an administrator or the taking of any steps to appoint an administrator) and (except in the case of presentation of a petition for an administration order, the filing of documents with the court for the appointment of an administrator, the service of a notice of intention to appoint an administrator or the taking of any steps to appoint an administrator) such proceedings are not being disputed in good faith with a reasonable prospect of success or an administration order shall be granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator, trustee in sequestration or other similar official shall be appointed in relation to the Seller or in relation to the whole or any substantial part of the undertaking or assets of the Seller, or an encumbrancer shall take possession of the whole or any substantial part of the undertaking or assets of the Seller, or a distress, execution or diligence or other process shall be levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Seller and such possession or process (as the case may be) shall not be discharged or otherwise ceases to apply within 30 days of its commencement, or the Seller (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under applicable liquidation, insolvency, bankruptcy, composition, reorganisation or other similar laws or makes a conveyance or assignment or assignation for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness,

each of (a), (b) and (c) being a "**Seller Insolvency Event**" and a "**Perfection Trigger Event**".

If the Seller ceases to be assigned a long term unsecured, unsubordinated debt obligation rating from Moody's of at least Baa3 or from Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to the relevant Rating Agency) (a "**Seller Downgrade Event**"), the Seller shall be obliged to prepare the documentation required to perfect legal title to the Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Loans or the Related Security to the Issuer.

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

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

Representations and Warranties

Except as stated otherwise, the Seller will represent and warrant in the Mortgage Sale Agreement, with respect to itself, the Loans originated by it and their Related Security comprising the Portfolio or, to the Issuer and the Trustee to the effect that, as at the Closing Date (or in the case of the Substitute Loans, as at the Substitution Date) *inter alia*:

- (a) The particulars of the Loans set out in the Mortgage Sale Agreement and each Scottish Declaration of Trust are true, complete and accurate in all material respects.
- (b) Each Loan was originated by the Seller as principal in the ordinary course of business and was originated, and is denominated, in Pounds Sterling.
- (c) No Loan sold by the Seller had, at the time of such sale, a Current Balance of more than £1,000,000.
- (d) Each Loan sold by the Seller was made no earlier than 1 June 2001 and each Loan in the Portfolio matures for repayment no later than three years prior to the Final Maturity Date for the Notes.

- (e) No lien or right of set-off or counterclaim or other right of deduction has arisen between any Borrower and the Seller or any other party which would entitle such Borrower to reduce the amount of any payment otherwise due under the Loan.
- (f) Prior to the making of the initial advance and any further advance in respect of each Loan prior to the Closing Date, the Lending Criteria of the Seller and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions as are made on a case by case basis and which would be acceptable to a Prudent Mortgage Lender.
- (g) Each Loan was made and its Related Security taken or received on the terms of the Standard Documentation of the Seller without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect subject only to such exceptions as are made on a case by case basis and which would be acceptable to a Prudent Mortgage Lender.
- (h) The brochures, application forms, offers, Offer Conditions and marketing material, if any, distributed by the Seller to the Borrower when offering a Loan to a Borrower:
 - (i) do not conflict in any material respect with the terms applicable to the relevant Loan and its Related Security at the time that the Loan was entered into; and
 - (ii) do not conflict with, and would not prohibit or otherwise limit the terms of, the Transaction Documents or the matters contemplated thereby.
- (i) Each Borrower has made at least one Monthly Payment.
- (j) Other than with respect to Monthly Payments, the Borrower is not, and has not been, since the date of the relevant Mortgage and so far as the Seller is aware, in material breach of any obligation owed in respect of the relevant Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security and the Seller is not aware of any fraud in relation to any Loan or Related Security.
- (k) The total amount of Arrears of Interest or principal, together with any fees, commissions and premiums payable at the same time as such interest payment or principal repayment, on any Loan is not as at the Cut-Off Date (or, in respect of any Substitute Loan, the Substitution Date) in respect of such Loan more than the Monthly Payment payable in respect of such Loan in respect of the month in which such date falls.
- (l) The Current Balance on each Loan and its Related Security constitutes a valid debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute legal, valid, binding and enforceable obligations of the Borrower and each Loan and its Related Security is non-cancellable (except that (i) the Seller makes no representation as to the fairness or otherwise of terms which relate to its ability to vary the rate of interest; (ii) enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the courts' discretion in relation to equitable remedies and, for the avoidance of doubt, such laws include but are not limited to, the Unfair Terms in Consumer Contracts Regulations 1994, the Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Contract Terms Act 1977; and (iii) this representation shall not apply in respect of any early repayment charges or redemption fees).
- (m) Interest on each Loan is charged and paid by the relevant Borrower in accordance with the provisions of the Standard Documentation of the Seller and is payable monthly in advance.
- (n) in relation to any Loan in respect of which interest is calculated by reference to the Standard Variable Rate, the Issuer or, following the service of an Enforcement Notice, the Trustee has a right to set the Standard Variable Rate at any time and from time to time and such Standard Variable Rate is and will be binding on, and enforceable against, the relevant Borrower pursuant to the terms and conditions applicable to the relevant Loan and/or the Mortgage (the "**Mortgage Terms**") (except that (i) the Seller makes no representation as to the fairness or otherwise of terms which relate to its ability to vary the rate of interest; (ii) enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the courts' discretion in relation to equitable remedies and, for the

avoidance of doubt, such laws include but are not limited to, the Unfair Terms in Consumer Contracts Regulations 1994, the Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Contract Terms Act 1977; and (iii) this representation shall not apply in respect of any early repayment charges or redemption fees).

- (o) No agreement for any Loan or variation of such agreement is or includes a regulated consumer credit agreement (as defined in Section 8 of the CCA) or constitutes any other agreement regulated or partly regulated by the CCA (other than Sections 140A to 140D of the CCA) or, to the extent that it is so regulated or partly regulated, all the requirements of the CCA have been complied with in all material respects (or to the extent of any non-compliance, such non-compliance would not be such as to prevent enforcement of that Loan or any of its material terms by the Seller).
- (p) All of the Borrowers are individuals and were aged 18 years or older at the date of entering into the relevant Loan and its Related Security and the identity of each Borrower has been verified by the Seller in accordance with procedures which would be acceptable to a Prudent Mortgage Lender.
- (q) The whole of the Current Balance on each Loan and all further advances made prior to the Closing Date and interest, fees, costs, expenses and any other amounts payable under or in respect of such Loan are secured by a Mortgage over a residential property.
- (r) Each Mortgage constitutes a valid and subsisting first ranking charge by way of legal mortgage (in relation to the English Loans) or first priority standard security (in relation to the Scottish Loans) over the relevant Mortgaged Property.
- (s) Each Mortgage has first priority for the whole of the Current Balance on the Loan and interest on such Current Balance and all fees, costs, expenses and other amounts payable under or in respect of such Loan or Mortgage.
- (t) Neither the Seller nor its assignees are under an obligation to make further amounts available or to release retentions or to pay fees or other sums relating to any Loan or its Related Security to any Borrower.
- (u) All of the Mortgaged Properties are residential properties situated in England, Wales or Scotland.
- (v) Each Mortgaged Property is either freehold, leasehold, commonhold or heritable and if a Mortgaged Property is leasehold, written notice has been given to the landlord of the creation of the relevant Mortgage.
- (w) In respect of each Loan secured on leasehold Mortgaged Property, the relevant leasehold interest had, as at the date when the loan was originated, an unexpired term left to run of not less than 30 years after the maturity of the relevant Loan.
- (x) Every person who, at the date upon which a Mortgage over property situated in England and Wales was granted, and was in or about to be in actual occupation of the relevant property, other than: (i) in the case of a Loan originated for the purpose of a purchase, where such person is under the age of 17; (ii) in the case of a Loan originated on or after 7 May 2003 for the purpose of a remortgage under the "Skipton Home Conveyancing Scheme", where such person is a child of a Borrower under the age of 25; (iii) in the case of a Loan originated prior to 7 May 2003 for the purpose or a remortgage under the "Skipton Home Conveyancing Scheme", where such person is under the age of 17; (iv) in the case of a Loan originated for the purpose of a remortgage not under the "Skipton Home Conveyancing Scheme", where such person is under the age of 17; or (v) where the Borrowers are joint borrowers acting in their capacity as trustees, is either named as a Borrower or has signed a deed of consent in the form of the pro forma contained in the Standard Documentation and, in relation to each Mortgage over property situated in Scotland, all necessary MH/CP Documentation has been obtained so as to ensure that neither the relevant property nor the relevant Mortgage is subject to or affected by any statutory right of occupancy.
- (y) Each Borrower has a good and marketable title to the Mortgaged Property free from any encumbrance which:

- (i) would materially adversely affect such title; and
 - (ii) a Prudent Mortgage Lender would regard as unacceptable for security purposes.
- (z) Not more than 6 months prior to the granting of each Mortgage, the Seller received a Valuation Report from a Valuer on the relevant Mortgaged Property (or such other form of valuation as would be acceptable to a Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Prudent Mortgage Lender.
- (aa) Prior to the inception of each Mortgage, the Seller:
- (i) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Mortgaged Property and to undertake such other searches, investigation, enquiries and other actions on behalf of the Seller as are set out in 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 and Wales and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or such comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place), subject only to such variations as would have been acceptable to a Prudent Mortgage Lender at the relevant time; and
 - (ii) received a report on title from the solicitor or licensed conveyancer or (in Scotland) qualified conveyancer in paragraph (i) above, relating to such Mortgaged Property the contents of which were such as would have been acceptable to a Prudent Mortgage Lender at that time.
- (bb) Each Mortgaged Property was at the time of inception of the Mortgage insured to an amount not less than the full reinstatement cost as determined by the relevant valuer under:
- (i) a Buildings Insurance Policy arranged by the Borrower in accordance with the Mortgage Conditions; or
 - (ii) a Buildings Insurance Policy arranged by the Seller; or
 - (iii) with respect to leasehold Mortgaged Properties, a Buildings Insurance Policy arranged by the relevant landlord,
- and in all cases: (A) against risks usually covered by a comprehensive building insurance policy; and (B) the Seller has received no notice from the Borrower that any Mortgaged Property has ceased to be insured (other than where such Mortgaged Property is then insured under the Seller's Block Policy).
- (cc) No act, event or circumstance has occurred which would adversely affect the Block Policy or entitle the insurers to refuse to make payment thereunder or to reduce the amount payable in respect of any claim thereunder.
- (dd) All eligible claims, if any, under the Block Policy have been paid in full within a reasonable time of the date of submission of the claim.
- (ee) 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 free and clear of all Security, claims and equities (including, without limitation, rights of set-off or counterclaim).
- (ff) All steps necessary to perfect the Seller's title to the Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.
- (gg) Save for Title Deeds held at the Land Registry or Registers of Scotland (as applicable) and Title Deeds existing in dematerialised forms, Title Deeds relating to each of the Loans and their

Related Security are held by, or are under the control of the Seller, the Administrator or the Seller's solicitors, licensed conveyancers or (in Scotland) qualified conveyancers to the order of the Seller.

- (hh) Neither the entry by the Seller into this Agreement nor any transfer or assignment or creation of trust contemplated by this Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign or otherwise transfer its interests therein without breaching any term or condition applying to any of them.
- (ii) The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan, Mortgage or its Related Security, other than waivers and acquiescence such as a Prudent Mortgage Lender might make.
- (jj) The Issuer will not have any liability for costs or fees payable by the Seller in connection with the making of the Loan or the granting of the Related Security.
- (kk) The Seller has, since the making of each 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 and all such accounts, books and records are up to date and in the possession of the Seller or held to its order.
- (ll) Neither the Seller nor, as far as the Seller is aware, any of its agents has received written notice of any litigation or dispute (subsisting, threatened or pending) in respect of any Borrower, a Mortgaged Property, Loan, Related Security or Insurance Policy which (if adversely determined) might have a material adverse effect on the value of any Loan.
- (mm) There are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or perform its obligations under this Agreement to render this Agreement legal, valid, binding, enforceable and admissible in evidence and, with the exception of sending notification of assignment to the Borrowers, all formal approvals, consents and other steps necessary to permit a legal transfer of the Loans and their Related Security to be sold under this Agreement have been obtained or taken.
- (nn) To the best knowledge and belief of the Seller, no corporate action has been taken or is pending, no other steps have been taken and no legal proceedings have been commenced or are threatened or are pending for (i) the winding-up, liquidation, dissolution, administration or reorganisation of the Seller, (ii) the Seller to enter into any composition or arrangement with its creditors generally or (iii) the appointment of a receiver, administrative receiver, trustee or other similar officer in respect of the Seller or any of its property, undertaking or assets, and no documents have been filed with the court for the appointment of an administrator and no notice of intention to appoint an administrator has been served, and no steps have been taken by the Seller with a view to obtaining a moratorium in respect of any indebtedness of the Seller or for the purpose of proposing a company voluntary arrangement, and no event equivalent to any of the foregoing has occurred in or under the laws of any relevant jurisdiction applicable to the Seller.
- (oo) The Seller is and has been in material compliance with the requirements of MCOB in so far as they apply to any of the Loans, Related Security or Insurance Policies at all relevant times, and the Seller has at all relevant times held all authorisations, approvals, licenses, consents and orders required by it under the FSMA in connection with the Loans, Related Security and Insurance Policies.
- (pp) To the extent that any Loan and its Related Security and any guarantee in relation to that Loan is subject to UTCCR no official proceedings have been taken by the OFT or by a qualifying body as defined in the 1999 Regulations against the Seller, pursuant to the UTCCR or otherwise which might prevent or restrict the use in such agreement of any material term or the enforcement of any such term.
- (qq) No action has been taken by any official body in relation to any Loan (whether on its own or taken together with any related agreement) under which it is alleged that such Loan gives rise to an unfair relationship under Sections 140A to 140D of the CCA.
- (rr) No Loan is an Excluded Loan.

- (ss) The Mortgage Loans sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement are "financial assets" as defined in International Accounting Standard 32 (IAS 32).
- (tt) No Related Security or Ancillary Right in respect of a Mortgage Loan is stock or a marketable security (as such terms are defined for the purposes of section 122 of the Stamp Act 1891), a chargeable security (as such term is defined for the purposes of section 99 of the Finance Act 1986) or a "chargeable interest" (as such term is defined for the purposes of section 48 of the Finance Act 2003).

For the purposes of this section and where used elsewhere in this Prospectus, the following words shall have the meanings set out below:

"Block Policy" means the insurance policy of the Seller which is intended to cover financial loss incurred by the Seller in respect of any Property for which adequate insurance has not been arranged by the relevant Borrower.

"Buildings Insurance Policies" means all buildings insurance policies relating to Properties taken out (a) in the name of the relevant Borrower and (b) in the name of the landlord in the case of leasehold Properties where the relevant landlord is responsible for insuring the Property.

"Excluded Loan" means a second charge loan, a right to buy loan, a family purchase loan, a tenant purchase loan, a U.S.\$ LIBOR loan, a buy to let loan, a guarantor loan, a construction loan, a consent to let loan, a commercial loan, a loan to a self-certified borrower or a loan which would allow overpayment and subsequent re-drawing of such overpayments without prior consent from the Seller.

"MH/CP Documentation" means an affidavit, declaration, consent or renunciation granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the Property secured thereby.

"Valuation Report" means the valuation report or reports for mortgage purposes obtained by the Seller from a valuer in respect of each Property or a valuation report in respect of a valuation made using a methodology which would be acceptable to a Prudent Mortgage Lender and which has been approved by the relevant officers of the Seller which may include the use of automated valuation models and drive-by valuations.

Representations will also be given by the Seller in respect of Further Advances and Product Switches on each Advance Date and each Switch Date, as applicable.

Repurchase by the Seller

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

If any of the representations or warranties given by the Seller are materially breached in respect of any Loan and/or its Related Security or any representation or warranty proves to be materially untrue as at the Closing Date and this (where capable of remedy) has not been remedied within 30 Business Days of receipt by the Seller of notice from the Issuer in relation thereto, the Seller will, upon receipt of a further notice from the Issuer, purchase such Loan and its Related Security from the Issuer on the next Business Day after receipt of such notice by the Seller (or such other date as the Issuer may direct in the notice (provided that the date so specified by the Issuer shall not be later than 15 days after receipt by the Seller of such notice)). Consideration for such repurchase shall be provided by payment in cash and/or the substitution of equivalent Loan(s) (the "**Substitute Loans**") such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

A Loan and its Related Security may also be repurchased in certain circumstances where a Product Switch, Further Advance or, substitution is made. See "*Product Switches, Further Advances and Substitution*" below.

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

Product Switches, Further Advances and Substitution

(a) Further Advances

Under the Mortgage Sale Agreement, the Issuer has agreed that the Seller or the Administrator may make an offer to, any Borrower for a Further Advance. If a Borrower requests, or the Seller or the Administrator (on behalf of the Seller) offers, a Further Advance under a Loan, the Seller or the Administrator (on behalf of the Seller) will be solely responsible for offering, documenting and funding that Further Advance. Any Further Advance made to a Borrower will be purchased by the Issuer on the date that the Further Advance is made by the Seller to the relevant Borrower (the "**Advance Date**") unless a notice has been given by the Seller to the Issuer no later than one Business Day immediately prior to the Advance Date that any of the Further Advance Conditions are not satisfied (a "**Notice of Non-Satisfaction of Further Advance Conditions**") and such notice has not been revoked.

A Notice of Non-Satisfaction of Further Advance Conditions may be given by the Seller to the Issuer if the Seller has identified beyond a reasonable doubt that any of the following conditions (the "**Further Advance Conditions**") are not satisfied:

- (a) the Advance Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's (or such other short term rating acceptable to Moody's) or F2 by Fitch (or such other short term rating acceptable to Fitch);
- (e) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate (in form and substance acceptable to the Trustee) signed by an authorised signatory of the Seller;
- (f) the purchase of the Further Advance will not result in the aggregate principal balance outstanding of all Further Advances purchased by the Issuer exceeding 12.5 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date;
- (g) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Loan subject to the Further Advance and the floating rate of interest payable on the Notes;
- (h) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;
- (i) each Loan and its Related Security which is the subject of the Further Advance complies, as at the Advance Date, with the representations contained in the Mortgage Sale Agreement required to be given on each Advance Date;
- (j) the Class A Principal Deficiency Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (k) the original weighted average LTV ratio (calculated by dividing debt previously advanced (including any Further Advances made) by the Original Valuation) of the Loans in the Portfolio (including the relevant Further Advances) does not exceed 77.5 per cent;
- (l) the current LTV ratio (as measured by the Current Balance of such Loan plus the relevant Further Advance divided by the latest valuation) is less than 95 per cent.;

- (m) the outstanding Current Balance of any Loans in the Portfolio (including any Further Advance) with an interest-only part does not exceed 60 per cent of the aggregate Current Balance of the Loans in the Portfolio; and
- (n) each Loan which is the subject of a Further Advance will be included in the calculation of the notional amount in respect of one of the Swap Transactions as at the start of the calculation period for the applicable Swap Transaction immediately following the date on which the Further Advance is added to the Portfolio, provided that this condition shall not apply in respect of any Loan which is not included in the notional amount of any Swap Transaction for the calculation period during which such Further Advance is added to the Portfolio.

A solvency certificate shall be valid for three months following the date on which it is issued.

If no Notice of Non-Satisfaction of Further Advance Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller no later than one Business Day prior to the relevant Advance Date, and the Further Advance is accordingly purchased by the Issuer on the Advance Date, the Seller must, in relation to the Loan which is subject to the Further Advance, give the representations and warranties in respect of Further Advances set out in the Mortgage Sale Agreement as at the date of purchase. Further, the Issuer must pay the Further Advance Purchase Price to the Seller on the last day of the calendar month in which the Further Advance is made to the extent that the Issuer has sufficient Principal Receipts. The purchase price for the relevant Further Advance shall be an amount equal to the Current Balance of the Further Advance (the "**Further Advance Purchase Price**") and will be paid from Principal Receipts.

If:

- (a) a Notice of Non-Satisfaction of Further Advance Conditions has been given by the Seller to the Issuer and has yet to be revoked by the Seller no later than 12 noon on the Business Day prior to the relevant Advance Date; or
- (b) there are insufficient amounts available to the Issuer to pay the Further Advance Purchase Price on the relevant date,

then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on the last day of the calendar month in which the Further Advance is made. Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

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

- (a) any of the representations or warranties made as at the relevant Advance Date by it in respect of any Loan originated by it subject to a Further Advance was materially untrue as at the relevant Advance Date; or
- (b) any of the Further Advance Conditions was in fact not satisfied on the Advance Date for a Further Advance:
 - (i) despite no Notice of Non-Satisfaction of Further Advance Conditions having been given by the Seller to the Issuer no later than one Business Day prior to the relevant Advance Date; or
 - (ii) where a Notice of Non-Satisfaction of Further Advance Conditions was given but was revoked by the Seller by the Business Day prior to the relevant Advance Date,

and, in either case, this (where capable of remedy) has not been remedied within 30 Business Days of receipt by the Seller of notice from the Issuer in relation thereto, the Seller will, upon receipt of a further notice from the Issuer, repurchase the entire Loan and its Related Security (including, for the avoidance of doubt, the Further Advance) from the Issuer on the next Business Day after receipt of such further notice by the Seller (or such other date as the Issuer may direct in that notice (provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such further notice)).

Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

Neither the Seller nor the Administrator (as applicable) shall be permitted to issue any offer for a Further Advance to any Borrower with a Loan which is delinquent or which is in default.

Where used in this Prospectus, the following terms have the following meanings:

"Further Advance", means a further amount lent to a Borrower under his or her Loan after the Closing Date, which amount is secured by the same Property as the Loan.

"Monthly Payment" means the amount which the relevant Mortgage Terms require a Borrower to pay on each Monthly Payment Day.

"Monthly Payment Day" means the date in each month on which interest (and principal in relation to a repayment mortgage) is due to be paid by a Borrower on a Loan under the applicable Mortgage Terms or, if any such day is not a business day, the next following business day.

"Original Valuation" means the valuation figure contained in the Valuation Report issued prior to the original advance of the relevant Loan or with respect to a Further Advance, the Valuation Report issued prior to the making of such Further Advance.

(b) Product Switches

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

1. an addition or a release of a party to the Loan;
2. any variation agreed with a Borrower to control or manage arrears on the Loan;
3. any variation which extends the maturity date of the Loan up to the Interest Payment Date falling in December 2040;
4. any variation imposed by statute; and
5. any variation of a Loan from Repayment Loan to an Interest Only Loan or *vice versa*,

each a **"Permitted Variation"**.

Such Permitted Variations may be made to the Loans without the requirement for the Seller to obtain any further consent or comply with any further condition.

If a Borrower requests, or the Seller or the Administrator (on behalf of the Seller) offers, a Product Switch under a Loan, the Seller or the Administrator (on behalf of the Seller) will be solely responsible for offering and documenting that Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio unless the Seller has given notice to the Issuer no later than one Business Day prior to the Switch Date that any of the Product Switch Conditions are not satisfied (a **"Notice of Non-Satisfaction of Product Switch Conditions"**) and such notice has not been revoked prior to such date.

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

A Notice of Non-Satisfaction of Product Switch Conditions shall be given by the Seller to the Issuer if the Seller has identified beyond a reasonable doubt that any of the following conditions (the **"Product Switch Conditions"**) are not satisfied:

- (a) the Switch Date falls before the Step-Up Date;

- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's (or such other short term rating acceptable to Moody's) or F2 by Fitch (or such other short term rating acceptable to Fitch);
- (e) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate (in form and substance acceptable to the Trustee) signed by an authorised signatory of the Seller;
- (f) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Loan subject to the Product Switch and the floating rate of interest payable on the Notes;
- (g) the Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Portfolio;
- (h) the Product Switch will be similar to switches offered to the Seller's mortgage Borrowers whose mortgages do not form part of the Portfolio;
- (i) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;
- (j) each Loan and its Related Security which is the subject of a Product Switch complies at with the representations contained in the Mortgage Sale Agreement required to be given on each Switch Date;
- (k) the Class A Principal Deficiency Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (l) the outstanding Current Balance of any Loans in the Portfolio (including any Product Switch) with an interest only part does not exceed 60 per cent. of the aggregate Current Balance of the Loans in the Portfolio; and
- (m) each Loan which is the subject of a Product Switch will be included in the calculation of the notional amount in respect of one of the Swap Transactions as at the start of the calculation period for the applicable Swap Transaction immediately following the date on which such Product Switch is made, provided that this condition shall not apply in respect of any Loan which is not included in the notional amount of any Swap Transaction for the calculation period during which such Product Switch is made.

A solvency certificate shall be valid for three months following the date on which it is issued.

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

If a Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer and has yet to be revoked by the Seller no later than 12 noon on the Business Day prior to the relevant Switch Date, then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on the last day of the calendar month in which the Switch Date falls. Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate

of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loans subject to repurchase.

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

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

and, in either case, this (where capable of remedy) has not been remedied within 30 Business Days of receipt by the Seller of notice from the Issuer, the Seller will, upon receipt of a further notice from the Issuer, repurchase the entire Loan and its Related Security from the Issuer on the next Business Day after receipt of such further notice by the Seller (or such other date as the Issuer may direct in the notice (provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such further notice)). Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

Where in relation to a proposed Further Advance or a Product Switch, the Seller or the Administrator (on behalf of the Seller) proposes making a Further Advance or Product Switch (as applicable), the Seller may, despite the Seller not having given (in the case of the Further Advance) a Notice of Non-Satisfaction of Further Advance Conditions or (in the case of the Product Switch) a Notice of Non-Satisfaction of Product Switch Conditions (as applicable) to the Issuer, as alternatives to selling the Further Advance to the Issuer or the Loan which is the subject of a Product Switch remaining in the Portfolio (as applicable), elect to repurchase the relevant Loan and its Related Security from the Issuer on the last day of the calendar month in which the Advance Date or the Switch Date, (as applicable) falls for a consideration equal to its Current Balance. Any such election must be made prior to the relevant Advance Date or Switch Date (as applicable). The Seller must pay to the Issuer the consideration for the relevant Loan and its Related Security which is the subject of a Further Advance or a Product Switch (as applicable) on the last day of the calendar month in which such Further Advance or Product Switch is made.

(c) Substitute Loans

The Seller may offer the Issuer (and the Issuer shall accept) a Substitute Loan as consideration for the repurchase of a Loan which was in breach of any representation or warranty or in respect of which an unrevoked Notice of Non-Satisfaction of Further Advance Conditions or unrevoked Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer. Any Substitute Loan will be assigned to the Issuer (or, in the case of a Substitute Loan being a Scottish Loan, placed in trust pursuant to a Scottish Declaration of Trust) unless the Seller has given notice to the Issuer no later than one Business Day prior to the Substitution Date that any of the Substitution Conditions are not satisfied (a "**Notice of Non-Satisfaction of Substitution Conditions**") and such notice has not been revoked by the Seller no later than the Business Day prior to the date that the substitution is made (the "**Substitution Date**").

A Notice of Non-Satisfaction of Substitution Conditions may be given by the Seller to the Issuer if the Seller has identified beyond a reasonable doubt that any of the following conditions (the "**Substitution Conditions**") are not satisfied:

- (a) the Substitution Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;

- (c) no Seller Insolvency Event has occurred;
- (d) the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has not fallen below P-2 by Moody's (or such other short term rating acceptable to Moody's) or F2 by Fitch (or such other short term rating acceptable to Fitch);
- (e) if the Seller's short term unsecured, unsubordinated and unguaranteed debt rating has fallen below F1 by Fitch or P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate (in form and substance acceptable to the Trustee) signed by an authorised signatory of the Seller;
- (f) if required, the Swap Agreements may be appropriately varied or, if appropriate, the Issuer may enter into new swaps in order to hedge against the interest rate payable on the Substitute Loan and the floating rate of interest payable on the Notes;
- (g) the Substitute Loan and Related Security constitutes the same ranking and priority security over a Property as the security provided in respect of the relevant repurchased Loan;
- (h) the substitution will not result in the Loan which is assigned or placed in trust, as applicable, being an Excluded Loan; and
- (i) each Substitute Loan will be included in the calculation of the notional amount in respect of one of the Swap Transactions as at the start of the calculation period for the applicable Swap Transaction immediately following the date on which such Substitute Loan is added to the Portfolio, provided that this condition shall not apply in respect of any Substitute Loan where the Loan it is being substituted for is not included in the notional amount of any Swap Transaction for the calculation period during which such Substitute Loan is added to the Portfolio.

A solvency certificate shall be valid for three months following the date on which it is issued.

If no Notice of Non-Satisfaction of Substitution Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller no later than 12 noon on the Business Day prior to the relevant Substitution Date, and the Substitute Loan is assigned to the Issuer, the Seller must, in relation to the relevant Loan, give the representations and warranties in respect of Substitute Loans set out in the Mortgage Sale Agreement as at the relevant Substitution Date.

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

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

and, in either case, this (where capable of remedy) has not been remedied within 30 Business Days of receipt by the Seller of notice from the Issuer, the Seller will, upon receipt of a further notice from the Issuer, repurchase the entire Substitute Loan and its Related Security from the Issuer on the next Business Day after receipt of such further notice by the Seller (or such other date as the Issuer may direct in the notice (provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such further notice)). Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

The Seller must, pursuant to the terms of the Mortgage Sale Agreement, notify the Issuer and the Trustee of any breach of warranty in respect of any of the relevant Loans subject to Further Advances, Product Switches or substitution as soon as it has identified such breach.

Governing Law

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

STATISTICAL INFORMATION ON THE PORTFOLIO

The statistical and other information contained in this section has been compiled by reference to the Provisional Portfolio of £1,488,282,801 as at 31 January 2011 (the "**Cut-off Date**"). The Portfolio has been randomly selected from the Provisional Portfolio. A Loan will be removed from the Provisional Portfolio if in the period from (and including) the Cut-off Date to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not or would not comply with the representations and warranties given by the Seller in the Mortgage Sale Agreement on the Closing Date. The Portfolio of £1,488,282,801 as at 31 January 2011 was determined on or prior to such date by the Seller in accordance with the procedures as described in "*Selection of the Portfolio*" above.

The information contained in this section has not been updated to reflect any decrease in the size of the Portfolio from that of the Provisional Portfolio.

Except as otherwise indicated, these tables have been prepared using the Current Balance as at the Cut-off Date. Columns may not add up to the total due to rounding.

As of the Cut-off Date, the Provisional Portfolio had the following characteristics:

Total outstanding current balance	£1,488,282,801
Number of Loans	18,463
Average current loan balance	£80,609
Weighted average current LTV	62.69%
Weighted average current seasoning	3.26 years
Weighted average current interest rate	4.80%
Weighted average original LTV	67.00%
Weighted average remaining term	18.19 years

1. **Current Balances as at the Cut-off Date**

The following table shows the range of outstanding Current Balances of mortgage accounts in the Provisional Portfolio as at the Cut-off Date and the date of origination.

<i>Current Balance</i>				
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0 to 24,999	42,350,244	2.85	3,354	18.17
25,000 to 49,999	122,539,963	8.23	3,277	17.75
50,000 to 74,999	211,835,677	14.23	3,398	18.40
75,000 to 99,999	245,068,038	16.47	2,824	15.30
100,000 to 124,999	239,428,544	16.09	2,152	11.66
125,000 to 149,999	188,635,389	12.67	1,380	7.47
150,000 to 174,999	125,503,550	8.43	779	4.22
175,000 to 199,999	86,031,288	5.78	461	2.50
200,000 to 299,999	154,020,149	10.35	661	3.58
300,000 to 399,999	38,717,550	2.60	114	0.62
400,000 to 499,999	13,838,932	0.93	31	0.17
500,000 to 599,999	8,688,186	0.58	16	0.09
600,000 to 699,999	5,805,883	0.39	9	0.05
700,000 to 799,999	1,444,821	0.10	2	0.01
800,000 to 899,999	2,499,652	0.17	3	0.02
900,000 ≤	1,874,934	0.13	2	0.01
Grand Total.....	1,488,282,801	100.00	18,463	100.00
Min	2			
Max	951,137			
Average	80,609			

<i>Original Balance</i>				
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0 to 24,999	23,922,210	1.61	2,237	12.12
25,000 to 49,999	90,700,211	6.09	2,990	16.19
50,000 to 74,999	177,612,190	11.93	3,339	18.08
75,000 to 99,999	237,429,065	15.95	3,103	16.81
100,000 to 124,999	248,281,645	16.68	2,506	13.57
125,000 to 149,999	200,429,133	13.47	1,621	8.78
150,000 to 174,999	150,487,316	10.11	1,036	5.61
175,000 to 199,999	93,603,154	6.29	548	2.97
200,000 to 299,999	181,277,769	12.18	853	4.62
300,000 to 399,999	43,998,363	2.96	145	0.79
400,000 to 499,999	18,816,924	1.26	48	0.26
500,000 to 599,999	8,891,301	0.60	18	0.10
600,000 to 699,999	4,997,754	0.34	9	0.05
700,000 to 799,999	3,461,180	0.23	5	0.03
800,000 to 899,999	2,499,652	0.17	3	0.02
900,000 ≤	1,874,934	0.13	2	0.01
Grand Total.....	1,488,282,801	100.00	18,463	100.00
Min	283			
Max	1,000,000			
Average	90,384			

2. Loan-to-Value Ratios as at the Cut-off Date

The following table shows the range of LTV ratios, which express the Current Balance of the aggregate of loans in a mortgage account in the Provisional Portfolio as at the Cut-off Date or the date of origination of the Loan, as applicable divided by the valuation as at origination of the Loan or the most recent valuation thereof (including indexed valuations where applicable — see "The Loans — Lending Criteria — Valuations"). For the avoidance of doubt, there have been no revaluations for the purposes of the issuance of the Notes.

Current LTV

	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0% to 10%	9,275,746	0.62	676	3.66
10.01% to 20%	41,217,043	2.77	1,263	6.84
20.01% to 30%	89,982,842	6.05	1,850	10.02
30.01% to 40%	130,275,003	8.75	2,186	11.84
40.01% to 50%	129,099,783	8.67	1,852	10.03
50.01% to 60%	171,428,167	11.52	2,014	10.91
60.01% to 70%	207,191,321	13.92	2,192	11.87
70.01% to 80%	355,713,902	23.90	3,392	18.37
80.01% to 90%	297,011,703	19.96	2,575	13.95
90.01% to 100%	56,583,797	3.80	457	2.48
100 <	503,494	0.03	6	0.03
Grand Total.....	1,488,282,801	100.00	18,463	100.00
Min	0.23%			
Max	137.57%			
WA	62.69%			

Original LTV

	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0% to 10%	2,792,928	0.19	156	0.84
10.01% to 20%	22,906,304	1.54	818	4.43
20.01% to 30%	62,608,581	4.21	1,484	8.04
30.01% to 40%	110,424,981	7.42	2,019	10.94
40.01% to 50%	135,496,689	9.10	2,128	11.53
50.01% to 60%	163,187,239	10.96	2,091	11.33
60.01% to 70%	186,389,966	12.52	2,065	11.18
70.01% to 80%	319,055,094	21.44	3,037	16.45
80.01% to 90%	426,104,620	28.63	4,040	21.88
90.01% to 100%	59,316,399	3.99	625	3.39
Grand Total.....	1,488,282,801	100.00	18,463	100.00
Min	2.40%			
Max	95.00%			
WA	67.00%			

3. Repayment Type

The following table shows the repayment terms for the Loans in the mortgage accounts in the Provisional Portfolio as at the Cut-off Date. For a description of the various repayment terms the Seller offers, see "The Loans — Characteristics of the Loans — Repayment Terms".

Repayment Type

	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
Repayment	974,265,129	65.46	13,288	71.97
Interest Only (including Part and Part).....	514,017,672	34.54	5,175	28.03
Grand Total.....	1,488,282,801	100.00	18,463	100.00

4. Geographical Distribution of Properties

The following table shows the distribution of Properties securing the Loans in the Provisional Portfolio throughout England, Wales and Scotland as at the Cut-off Date. No such properties are situated outside England, Wales or Scotland. The Seller's lending criteria and current credit scoring tests do not take into account the geographical location of the property securing a loan.

	<i>Regions</i>			
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
Scotland.....	259,366,479	17.43	3,957	21.43
South East.....	233,267,622	15.67	2,140	11.59
Yorkshire & Humberside.....	206,472,410	13.87	2,800	15.17
North West.....	168,098,791	11.29	2,529	13.70
South West.....	137,097,540	9.21	1,615	8.75
East Midlands.....	104,071,165	6.99	1,274	6.90
West Midlands.....	101,243,607	6.80	1,196	6.48
Greater London.....	98,933,916	6.65	721	3.91
East Anglia.....	95,690,156	6.43	1,070	5.80
North.....	63,653,155	4.28	912	4.94
Wales.....	20,387,960	1.37	249	1.35
Grand Total.....	1,488,282,801	100.00	18,463	100.00

5. Interest Rate Type

The following table shows the distribution of Loan products in the Provisional Portfolio as at the Cut-off Date.

	<i>Interest Rate Type</i>			
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
Fixed.....	796,876,109	53.54	9,165	49.64
BBR.....	269,991,216	18.14	3,204	17.35
SVR.....	421,415,476	28.32	6,094	33.01
Grand Total.....	1,488,282,801	100.00	18,463	100.00

6. Seasoning of Loans

The following table shows the number of months since the date of origination of the initial advance in respect of a Loan in the Provisional Portfolio as at the Cut-off Date.

	<i>Seasoning (y)</i>			
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0 to 1.01.....	195,596,001	13.14	1,887	10.22
1.02 to 2.01.....	116,305,516	7.81	1,690	9.15
2.02 to 3.01.....	383,139,497	25.74	4,428	23.98
3.02 to 4.01.....	353,140,405	23.73	4,211	22.81
4.02 to 5.01.....	216,721,016	14.56	2,822	15.28
5.02 to 6.01.....	116,219,960	7.81	1,613	8.74
6.02 to 7.01.....	54,074,703	3.63	835	4.52
7.02 to 8.01.....	31,602,669	2.12	542	2.94
8.02 to 9.01.....	17,063,064	1.15	312	1.69
9.02 ≤.....	4,419,970	0.30	123	0.67
Grand Total.....	1,488,282,801	100.00	18,463	100.00
Min	0.17			
Max	9.67			
WA	3.26			

7. Years to Maturity

The following table shows the number of years until the maturity of the Loans in the Provisional Portfolio.

<i>Years to Maturity</i>				
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0.01 to 5.01	45,348,716	3.05	1,196	6.48
5.02 to 10.01	135,344,345	9.09	2,528	13.69
10.02 to 15.01	209,583,940	14.08	3,084	16.70
15.02 to 20.01	434,103,936	29.17	5,310	28.76
20.02 to 25.01	519,154,139	34.88	4,922	26.66
25.02 ≤	144,747,726	9.73	1,423	7.71
Grand Total	1,488,282,801	100.00	18,463	100.00
Min	0.11			
Max	29.68			
WA	18.19			

8. Loan Purpose

The following table shows the purpose of the Loans in the Provisional Portfolio.

<i>Loan Purpose</i>				
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
Purchase	824,444,952	55.40	9,400	50.91
Remortgage	663,837,849	44.60	9,063	49.09
Grand Total	1,488,282,801	100.00	18,463	100.00

9. Interest Rate

The following table shows the interest rates in respect of the Loans in the Provisional Portfolio.

<i>Interest Rate</i>				
	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
0% to 1.00%	67,275,824	4.52	913	4.95
1.01% to 2.00%	6,081,824	0.41	118	0.64
2.01% to 3.00%	45,705,457	3.07	467	2.53
3.01% to 4.00%	186,593,497	12.54	2,008	10.88
4.01% to 5.00%	599,929,010	40.31	8,058	43.64
5.01% to 6.00%	455,859,205	30.63	5,388	29.18
6.01% to 7.00%	126,086,426	8.47	1,492	8.08
7.01% to 8.00%	682,593	0.05	18	0.10
8.01% ≤	68,965	0.00	1	0.01
Grand Total	1,488,282,801	100.00	18,463	100.00
Min	0.62%			
Max	8.24%			
WA	4.80%			

10. **Property Type**

The following table shows property types in respect of the Loans in the Provisional Portfolio.

<i>Property Type</i>	Current Balance	% of Total Balance	No of Loans	% of Total No Loans
	£			
House.....	1,337,688,629	89.88	16,632	90.08
Flat.....	150,501,260	10.11	1,829	9.91
Other.....	92,912	0.01	2	0.01
Grand Total.....	1,488,282,801	100.00	18,463	100.00

CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

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

Industry CPR Rates

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

Quarter	Industry CPR Rate for the Quarter (%)	12-month rolling average (%)	Quarter	Industry CPR Rate for the Quarter (%)	12-month rolling average (%)
March 1999	12.32	14.41	March 2005	17.96	21.50
June 1999	15.96	14.85	June 2005	21.32	21.10
September 1999	17.55	15.21	September 2005	24.29	21.10
December 1999	16.47	15.57	December 2005	24.61	22.04
March 2000	13.62	15.90	March 2006	22.27	23.12
June 2000	15.31	15.73	June 2006	23.37	23.64
September 2000	15.97	15.34	September 2006	24.95	23.80
December 2000	15.67	15.14	December 2006	24.87	23.87
March 2001	15.38	15.58	March 2007	23.80	24.25
June 2001	18.23	16.31	June 2007	24.84	24.61
September 2001	20.25	17.39	September 2007	25.48	24.74
December 2001	20.06	18.48	December 2007	23.55	24.42
March 2002	18.75	19.32	March 2008	19.56	23.36
June 2002	21.10	20.04	June 2008	20.88	22.37
September 2002	23.63	20.89	September 2008	20.15	21.03
December 2002	22.89	21.59	December 2008	15.33	18.98
March 2003	21.24	22.22	March 2009	12.91	17.32
June 2003	22.43	22.55	June 2009	11.39	14.95
September 2003	24.03	22.65	September 2009	12.77	13.10
December 2003	24.87	23.14	December 2009	11.99	12.27
March 2004	21.22	23.14	March 2010	9.60	11.44
June 2004	22.93	23.26	June 2010	10.60	11.24
September 2004	24.27	23.32	September 2010	22.30	10.87
December 2004	20.85	22.32			

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	0.17
1989	0.17	1998	0.31	2007	0.22
1990	0.47	1999	0.27	2007	0.34
1991	0.77	2000	0.20	2009	0.42
1992	0.69	2001	0.16		
1993	0.58	2002	0.11		

House Price to Earnings Ratio

The following table shows the ratio for each year of the average annual value of houses compared to the average annual salary in the United Kingdom. The average annual earnings figures are constructed using the Annual Survey of Hours and Earnings referring to median gross weekly earnings in April of each year

for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1985	4.39	1994	4.53	2003	7.47
1986	4.63	1995	4.46	2004	7.96
1987	4.97	1996	4.49	2005	8.12
1988	5.71	1997	4.75	2006	8.18
1989	6.34	1998	5.09	2007	8.77
1990	5.70	1999	5.35	2008	8.40
1991	5.26	2000	5.82	2009	7.63
1992	4.83	2001	5.97		
1993	4.58	2002	6.73		

Source: Council of Mortgage Lenders

HOUSE PRICE INDEX

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

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

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1992	136.2	4.1	104.1	(4.3)	210.6	(4.4)
June 1992	139.1	4.2	105.1	(5.0)	210.4	(5.7)
September 1992	139.0	3.6	104.2	(4.8)	208.4	(5.6)
December 1992	139.6	3.1	100.1	(6.5)	199.3	(8.3)
March 1993	138.7	1.8	100.0	(3.9)	196.9	(6.5)
June 1993	140.9	1.3	103.6	(1.4)	203.2	(3.4)
September 1993	141.3	1.6	103.2	(1.0)	204.2	(2.0)
December 1993	141.8	1.6	101.8	1.8	202.5	1.6
March 1994	142.0	2.4	102.4	2.4	202.3	2.7
June 1994	144.5	2.6	102.5	(1.1)	204.3	0.6
September 1994	144.6	2.3	103.2	(0.0)	204.3	0.0
December 1994	145.5	2.6	104.0	2.1	200.9	(0.8)
March 1995	146.8	3.4	101.9	(0.5)	200.3	(1.0)
June 1995	149.5	3.4	103.0	0.5	201.0	(1.6)
September 1995	149.9	3.7	102.4	(0.8)	199.0	(2.6)
December 1995	150.1	3.2	101.6	(2.3)	197.8	(1.5)
March 1996	150.9	2.8	102.5	0.6	200.9	0.3
June 1996	152.8	2.2	105.8	2.7	208.6	3.8
September 1996	153.1	2.1	107.7	5.2	209.8	5.4
December 1996	154.0	2.6	110.1	8.3	212.6	7.4
March 1997	154.9	2.7	111.3	8.6	215.3	7.2
June 1997	156.9	2.6	116.5	10.1	222.6	6.7
September 1997	158.4	3.5	121.2	12.5	223.6	6.6
December 1997	159.7	3.7	123.3	12.1	224.0	5.4
March 1998	160.2	3.4	125.5	12.7	226.4	5.2
June 1998	163.2	4.0	130.1	11.7	234.9	5.5
September 1998	163.7	3.3	132.4	9.2	236.1	5.6
December 1998	164.4	3.0	132.3	7.3	236.3	5.5
March 1999	163.7	2.2	134.6	7.3	236.3	4.4

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
June 1999	165.5	1.4	139.7	7.3	247.7	5.4
September 1999	165.6	1.2	144.4	9.0	256.7	8.8
December 1999	166.8	1.5	148.9	12.6	263.4	11.5
March 2000	167.5	2.3	155.0	15.1	270.5	14.5
June 2000	170.6	3.1	162.0	16.0	275.6	11.3
September 2000	170.9	3.2	161.5	11.8	277.6	8.1
December 2000	172.0	3.1	162.8	9.4	278.3	5.7
March 2001	171.8	2.6	167.5	8.1	279.0	3.1
June 2001	173.9	1.9	174.8	7.9	297.0	7.7
September 2001	174.0	1.8	181.6	12.5	305.0	9.9
December 2001	173.8	1.0	184.6	13.4	310.9	11.7
March 2002	173.9	1.2	190.2	13.6	324.3	16.2
June 2002	176.0	1.2	206.5	18.1	346.6	16.7
September 2002	176.6	1.5	221.1	21.7	369.1	21.0
December 2002	178.2	2.5	231.3	25.3	393.0	26.4
March 2003	179.2	3.0	239.3	25.8	400.1	23.4
June 2003	181.3	3.0	250.1	21.1	422.5	21.9
September 2003	181.8	2.9	258.9	17.1	437.6	18.6
December 2003	182.9	2.6	267.1	15.5	453.5	15.4
March 2004	183.8	2.6	277.3	15.9	474.0	18.5
June 2004	186.3	2.8	296.2	18.4	513.2	21.5
September 2004	187.4	3.1	306.2	18.3	527.2	20.5
December 2004	189.2	3.4	304.1	13.9	522.0	15.1
March 2005	189.7	3.2	304.8	9.9	520.2	9.7
June 2005	191.9	3.0	314.2	6.1	532.1	3.7
September 2005	192.6	2.8	314.4	2.7	543.1	3.0
December 2005	193.7	2.4	314.0	3.2	548.4	5.1
March 2006	194.2	2.4	319.8	4.9	552.6	6.2
June 2006	197.6	3.0	329.2	4.8	582.1	9.4
September 2006	199.3	3.5	336.1	6.9	586.7	8.0
December 2006	201.4	4.0	343.2	9.3	602.8	9.9
March 2007	203.0	4.5	350.2	9.5	613.9	11.1
June 2007	206.3	4.4	362.7	10.2	644.1	10.7
September 2007	207.1	3.9	367.3	9.3	649.3	10.7
December 2007	209.8	4.2	367.0	6.9	634.4	5.2
March 2008	211.1	4.0	357.8	2.2	620.9	1.1
June 2008	215.3	4.4	348.1	(4.0)	605.1	(6.1)
September 2008	217.4	5.0	329.5	(10.3)	568.9	(12.4)

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
December 2008	215.5	2.7	312.9	(14.7)	531.5	(16.2)
March 2009	210.9	(0.1)	298.7	(16.5)	512.5	(17.5)
June 2009	212.6	(1.3)	307.3	(11.7)	514.3	(15.0)
September 2009	214.4	(1.4)	319.5	(3.0)	526.5	(7.4)
December 2009	216.9	0.6	323.4	3.4	537.3	1.1
March 2010	219.3	4.0	324.9	8.8	539.0	5.2
June 2010	223.5	5.1	336.6	9.5	546.6	6.3
September 2010	224.5	4.7	333.9	4.5	540.4	2.6
December 2010	227.0	4.7	325.7	0.7	528.7	(1.6)

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

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

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

All information contained in this Prospectus in respect of the Nationwide House Price Index has been reproduced from information published by Nationwide Building Society at <http://www.nationwide.co.uk/hpi/>. All information contained in this Prospectus in respect of the Halifax House Price Index has been reproduced from information published by Lloyds Banking Group plc at http://www.lloydsbankinggroup.com/media1/research/halifax_hpi.asp. The Issuer confirms that all information in this Prospectus in respect of the Nationwide House Price Index and the Halifax House Price Index has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by Nationwide Building Society and Lloyds Banking Group plc, no facts have been omitted which would render the reproduced information inaccurate or misleading. For the avoidance of doubt, the websites referred to in this paragraph do not form part of this Prospectus.

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, The Royal Bank of Scotland plc nor J.P. Morgan Securities Ltd. 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 ADMINISTRATOR

THE ADMINISTRATOR

Under the Administration Agreement, Skipton Building Society will be appointed as the Administrator of the Loans together with their Related Security.

This section describes the Administrator's administration procedures based on the current Skipton Building Society mortgage servicing policies. The Administrator will administer the Loans and their Related Security in the Portfolio in accordance with its policies applicable from time to time, but subject to the terms of the Administration Agreement. For a description of the Administrator's obligations under the Administration Agreement, see "*The Administration Agreement*".

ADMINISTRATION PROCEDURES

Administration procedures include:

- Managing of Mortgage Accounts in arrears;
- Issuing redemption statements, processing lump sum payments and early redemption fees;
- Collecting and distributing title deeds and any supporting documents as well as storage of deeds;
- Processing transfers of titles, notices of death, forfeitures of leases, sale and exchange of land, account conversions, term amendments, deed amendments, compensation and enforcement notices;
- Dealing with all types of transactions posting and refunding fees, setting up direct debits, payment date changes and Payment Holidays;
- Dealing with all customer correspondence on other aspects of mortgages once the loan is drawn down, including changes in customer details and changes on the customer mortgage, i.e. product, repayment etc; and
- Notifying Borrowers of changes to interest rates applicable to the loans.

Payment of Interest and Principal

Pursuant to the terms and conditions of the Loans, Borrowers must pay the monthly amount required under the terms and conditions of the Loans on or before each monthly instalment due date, within the month they are due. Interest accrues in accordance with the terms and conditions of each loan and is collected from Borrowers monthly.

Payments are monthly in arrear and payments of all Loans are payable in the month that they are due.

Collections

Payments by Borrowers in respect of amounts due under the Loans will be made into the non-interest bearing collection account held by the Seller (the "**Collection Account**") at the Collection Account Bank. Amounts credited to the Collection Account from (and including) the Closing Date that relate to the Loans will be identified on a daily basis (each such aggregate daily amount, a "**Daily Loan Amount**") and the Seller will transfer an amount equal to the Daily Loan Amount from the Collection Account into the GIC Account by the next Business Day after that Daily Loan Amount is identified as received in the Collection Account.

The Seller will declare a trust over its Collection Account (the "**Collection Account Declaration of Trust**") in favour of, *inter alios*, the Issuer as beneficiary absolutely. The Issuer's share of the capital of the trust (the "**Issuer Trust Share**") on any date shall be in an amount equal to the aggregate of the Daily Loan Amounts paid into the Collection Account from (and including) the Closing Date to (and including) such date less an amount equal to the payments made by the Seller into the GIC Account from (and including) the Closing Date to (and including) such date.

Borrowers are required to make payments by direct debit or cheque unless otherwise agreed. However, direct debits may be returned unpaid after the due date for payment and, under the Direct Debit Indemnity Scheme, a Borrower may make a claim at any time to his or her bank for a refund of direct debit payments. Similarly, cheques may be returned unpaid by the Borrower's bank.

In each case, the Administrator will be permitted to reclaim from the GIC Account the corresponding amounts previously credited. If a direct debit is returned unpaid in these circumstances, the usual arrears procedures described in *"The Administrator – Administration Procedures Arrears and default procedures"* will be taken.

Arrears and Default Procedures

Borrowers who have one month arrears become subject to collection activity by the Administrator. There are three stages to these procedures:

Early Arrears

At this stage:

- (a) telephone contact is attempted during the day and early evening either at the Borrower's home or work place;
- (b) should such telephone contact prove unsuccessful or details be unavailable, the Borrower is contacted by letter;
- (c) automated arrears letters are issued provided arrears remain outstanding two days after the "profile date" and no diary notes have been set or other automated letters issued within the last 14 days; and
- (d) if no proactive contact or agreement has been achieved after two months, a field agent is instructed to visit the Borrower to attempt resolution.

Arrangement Management

At this stage:

- (a) the system identifies further defaults;
- (b) further action is taken in the form of telephone, letters and texts; and
- (c) serious arrears are given notice of intention to take legal proceedings.

Serious Arrears and litigation

A Borrower will move to this stage if they have three full monthly payments outstanding. At this stage:

- (a) Solicitors are instructed to commence proceedings;
- (b) a possession order is obtained; and
- (c) the possession order is enforced when further default occurs.

THE ADMINISTRATION AGREEMENT

The following section contains an overview of the material terms of the Administration Agreement. The overview does not purport to be complete and is subject to the provisions of the Administration Agreement.

Introduction

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

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

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

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

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

Powers

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

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

Undertakings by the Administrator

The Administrator will undertake, in relation to the Loans and their Related Security that the Seller has sold to the Issuer, among other things, that it will:

- (a) administer the relevant Loans and their Related Security as if the same had not been sold to the Issuer but had remained on the books of the Seller and in accordance with the Seller's procedures and administration and enforcement policies as they apply to the Loans from time to time;
- (b) provide the services to be undertaken by it under the Administration Agreement in such manner and with the same level of skill, care and diligence as would a Prudent Mortgage Lender;
- (c) comply with any proper directions, orders and instructions which the Issuer and/or the Trustee may from time to time give to it in accordance with the provisions of the Administration Agreement;

- (d) maintain all approvals, authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Administration Agreement, and prepare and submit on a timely basis all necessary applications and requests for any further approvals, authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Administration Agreement;
- (e) save as otherwise agreed with the Issuer, provide free of charge to the Issuer and the Seller, office space, facilities, equipment and staff sufficient to fulfil the obligations of the Issuer and the Seller under the Administration Agreement;
- (f) not knowingly fail to comply with any legal requirements in the performance of its duties under the Administration Agreement;
- (g) make all payments required to be made by it pursuant to the Administration Agreement on the due date for payment thereof in Sterling (or as otherwise required under the Transaction Documents) in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim but subject to any deductions required by law;
- (h) use reasonable endeavours to procure that the Seller makes payments in respect of the Loans into the GIC Account not later than one Business Day following receipt of the same by the Seller;
- (i) not without the prior written consent of the Trustee amend or terminate any of the Transaction Documents in any material respect except in accordance with their terms;
- (j) forthwith upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Loan pursuant to the Mortgage Sale Agreement, notify the Issuer and the Seller in writing of such event; and
- (k) ensure that at all times the relevant Loans comply with the material terms of the CCA (to the extent that such relevant Loans are regulated by that Act).

Compensation of the Administrator

The Administrator will receive an Administration Fee for servicing the Loans. The Issuer will pay the Administrator its Administration Fee (inclusive of any applicable VAT) of 0.08 per cent. per annum on the aggregate Current Balance of the Loans which the Seller has sold to the Issuer comprising the Portfolio as at the opening of business on the first day of the preceding Collection Period. The Administration Fees are payable quarterly in arrear on each Interest Payment Date only to the extent that the Issuer has sufficient funds in accordance with the Pre-Enforcement Revenue Priority of Payments to pay them. Any unpaid balance will be carried forward until the next Interest Payment Date and, if not paid earlier, will be payable in full on the Final Maturity Date or on any earlier date on which an Enforcement Notice is served by the Trustee on the Issuer.

Removal or Resignation of an Administrator

The Issuer (prior to delivery of an Enforcement Notice) with the written consent of the Trustee, or the Trustee itself (following delivery of an Enforcement Notice), (in the case of (a) or (b) below) may at any time and (in the case of (c) below) shall at once, upon written notice to the Administrator, terminate the Administrator's rights and obligations on the date specified in the notice if any of the following events (each an "**Administrator Termination Event**") occurs:

- (a) the Administrator defaults in the payment of any amount due under the Administration Agreement or any other Transaction Documents to which it is party and fails to remedy that default for a period of 30 Business Days after the earlier of becoming aware of the default and receipt of written notice from the Issuer or the Trustee (following delivery of an Enforcement Notice) requiring the default to be remedied; or
- (b) the Administrator fails to comply with any of its other covenants or obligations under the Administration Agreement or any other Transaction Document to which it is party which in the opinion of the Trustee is materially prejudicial to the interests of the Noteholders and does not remedy that failure within 30 Business Days after the earlier of becoming aware of the failure

and receipt of written notice from the Issuer or the Trustee (following delivery of an Enforcement Notice) requiring the failure to be remedied; or

- (c) an Administrator Insolvency Event occurs in relation to the relevant Administrator. (In this context, "**Administrator Insolvency Event**" has the same meaning as Seller Insolvency Event (as defined in "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*" above but any reference to the Seller shall be deemed to be replaced with a reference to the relevant Administrator.)

Subject to the fulfilment of a number of conditions (including the appointment of a substitute administrator), an Administrator may voluntarily resign by giving not less than 12 months' notice to the Issuer and the Trustee. The substitute administrator is required to have experience of administering mortgages in the United Kingdom and to enter into an administration agreement with the Issuer and the Trustee substantially on the same terms as the relevant provisions of the Administration Agreement.

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

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

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

Right of Delegation by an Administrator

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

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

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

Liability of the Administrator

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

Back-Up Administrator Facilitator

Under the Administration Agreement in the event that the long term unsecured and unsubordinated debt rating of the Administrator has fallen below (i) Baa3 by Moody's (or such lower rating specified by Moody's) the Administrator, with the assistance of the Bank-Up Administrator Facilitator, shall, within 60 days of the date on which the ratings of the Administrator have so fallen, use best efforts to appoint a Back-Up Administrator which meets the requirements for a substitute administrator provided for by the Administration Agreement identified by the Back-Up Administrator Facilitator in accordance with the provisions of the Administration Agreement; and (ii) BBB- by Fitch (or such other long term rating which is otherwise acceptable to Fitch), the Administrator shall, within 60 days, use reasonable endeavours to enter into a back-up administration agreement with a Back-Up Administrator with suitable experience and credentials in such form as the Issuer and the Trustee shall reasonably require, subject to and in accordance with the Administration Agreement.

Governing law

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

THE ACCOUNT BANK, THE BBR SWAP PROVIDER AND THE SVR SWAP PROVIDER

The Royal Bank of Scotland plc and The Royal Bank of Scotland N.V

The Royal Bank of Scotland plc is the BBR Swap Provider and the SVR Swap Provider. The Royal Bank of Scotland N.V is the Account Bank.

The Royal Bank of Scotland Group plc and its subsidiaries consolidated in accordance with International Financial Reporting Standards ("**RBSG**", together with its subsidiaries, consolidated in accordance with International Financial Reporting Standards, the "**Group**") is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its three principal subsidiaries, The Royal Bank of Scotland plc (the "**Royal Bank**"), National Westminster Bank Plc ("**NatWest**") and The Royal Bank of Scotland N.V.. Both the Royal Bank and NatWest are major United Kingdom clearing banks. The Royal Bank of Scotland N.V. is a bank regulated by the Dutch Central Bank. In the United States, the Group's subsidiary Citizens Financial Group, Inc. is a large commercial banking organisation. The Group has a large and diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

The Group had total assets of £1,453.6 billion and owners' equity of £75.1 billion as at 31 December 2010. The Group's capital ratios at that date, which included the equity minority interest of the State of the Netherlands and Banco Santander S.A. in RBS Holdings N.V., were a total capital ratio of 14.0 per cent., a Core Tier 1 capital ratio of 10.7 per cent. and a Tier 1 capital ratio of 12.9 per cent.

HM Treasury currently holds 68.4 per cent. of the issued ordinary share capital of RBSG. This was reduced from 70.3 per cent following completion of the preference share conversion on 31 March 2010. On 22 December 2009, RBSG issued £25.5 billion of B shares in the share capital of RBSG ("**B Shares**") to HM Treasury. The B Shares are convertible, at the option of the holder at any time, into ordinary shares in the share capital of RBSG ("**Ordinary Shares**"). HM Treasury has agreed that it shall not exercise rights of conversion in respect of the B Shares if and to the extent that following any such conversion it would hold more than 75 per cent. of the total issued shares in RBSG. Furthermore, HM Treasury has agreed that it shall not be entitled to vote in respect of the B Shares or the associated series 1 dividend access share in the capital of RBSG held by it to the extent that votes cast on such shares, together with any other votes which HM Treasury is entitled to cast in respect of any other shares held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of RBSG.

On 22 December 2009, the Group entered into the United Kingdom Government Asset Protection Scheme.

The short-term unsecured and unguaranteed debt obligations of the Royal Bank are currently rated P-1 by Moody's and F1+ by Fitch. The long-term senior unsecured and unguaranteed debt obligations of the Royal Bank are currently rated Aa3 by Moody's and AA- by Fitch.

THE FIXED RATE SWAP PROVIDER AND ITS GUARANTOR

J.P. Morgan Securities Ltd

J.P. Morgan Securities Ltd. (the "**Fixed Rate Swap Provider**") is incorporated in the United Kingdom and is authorised and regulated by the Financial Services Authority. The Fixed Rate Swap Provider's immediate parent undertaking is J.P. Morgan Chase International Holdings, incorporated in Great Britain. The Fixed Rate Swap Provider's ultimate parent undertaking is JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The parent undertaking of the smallest group in which the Fixed Rate Swap Provider's results are consolidated is J.P. Morgan Capital Holdings Limited, incorporated in Great Britain.

The Fixed Rate Swap Provider's primary activities are underwriting Eurobonds, equities and other securities, arranging private placements of debt and convertible securities, trading in debt and equity securities, swaps and derivative marketing, providing investment banking advisory and primary brokerage and clearing services for exchange traded futures and options contracts. The Fixed Rate Swap Provider has branches in Frankfurt, Paris, Milan, Zurich, Madrid and Stockholm and is a member of many futures and equity exchanges including the London Stock Exchange.

The obligations of the Fixed Rate Swap Provider under the Fixed Rate Swap Agreement will be guaranteed by JPMorgan Chase Bank, National Association pursuant to a guarantee dated on or about the Closing Date.

The information contained in this section of the Prospectus relates to and has been obtained from the Fixed Rate Swap Provider. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of the Fixed Rate Swap Provider since the date hereof, or that the information contained or referred to in this Prospectus is correct as of any time subsequent to its date.

JPMorgan Chase Bank, National Association

JPMorgan Chase Bank, N.A. is one of the principal bank subsidiaries of JPMorgan Chase & Co. JPMorgan Chase Bank, N.A. offers a wide range of banking services to its customers both in the United States and internationally, including investment banking, financial services for consumers and businesses, financial transactions processing and asset management. Under the J.P. Morgan and Chase brands, JPMorgan Chase Bank, N.A. serves millions of customers in the United States and many of the world's most prominent corporate, institutional and government clients. As of December 31, 2009, JPMorgan Chase Bank, N.A. had total assets of \$1.6 trillion, total net loans of \$534.7 billion, total deposits of \$1.0 trillion and total stockholders' equity of \$127.3 billion.

JPMorgan Chase Bank, N.A. was initially organised as a New York banking corporation on November 26, 1968, and converted into a national banking association on November 13, 2004. JPMorgan Chase Bank, N.A. is chartered and its business is subject to examination and regulation by the U.S. Office of the Comptroller of the Currency, a bureau of the U.S. Department of the Treasury. JPMorgan Chase Bank, N.A. is a member of the U.S. Federal Reserve System and its U.S. domestic deposits are insured by the U.S. Federal Deposit Insurance Corporation. Its U.S. Federal Reserve Bank Identification Number is 852218.

JPMorgan Chase Bank, N.A.'s activities are organised and integrated with the businesses of JPMorgan Chase & Co. The wholesale businesses are the Investment Bank, Commercial Banking, Treasury & Securities Services and Asset Management, and the consumer businesses are Retail Financial Services and Card Services.

JPMorgan Chase Bank, N.A.'s annual and quarterly consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. These financial statements have been filed with the Luxembourg Stock Exchange and are posted on the Luxembourg Stock Exchange's website (www.bourse.lu). Additional information concerning JPMorgan Chase & Co., including the Annual Report on Form 10-K of JPMorgan Chase & Co. for the year ended December 31, 2010 filed with the U.S. Securities and Exchange Commission (the "SEC"), is posted on the SEC's website at www.sec.gov and on JPMorgan Chase & Co.'s website at <http://investor.shareholder.com/jpmorganchase/>.

The information contained in this section of the Prospectus relates to and has been obtained from JPMorgan Chase Bank, N.A. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of JPMorgan Chase Bank, N.A. since the date hereof, or that the information contained or referred to in this section of the Prospectus is correct as of any time subsequent to its date.

For the avoidance of doubt, the websites referred to in this section and the contents thereof do not form part of this Prospectus.

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 Revenue Receipts are expected to exceed interest due and payable on the Class A Notes and senior costs and expenses of the Issuer (including retaining the Issuer Profit Amount).
- An Income Deficit on any Interest Payment Date may be funded by applying amounts standing to the credit of the General Reserve Fund and a Remaining Income Deficit on any Interest Payment Date may (subject to certain conditions) be funded by applying Principal Receipts.
- The payments of interest and principal on the Classes of Notes in Sequential Order and the deferral of interest payments on the Class B Notes where the Issuer has insufficient proceeds.
- Losses allocable to the Classes of Notes in reverse Sequential Order in the Principal Deficiency Ledger.
- The GIC Account earns interest at a specified rate and amounts credited to the GIC Account may be invested in Authorised Investments.
- A Subordinated Loan is provided by the Subordinated Loan Provider to fund the General Reserve Fund on the Closing Date, to cover any shortfall to the extent the Initial Consideration exceeds the proceeds from the issue of the Notes on the Closing Date and to meet the costs in connection with the issuance of the Notes. Repayment of the Subordinated Loan is subordinated to payments on the Notes.
- The Issuer will enter into the Swap Agreements to hedge against the possible variance between the floating and fixed interest rates due and payable by Borrowers on the Loans and the floating rate interest payments in respect of the Notes.

For the purposes of this paragraph and where used elsewhere in this Prospectus, "**Sequential Order**" means the following order:

- (a) in respect of payments of principal to be made to the Class A Notes themselves (other than following the service of an Enforcement Notice): firstly, to the Class A1 Notes and secondly, to the Class A2 Notes; and
- (b) in respect of payments of interest and principal to be made to the Class A Notes and Class B Notes: firstly, to the Class A Notes and secondly, to the Class B Notes.

Each of these factors is considered in more detail below.

Credit Support for the Notes provided by Available Revenue Receipts

It is anticipated that, during the life of the Notes, the interest payable by Borrowers on the Loans will, assuming that all of the Loans are fully performing, be sufficient so that the Available Revenue Receipts will be available to pay the amounts payable under items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments. The actual amount of any excess will vary during the life of the Notes. Two of the key factors determining such variation are the interest rates applicable to the Loans in the Portfolio (as to which, see the section entitled "*Key Structural Features – Credit Enhancement and Liquidity Support – Basis Risk for the Notes*") and the performance of the Portfolio.

Available Revenue Receipts may be applied (after making payments or provisions ranking higher in the Pre-Enforcement Revenue Priority of Payments) on each Interest Payment Date towards reducing any Principal Deficiency Ledger entries (which may arise from (i) Losses on the Portfolio or (ii) the application of Principal Receipts to cover previous Remaining Income Deficits).

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

Liquidity support provided by use of General Reserve Fund and Available Principal Receipts to fund Income Deficit and Remaining Income Deficit

On each Calculation Date, the Cash Manager will determine whether Available Revenue Receipts are sufficient to pay or provide for payment of items (a) to (f) inclusive of the Pre-Enforcement Revenue Priority of Payments. To the extent that Available Revenue Receipts are insufficient for this purpose, the Cash Manager on behalf of the Issuer shall, on the relevant Interest Payment Date, pay or provide for such Income Deficit by applying amounts standing to the credit of the General Reserve Fund.

If following application of Available Revenue Receipts and amounts standing to the credit of the General Reserve Fund, the Cash Manager determines that there would be a Remaining Income Deficit, the Cash Manager will on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Remaining Income Deficit by applying Principal Receipts (if any).

Payment of the Notes in Sequential Order and deferral of payments on the Notes

Payments of interest on the Classes of Notes will be paid in Sequential Order (so that payments on the Class B Notes will be subordinated to payments on the Class A Notes) in accordance with the relevant Priority of Payments. Following the service of an Enforcement Notice by the Trustee, 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 each sub-Class of the Class A Notes will be made in Sequential Order (so that principal payments will be made *first*, to the Class A1 Notes and, *second*, to the Class A2 Notes) in accordance with the relevant Priority of Payments.

Any shortfall in payments of interest on any Class of Notes (other than the Class A Notes) will be deferred until the next Interest Payment Date and this will not constitute an Event of Default. On the next Interest Payment Date, the amount of interest scheduled to be paid on a Class of Notes will be increased to take account of any deferral of such amounts for such Class of Notes. The deferral process will continue until the Final Maturity Date of the Notes, at which point, all such deferred amounts (including interest thereon) will become due and payable. However, if there is insufficient money available to the Issuer to pay interest 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 the General Reserve Ledger.

Losses allocated to the Principal Deficiency Ledger

On each Calculation Date, the Cash Manager will determine the amount of Losses on the Portfolio which are allocable to the Notes.

A Principal Deficiency Ledger, comprising two sub-ledgers (one relating to each Class of Notes), will be established on the Closing Date in order to record any Losses on the Portfolio and the application of any Principal Receipts to meet any Income Deficit.

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

Losses and the amount of any Principal Receipts applied to fund an Income Deficit will be recorded as a debit to the Principal Deficiency Ledger as follows:

- (a) *first*, to the Class B Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class B Notes; and
- (b) *second*, to the Class A Principal Deficiency Sub-Ledger up to a maximum of the Principal Amount Outstanding of the Class A Notes.

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

- (a) *first*, to the Class A Principal Deficiency Sub-Ledger to reduce the debit balance to zero; and
- (b) *second*, to the Class B Principal Deficiency Sub-Ledger to reduce the debit balance to zero.

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

On each Interest Payment Date, the Issuer shall also apply any amount standing to the credit of the General Reserve Fund to extinguish or reduce any balance on the Principal Deficiency Ledger (other than on the Class B Principal Deficiency Sub-Ledger) (see "*Liquidity support provided by use of General Reserve Fund and Principal Receipts to fund Income Deficit and Remaining Income Deficit*" above).

GIC Account

If, at any time (i) the short term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of P-1 by Moody's or F1 by Fitch; (ii) the long-term, unsecured and unsubordinated debt obligations of the Account Bank are downgraded below a rating of A by Fitch; or (iii) the Account Bank has been put on "Rating Watch Negative" by Fitch such that it is treated by Fitch as being rated below such required ratings as specified above (or (in each case) such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency), the Issuer will be required (within 30 days) to transfer (at its own cost) the GIC Account to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Account Bank Agreement, in order to maintain the ratings of the Notes at their then current rating.

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 3 Month LIBOR less a margin in respect of sums in the GIC Account. The Issuer (or the Cash Manager on its behalf) may invest sums standing to the credit of the GIC Account in Authorised Investments.

Subordinated Loan

The Issuer will enter into the Subordinated Loan Agreement with the Subordinated Loan Provider on or about the Closing Date. Pursuant to the Subordinated Loan Agreement, the Subordinated Loan Provider will agree to make available to the Issuer the Subordinated Loan on the Closing Date. The Subordinated Loan will be a subordinate ranking loan which will be used by the Issuer to (a) fund the General Reserve Fund on the Closing Date (the "**General Reserve Fund Advance**"); (b) meet costs and expenses incurred by the Issuer in respect of the issuance of the Notes on the Closing Date (the "**Expenses Advance**"); and (c) cover any shortfall to the extent the Initial Consideration exceeds the proceeds from the issue of the Notes on the Closing Date (the "**Initial Consideration Advance**" and, together with the General Reserve Fund Advance, the "**Advances**"). The amount of the Subordinated Loan on the Closing Date will be £33,106,770.65.

The Subordinated Loan will bear interest until repaid at a rate of LIBOR for three month Sterling deposits plus 0.5 per cent. 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 the Advances, on each Interest Payment Date to the extent that it has Available Revenue Receipts to make such payment in accordance with the relevant Priority of Payments or on the Final Maturity Date, or on such other date on which the Class A Notes are redeemed in full.

The Subordinated Loan Provider will have the right to assign or novate its rights and/or obligations under the Subordinated Loan to a third party at any time.

The Subordinated Loan Agreement will be governed by English law.

Deed of Charge Retention Undertaking

In the Deed of Charge the Seller undertakes (i) to hold a material net economic interest pursuant to paragraphs (a) to (d) (as applicable) of Article 122a(1) of Directive 2006/48/EC until maturity of the Notes and (ii) to provide all information required to be made available to Noteholders or a Swap Provider under Article 122a (1) to (7) to the Issuer and the Trustee on request, subject always to any requirement of law regarding the provision of such information, provided that the Seller will not be in breach of such undertaking if the Seller fails to do so due to events, actions or circumstances beyond the Seller's control.

Swap Agreements

The interest rate on the Loans in the Portfolio is payable by reference, or linked, to the Standard Variable Rate, the BoE Base Rate and certain fixed rates. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to a Three-Month Sterling LIBOR (interpolated for 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date).

To hedge against the possible variance between:

- (i) the various fixed and variable rates of interest payable on the Loans in the Portfolio; and
- (ii) the floating rate of interest payable on the Notes,

the Issuer will, on or about the Closing Date, enter into the Swap Agreements with the Swap Providers, each being an agreement in the form of a 1992 ISDA Master Agreement (together with a Schedule and Swap Credit Support Annex thereto) and a swap confirmation documenting each swap transaction thereunder.

Cashflows under the Fixed Rate Swap Transaction

The Fixed Rate Swap Agreement will govern the terms of the fixed rate swap transaction relating to the Fixed Rate Loans (the "**Fixed Rate Swap Transaction**").

Under the Fixed Rate Swap Transaction, the following amounts will be calculated in respect of each Interest Payment Date:

- (a) the amount produced by applying Three-Month Sterling LIBOR (or interpolated 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) for the relevant Interest Period ending on that Interest Payment Date to the Fixed Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Fixed Rate Swap Transaction (the "**Fixed Interest Period Swap Provider Amount**"); and
- (b) the amount (the "**Fixed Interest Period Issuer Amount**") produced by applying a fixed rate of interest (as defined in the Fixed Rate Swap Transaction and as may be adjusted from time to time at the option of the Issuer, subject to the approval of the Fixed Rate Swap Provider and the Rating Agencies) to the Fixed Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Fixed Rate Swap Transaction.

The notional amount of the Fixed Rate Swap Transaction (the "**Fixed Notional Amount**") in respect of each calculation period thereunder will be equal to the aggregate Current Balance, calculated at the end of the Collection Period ending immediately prior to the Interest Payment Date corresponding to the first day of such calculation period, of the Fixed Rate Loans in the Portfolio (other than those in respect of which three or more monthly payments have become due and are unpaid by a Borrower), *provided that* if a Further Advance, Product Switch or Substitution is made in respect of a Fixed Rate Loan in certain circumstances set out in the Fixed Rate Swap Transaction (any such Fixed Rate Loan, a "**Relevant Loan**") then the Current Balance of any Relevant Loan(s) will be excluded from the calculation of the Fixed Notional Amount. The Fixed Notional Amount for the initial calculation period ending on the First Interest Payment Date will be equal to the aggregate Current Balance of the Fixed Rate Loans in the Portfolio on or around the Closing Date.

Cashflows under the BBR Swap Transaction

The BBR Swap Agreement will govern the terms of the base rate swap transaction relating to the Tracker Rate Loans, the Capped (BoE Base Rate) Loans and the Floored (BoE Base Rate) Loans (the "**BBR Swap Transaction**").

Under the BBR Swap Transaction, the following amounts will be calculated in respect of each Interest Payment Date:

- (a) the amount produced by applying Three-Month Sterling LIBOR (or interpolated 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) minus a spread for the relevant Interest Period ending on that Interest Payment Date to the BBR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the BBR Swap Transaction (the "**BBR Interest Period Swap Provider Amount**"); and
- (b) the amount (the "**BBR Interest Period Issuer Amount**") produced by applying the daily weighted average BoE Base Rate, as calculated in accordance with the terms of the BBR Swap Transaction, to the BBR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the BBR Swap Transaction.

The notional amount of the BBR Swap Transaction (the "**BBR Notional Amount**") in respect of each calculation period thereunder will be equal to the aggregate Current Balance, calculated at the end of the Collection Period ending immediately prior to the Interest Payment Date corresponding to the first day of such calculation period, of the Tracker Rate Loans, the Capped (BoE Base Rate) Loans and the Floored (BoE Base Rate) Loans in the Portfolio (other than those in respect of which three or more monthly payments have become due and are unpaid by a Borrower) (the "**BBR Swap Loans**"), *provided that* if a Further Advance, Product Switch or Substitution is made in respect of any BBR Swap Loan in certain circumstances set out in the BBR Swap Transaction (any such BBR Swap Loan, a "**Relevant Loan**") then the Current Balance of any Relevant Loan(s) will be excluded from the calculation of the BBR Notional Amount. The BBR Notional Amount for the initial calculation period ending on the First Interest Payment Date will be equal to the aggregate Current Balance of the Tracker Rate Loans, the Capped (BoE Base Rate) Loans and the Floored (BoE Base Rate) Loans in the Portfolio on or around the Closing Date.

Cashflows under the SVR Swap Transaction

The SVR Swap Agreement will govern the terms of the standard variable rate swap transaction relating to the Discount Rate Loans, Capped (SVR) Loans and Variable Rate Loans (the "**SVR Swap Transaction**").

Under the SVR Swap Transaction, the following amounts will be calculated in respect of each Interest Payment Date:

- (a) the amount produced by applying Three-Month Sterling LIBOR (or interpolated 5 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) plus a spread for the relevant Interest Period ending on that Interest Payment Date to the SVR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the SVR Swap Transaction (the "**SVR Interest Period Swap Provider Amount**"); and
- (b) the amount (known as the "**SVR Interest Period Issuer Amount**") produced by applying the applicable standard variable rate, as calculated in accordance with the terms of the SVR Swap Transaction, to the SVR Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the SVR Swap Transaction.

The notional amount of the SVR Swap Transaction (the "**SVR Notional Amount**") in respect of each calculation period thereunder will be equal to the aggregate Current Balance, calculated at the end of the Collection Period ending immediately prior to the Interest Payment Date corresponding to the first day of such calculation period, of the Discount Rate Loans, Capped (SVR) Loans and Variable Rate Loans in the Portfolio (other than those in respect of which three or more monthly payments have become due and are unpaid by a Borrower) (the "**SVR Swap Loans**"), *provided that* if a Further Advance, Product Switch or Substitution is made in respect of any SVR Swap Loan in certain circumstances set out in the SVR Swap Transaction (any such SVR Swap Loan, a "**Relevant Loan**") then the Current Balance of any Relevant Loan(s) will be excluded from the calculation of the SVR Notional Amount. The SVR Notional Amount for the initial calculation period ending on the First Interest Payment Date will be equal to the aggregate

Current Balance of the Discount Rate Loans, Capped (SVR) Loans and Variable Rate Loans in the Portfolio on or around the Closing Date.

Fixed Interest Period Swap Provider Amounts, BBR Interest Period Swap Provider Amounts and SVR Interest Period Swap Provider Amounts are collectively referred to as "**Interest Period Swap Provider Amounts**". Fixed Interest Period Issuer Amounts, BBR Interest Period Issuer Amounts and SVR Interest Period Issuer Amounts are collectively referred to as "**Interest Period Issuer Amounts**".

After these amounts are calculated in respect of each Swap Agreement and in relation to an Interest Payment Date, the following payments will be made on or in respect of that Interest Payment Date: (i) if the relevant Interest Period Issuer Amount is greater than the relevant Interest Period Swap Provider Amount, then the Issuer will pay the difference to the Swap Provider and (ii) if the relevant Interest Period Swap Provider Amount is greater than the relevant Interest Period Issuer Amount, then the Swap Provider will pay the difference to the Issuer.

If a payment is to be made by the Swap Provider (other than payments to be credited to the relevant Swap Collateral Account), that payment will be included in the Available Revenue Receipts and will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments.

Estimations and Reconciliations

Where no Administrator Report or other relevant information on the basis of which the notional amount of the Swap Transactions would ordinarily be determined has been received, in respect of any Collection Period, the Fixed Rate Notional Amount, the BBR Notional Amount, the SVR Notional Amount and the applicable standard variable rate under the SVR Swap Transaction shall be estimated by reference to the change in the notional amount of each Swap Transaction over the three most recent calculation periods thereunder (or, where there are not at least three previous calculation periods, fewer than three calculation periods) or the previous applicable standard variable rate under the SVR Swap Transaction, as applicable or other relevant available information.

If an Administrator Report or such other relevant information is delivered in respect of any subsequent Collection Period, then (i) the Fixed Notional Amount, the BBR Notional Amount, the SVR Notional Amount and the applicable standard variable rate under the SVR Swap Transaction will be calculated on the basis of the information in such Administrator Report or such other relevant information and (ii) one or more reconciliation payments may be required to be made, either by the Issuer or by the relevant Swap Provider in respect of each Swap Transaction, in order to account for any overpayment(s) or underpayment(s) made in respect of such Swap Transaction during the relevant period of estimations.

Termination of the relevant Swap Agreement

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

- (a) if there is a failure by a party to pay amounts due under the relevant Swap Agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to a party;
- (c) if a breach of a provision of a Swap Agreement by the relevant Swap Provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under a Swap Agreement;
- (f) if a Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the relevant Swap Agreement and described below in "*Key Structural Features – Ratings Downgrade of Swap Provider*";

- (g) if the Trustee serves an Enforcement Notice on the Issuer pursuant to Condition 13 (*Events of Default*) of the Notes;
- (h) if there is a redemption of the Notes pursuant to Condition 9.4 (*Optional redemption in whole for taxation purposes*) of the Notes; and
- (i) if any amendment is made to any Transaction Document which affects (i) the amount or timing of payments under the Swap Agreements or (ii) any Priority of Payments, in each case without the relevant Swap Provider's prior consent.

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 party. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated swap 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 termination payment due from the Issuer to a Swap Provider will be made first out of amounts standing to the credit of the relevant Swap Collateral Account in accordance with the relevant Swap Collateral Account Priority of Payments and then, to the extent that there are insufficient funds standing to the credit of the relevant Swap Collateral Account for this purpose in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. Any such termination payment could be substantial.

The Issuer will apply any termination payment it receives from a termination of any Swap Agreement first to purchase a replacement swap in accordance with the Swap Collateral Account Priority of Payments. 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). Other than a Swap Collateral Account Surplus (if any), any such termination payment or premium received by the Issuer will not be available to meet the Issuer's obligations on the Notes or under the Transaction Documents.

Ratings Downgrade of Swap Provider

If, at any time following the Closing Date, the short term or long-term, unsecured and unsubordinated debt obligations of any Swap Provider (or its guarantor), as applicable, are downgraded by a Rating Agency below the required ratings specified in the relevant Swap Agreement for the relevant Swap Provider or any Swap Provider (or its guarantor) is put on "Rating Watch Negative" by Fitch such that it is treated by Fitch as being rated below such required ratings, 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 ratings 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.

Taxation

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

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

The Issuer shall repay the amount of any Swap Tax Credits in relation to any Swap Agreement directly to the relevant Swap Provider and not in accordance with any Priority of Payments.

Governing Law

The Swap Agreements will be governed by English law.

Replacement of a Swap Agreement

Replacement upon early termination

In the event that any Swap Agreement 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 agreement. There can be no assurance that the Issuer will be able to enter into a replacement swap agreement or, if one is entered into, as to the terms of the replacement swap agreement or the credit rating of the replacement swap provider.

Depending on the circumstances prevailing in the market at the time, the Issuer or the replacement swap provider may be liable to make a payment to the other in order to enter into a replacement swap agreement (such payment, a "**Replacement Swap Premium**"). If a Replacement Swap Premium is payable by the replacement swap provider to the Issuer, any such amount received by the Issuer will be credited to the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments. If a Replacement Swap Premium is payable by the Issuer to the replacement swap provider, the Issuer may not have sufficient funds standing to the credit of the relevant Swap Collateral Account in order to make such payment in accordance with the relevant Swap Collateral Account Priority of Payments and therefore may be unable to enter into a replacement swap agreement.

Replacement in other circumstances

The Seller has the right, at any time upon giving prior notice to the Issuer, the Trustee and the relevant Swap Provider, to require that any Swap Transaction be transferred or novated by the relevant Swap Provider to the Seller, provided that, *inter alia*, (i) certain requirements of the Rating Agencies (as set out in the relevant Swap Agreement) are complied with or each of the Rating Agencies confirms that such transfer or novation will not have an adverse effect on the then current ratings of the Notes and (ii) no unfunded additional amounts (including any swap termination payment) will become payable by the Issuer to the relevant Swap Provider as a result of such transfer or novation.

Swap Credit Support Annex

On or around the Closing Date, each Swap Provider will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (each a "**Swap Credit Support Annex**") in support of the obligations of that Swap Provider under the relevant Swap Agreement. Pursuant to the terms of each Swap Credit Support Annex, if at any time the relevant Swap Provider is required to provide collateral in respect of any of its obligations under the relevant Swap Agreement, such Swap Credit Support Annex will provide that, from time to time, subject to the conditions specified in the Swap Credit Support Annex and the relevant Swap Agreement, the relevant Swap Provider will make transfers of collateral to the Issuer in respect of its obligations under the relevant Swap Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of the Swap Credit Support Annex.

Swap Collateral

In the event that a Swap Provider is required to transfer collateral to the Issuer in respect of its obligations under any Swap Agreement in accordance with the terms of the relevant Swap Credit Support Annex, that collateral (and any interest and/or distributions earned thereon) will be credited to a separate Swap Collateral Account. In addition, upon any early termination of any Swap Agreement or novation of the Swap Provider's obligations under such Swap Agreement to a replacement Swap Provider, (i) any Replacement Swap Premium received by the Issuer from a replacement Swap Provider and/or (ii) any termination payment received by the Issuer from the outgoing Swap Provider will be credited to the relevant Swap Collateral Account.

Amounts and securities standing to the credit of each Swap Collateral Account (including interest, distributions and redemption or sale proceeds thereon or thereof) will not be available for the Issuer or the Trustee to make payments to the Secured Creditors generally, but may be applied only in accordance with the following provisions (the "**Swap Collateral Account Priority of Payments**"):

- (i) prior to the designation of an Early Termination Date in respect of the relevant Swap Agreement, solely in or towards payment of any Return Amounts, Interest Amounts and Distributions (as defined in the relevant Swap Credit Support Annex), on any day, directly to the relevant Swap Provider in accordance with the terms of the relevant Swap Credit Support Annex;
- (ii) following (1) the designation of an Early Termination Date in respect of the relevant Swap Agreement where (A) such Early Termination Date has been designated following an Event of Default (as defined in the relevant Swap Agreement) in respect of which the Swap Provider is the Defaulting Party or an Additional Termination Event (as defined in the relevant Swap Agreement) resulting from a ratings downgrade of the Swap Provider and (B) the Issuer enters into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement or (2) any novation of a Swap Provider's obligations to a replacement Swap Provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:
 - (a) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and
 - (b) *second*, in or towards payment of any termination payment due to the outgoing Swap Provider; and
 - (c) *third*, the surplus (if any) (a "**Swap Collateral Account Surplus**") on such day to be transferred to the GIC Account;
- (iii) following (1) the designation of an Early Termination Date in respect of the relevant Swap Agreement where (A) such Early Termination Date has been designated otherwise than as a result of one of the events specified at items (ii)(A) above and (B) the Issuer enters into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement or (2) any novation of a Swap Provider's obligations to a replacement Swap Provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:
 - (a) *first*, in or towards payment of any termination payment due to the outgoing Swap Provider;
 - (b) *second*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and
 - (c) *third*, the surplus (if any) (a "**Swap Collateral Account Surplus**") on such day to be transferred to the GIC Account;
- (iv) following the designation of an Early Termination Date in respect of the relevant Swap Agreement for any reason where the Issuer does not enter into a replacement swap agreement in respect of such Swap Agreement on or around the Early Termination Date of such Swap Agreement, on any day, in or towards payment of any termination payment due to the outgoing Swap Provider;
- (v) following payments of amounts due pursuant to (iv) above, if amounts remain standing to the credit of a Swap Collateral Account, such amounts may be applied only in accordance with the following provisions:
 - (a) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement to which such Swap Collateral Account relates; and

- (b) *second*, the surplus (if any) (a "**Swap Collateral Account Surplus**") remaining after payment of such Replacement Swap Premium to be transferred to the GIC Account,

provided that if the Issuer does not enter into a replacement swap agreement with respect to the Swap Agreement to which such Swap Collateral Account relates on or prior to the earlier of:

- (1) the day that is 14 days prior to the date on which the Principal Amount Outstanding of all Classes of Notes is reduced to zero (other than following the occurrence of an Event of Default pursuant to Condition 13); or
- (2) the day on which an Enforcement Notice is given pursuant to Condition 13,

then the amount standing to the credit of such Swap Collateral Account on such day shall be a "**Swap Collateral Account Surplus**" and shall be transferred to the GIC Account as soon as reasonably practicable thereafter.

The Swap Collateral Accounts will be opened in the name of the Issuer and will be held at a financial institution which meets the relevant ratings requirements. A separate Swap Collateral Account will be established and maintained in respect of each Swap Agreement. As security for the payment of all moneys payable in respect of the Notes and the other Secured Amounts, the Issuer will grant a first fixed charge over the Issuer's interest in the Swap Collateral Accounts and the debts represented thereby (which may, however, take effect as a floating charge and therefore rank behind the claims of any preferential creditors of the Issuer).

CASHFLOWS AND CASH MANAGEMENT

APPLICATION OF REVENUE RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

Definition of Revenue Receipts

"**Revenue Receipts**" means (a) payments of interest (excluding payments in respect of Accrued Interest and Arrears of Interest as at the Closing Date or the relevant Substitution Date of a Loan, as applicable) of the Loans (including any early repayment fees) and other amounts received by the Issuer in respect of the Loans other than Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced, (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed and (d) certain fees (which do not fall within paragraph (e) of the definition of "Principal Receipts") which have been allocated by the Seller (in accordance with its collection policies) as interest payments and charged by the Administrator in respect of servicing the loans, which have been charged and repaid by a means other than the Borrower's monthly instalment.

"**Accrued Interest**" means in respect of a Loan as at any date the aggregate of all interest charged to the Borrower's account (i) in the month immediately preceding the Closing Date or (ii) in the month of the relevant Substitution Date in respect of a Loan, as applicable, which remains unpaid to (but excluding) the relevant date.

"**Arrears of Interest**" means as at any date in respect of any Loan, the aggregate of all interest (other than Capitalised Arrears, Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date.

"**Capital Balance**" means in respect of a Loan at any date the principal balance of that Loan to which the Administrator applies the relevant interest rate and on which interest on the Loan accrues.

"**Capitalised Interest**" means, for any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date).

Definition of Available Revenue Receipts

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

- (a) Revenue Receipts received during the immediately preceding Collection Period, less amounts applied during such Collection Period in making payment of certain moneys which properly belong to third parties such as (but not limited to):
 - (i) payments of certain insurance premiums;
 - (ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account; and
 - (iii) any amount received from a Borrower for the express purpose of payment being made to a third party or the Seller for the provision of a service to that Borrower or the Seller,items within paragraphs (i), (ii) and (iii) being collectively referred to herein as "**Permitted Withdrawals**", which amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto;
- (b) interest payable to the Issuer on the GIC Account and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Swap Agreements (other than (i) any amounts or securities to be credited to the Swap Collateral Accounts; and (ii) any amount received by the Issuer in respect of Swap Tax Credits) on or in respect of such Interest Payment Date;

- (d) any Swap Collateral Account Surplus;
- (e) any amounts released from the General Reserve Fund when the General Reserve Required Amount is reduced to zero (on redemption in full of the Class A Notes), provided that the Subordinated Loan has been repaid in full; and
- (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (e) above.

Application of General Reserve Fund Amounts and Principal Receipts to cover income deficits

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

If the Cash Manager determines that there would be an Income Deficit on an Interest Payment Date to pay those items, then the Issuer shall pay or provide for that Income Deficit by applying amounts standing to the credit of the General Reserve Fund.

If, following application of amounts standing to the credit of the General Reserve Fund, the Cash Manager determines that there would be a Remaining Income Deficit, then the Issuer shall pay or provide for such Remaining Income Deficit by applying Principal Receipts (if any) and the Cash Manager shall make a corresponding entry in the Principal Deficiency Ledger as described in "*Key Structural Features*" above.

General Reserve Fund and General Reserve Ledger

On the Closing Date, a fund will be established called the General Reserve Fund. The General Reserve Fund will be funded on the Closing Date by the Subordinated Loan in the sum of £30,000,000 (the "**General Reserve Required Amount**") (being an amount equal to 2.5 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date). The General Reserve Fund will be credited to the GIC Account (with a corresponding credit to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the GIC Account in Authorised Investments. See "*Key Structural Features*" above.

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

After the Closing Date, the General Reserve Fund will be replenished from Available Revenue Receipts in accordance with the provisions of the Pre-Enforcement Revenue Priority of Payments up to the General Reserve Required Amount.

Following repayment in full of the Class A Notes, the Issuer shall not be required to maintain the General Reserve Fund and the General Reserve Required Amount shall be zero, in which case, such amounts standing to the credit of the General Reserve Fund shall be used first, to repay the Subordinated Loan in full and second, any remainder shall be used as Available Revenue Receipts.

Application of Available Revenue Receipts prior to the service of an Enforcement Notice by the Trustee on the Issuer

On each Interest Payment Date (or in respect of items (a) and (b) below, on any date) prior to the service of an Enforcement Notice by the Trustee on the Issuer, the Cash Manager (on behalf of the Issuer) shall apply or provide for the Available Revenue Receipts together with (in the case of any Income Deficit) any amount standing to the credit of the General Reserve Fund and (in the case of any Remaining Income Deficit) any amounts referred to in paragraph (d) of the definition of Available Principal Receipts in the following order of priority (in each case only if and to the extent that payments or provisions of a higher priority have been made in full) (the "**Pre-Enforcement Revenue Priority of Payments**"):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any fees, costs, charges, liabilities, expenses and all other amounts then due and

payable or to become due and payable in the immediately succeeding Interest Period to the Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein;

- (b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer to corporation tax (which cannot be met out of amounts retained previously by the Issuer as profit under item (i) below);
 - (iii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable or to become due and payable in the immediately succeeding Interest Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein; and
 - (iv) any Transfer Costs which the Seller has failed to pay;
- (c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
- (i) any amounts due and payable to the Administrator (or, where applicable, any Back-Up Administrator) and any costs, charges, liabilities and expenses then due and payable to the Administrator (or, where applicable, any Back-Up Administrator) or any such amount to become due and payable to the Administrator (or, where applicable, any Back-Up Administrator) in the immediately succeeding Interest Period under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts then due and payable to the Cash Manager (or, where applicable, any Back-Up Cash Manager) and any costs, charges, liabilities and expenses then due and payable to the Cash Manager (or, where applicable, any Back-Up Cash Manager) or any such amount to become due and payable to the Cash Manager (or, where applicable, any Back-Up Cash Manager) in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;
 - (iii) any amounts then due and payable to the Account Bank or to a bank at which a Swap Collateral Account is held and any costs, charges, liabilities and expenses then due and payable to the Account Bank or to such bank at which a Swap Collateral Account is held, any such amount to become due and payable to the Account Bank or such bank at which a Swap Collateral Account is held, as applicable, in the immediately succeeding Interest Period under the provisions of the Account Bank Agreement or agreement governing the operation of a Swap Collateral Account, together with (if payable) VAT thereon as provided therein; and
 - (iv) any amounts then due and payable to the Back-Up Administrator Facilitator and any costs, charges, liabilities and expenses then due and payable to the Back-Up Administrator Facilitator under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;

- (d) *fourth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the relevant Swap Agreement amounts due to the Swap Providers in respect of the Swap Agreements (including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any related Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex);
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* of:
 - (i) interest due and payable on the Class A1 Notes; and
 - (ii) interest due and payable on the Class A2 Notes;
- (f) *sixth*, to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;
- (g) *seventh*, (so long as the Class A Notes will remain outstanding following such Interest Payment Date) to credit the General Reserve Ledger up to the General Reserve Required Amount;
- (h) *eighth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the relevant Swap Agreement, to any Swap Provider any Swap Subordinated Amount;
- (i) *ninth*, to retain the Issuer Profit Amount;
- (j) *tenth*, to pay interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest thereon);
- (k) *eleventh*, to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;
- (l) *twelfth*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (m) *thirteenth*, to pay the principal amounts due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and
- (n) *fourteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

APPLICATION OF PRINCIPAL RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

Definition of Principal Receipts

"**Principal Receipts**" means (a) principal repayments under the Loans (b) payments in respect of Accrued Interest and Arrears of Interest as at the Closing Date or the relevant Substitution Date in respect of a Loan, as applicable, Capitalised Interest and Capitalised Expenses and Capitalised Arrears, (c) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property), (d) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio, (e) and any disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the Seller's normal charging practices and repaid via a Borrower's monthly instalment, provided that payments received in respect of any fees which have been allocated by the Seller (in accordance with its collection policies) as interest payments, shall not constitute Principal Receipts, (f) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

"**Accrued Interest**" means in respect of a Loan as at any date the aggregate of all interest charged to the Borrower's account (i) in the month immediately preceding the Closing Date or (ii) in the month of the relevant Substitution Date in respect of a Loan, as applicable, which remains unpaid to (but excluding) the relevant date.

"**Arrears of Interest**" means as at any date in respect of any Loan, the aggregate of all interest (other than Capitalised Arrears, Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date.

"**Capitalised Interest**" means, for any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that date).

"**Capital Balance**" means in respect of a Loan at any date the principal balance of that Loan to which the Administrator applies the relevant interest rate and on which interest on the Loan accrues.

"**Capitalised Arrears**" means for any Loan at any date, arrears in respect of that Loan and which as at that date have been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

"**Capitalised Expenses**" means for any Loan at any date, expenses which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

Definition of Available Principal Receipts

"**Available Principal Receipts**" means for any Interest Payment Date:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period;
- (b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (k) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and
- (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration,

less:

- (d) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits on such Interest Payment Date; and
- (e) the amount of Principal Receipts to the extent comprised in paragraph (a) above used by the Issuer during the immediately preceding Collection Period to purchase Further Advances.

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

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

- (a) *first, pro rata and pari passu*, to redeem the Class A1 Notes until the Class A1 Notes have been redeemed in full;
- (b) *second, pro rata and pari passu*, to redeem the Class A2 Notes until the Class A2 Notes have been redeemed in full;
- (c) *third, pro rata and pari passu*, to redeem the Class B Notes until the Class B Notes have been redeemed in full; and

- (d) *fourth*, to Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

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

Following the service of an Enforcement Notice by the Trustee on the Issuer, the Trustee (or the Cash Manager on its behalf or a Receiver) will apply amounts (other than (i) amounts standing to the credit of the Swap Collateral Accounts, except for any Swap Collateral Account Surplus, and (ii) any amount received by the Issuer in respect of Swap Tax Credits received or recovered following the service of an Enforcement Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) in the following order of priority (the "**Post-Enforcement Priority of Payments**" and, together with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, the "**Priority of Payments**"):

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

- (iv) any amounts then due and payable to the Back-Up Administrator Facilitator and any costs, charges, liabilities and expenses then due and payable to the Back-Up Administrator Facilitator under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein.
- (d) *fourth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the relevant Swap Agreement amounts due and payable to the Swap Providers in respect of the Swap Agreements (including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex(as defined in the relevant Swap Credit Support Annex));
- (e) *fifth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
 - (i) interest due and payable on the Class A1 Notes; and
 - (ii) interest due and payable on the Class A2 Notes;
- (f) *sixth*, to pay *pro rata* and *pari passu* according to the respective outstanding amounts thereof:
 - (i) principal due and payable on the Class A1 Notes;
 - (ii) principal due and payable on the Class A2 Notes;
- (g) *seventh*, interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest thereon);
- (h) *eighth*, to pay *pro rata* and *pari passu* principal due and payable on the Class B Notes;
- (i) *ninth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the relevant Swap Agreement, to any Swap Provider any Swap Subordinated Amount;
- (j) *tenth*, to pay all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement;
- (k) *eleventh*, to the Issuer, the Issuer Profit Amount;
- (l) *twelfth*, to pay any amounts required by the Issuer to pay or discharge any liability of the Issuer to corporation tax (which cannot be made out of amounts retained previously by the Issuer or profit paid to the Issuer under item (k) above);
- (m) *thirteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

Back-Up Cash Manager

Under the Cash Management Agreement in the event that the short term unsecured, unsubordinated and unguaranteed debt rating of the Cash Manager has fallen below Baa3 by Moody's (or such lower short term rating specified by Moody's) the Issuer shall require the Cash Manager, within 60 days of the date on which the ratings of the Cash Manager have so fallen, use best efforts to appoint a Back-Up Cash Manager which meets the requirements for a substitute cash manager provided for by the Cash Management Agreement in accordance with the provisions of the Cash Management Agreement.

DESCRIPTION OF THE NOTES IN GLOBAL FORM

General

The Notes of each Class or sub-Class will be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S and will be represented on issue by one or more Global Notes of such class in fully registered form without interest coupons or principal receipts attached (each a "**Global Note**"). Beneficial interests in a Global Note may only be held through Euroclear or Clearstream, Luxembourg or their participants at any time.

All capitalised terms not defined in this paragraph shall be as defined in the Conditions of the Notes.

The Global Notes will be deposited on or about the Closing Date with a common depository for both Euroclear and Clearstream, Luxembourg (the "**Common Depository**").

The Global Notes will be registered in the name of a nominee for the Common Depository. The Issuer will procure the Registrar to maintain a register in which it will register the nominee for the Common Depository, as applicable, as the owner of the Global Notes.

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

Book-Entry Interests in respect of Global Notes will be recorded in denominations of £100,000 and, for so long as or Clearstream, Luxembourg so permit integral multiples of £1,000 in excess thereof (a "**Minimum Denomination**"). Ownership of Book-Entry Interests is limited to persons that have accounts with Euroclear or Clearstream, Luxembourg ("**Participants**") or persons that hold interests in the Book-Entry Interests through Participants ("**Indirect Participants**"), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the Arrangers. 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 of the Common Depository is the registered holder of the Global Notes underlying the Book-Entry Interests, the nominee the Common Depository will be considered the sole Noteholder of the Global Note for all purposes under the Trust Deed. Except as set forth under "*Issuance of Definitive Certificates*", below, Participants or Indirect Participants will not be entitled to have Notes registered in their names, will not receive or be entitled to receive physical delivery of Notes in definitive registered form and will not be considered the holders thereof under the Trust Deed. Accordingly, each person holding a Book-Entry Interest must rely on the rules and procedures of Euroclear or Clearstream, Luxembourg, as the case may be, and Indirect Participants must rely on the procedures of the Participants or Indirect Participants through which such person owns its interest in the relevant Book-Entry Interests, to exercise any rights and obligations of a holder of Notes under the Trust Deed. See "*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 Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Definitive Certificates are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear or Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

Unless and until Book-Entry Interests in the Global Notes are exchanged for Definitive Certificates, the Global Notes registered in the name of the Common Depositary may not be transferred except as a whole by the Common Depositary to a successor of the Common Depositary.

Purchasers of Book-Entry Interests in a Global Note pursuant to Regulation S will hold Book-Entry Interests in the Global Notes relating thereto. Investors may hold their Book-Entry Interests in respect of a Global Note directly through Euroclear or Clearstream, Luxembourg (in accordance with the provisions set forth under "*Transfers and Transfer Restrictions*", below), if they are account holders in such systems, or indirectly through organisations which are account holders in such systems. Euroclear and Clearstream, Luxembourg will hold Book-Entry Interests in each Global Note, as the case may be, 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.

Trading between Euroclear and/or Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds and sterling denominated bonds.

Payments on the Global Notes

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

In accordance with the rules and procedures for the time being of Euroclear or, as the case may be, Clearstream, Luxembourg, after receipt of any payment from the Principal Paying Agent to the order of the Common Depositary, the respective systems will promptly credit their Participants' accounts with payments in amounts proportionate to their respective ownership of Book-Entry Interests as shown in the records of Euroclear or Clearstream, Luxembourg. On each record date, 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 one Clearing System Business Day prior to the relevant Interest Payment Date where "**Clearing System Business Day**" means a day on which each clearing system for which the Notes are being held is open for business. 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 Arrangers or the Trustee will have any responsibility or liability for any aspect of the records relating to or payments made on account of a Participant's ownership of Book-Entry Interests or for maintaining, supervising or reviewing any records relating to a Participant's ownership of Book-Entry Interests.

Information Regarding Euroclear and Clearstream, Luxembourg

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

Euroclear and Clearstream, Luxembourg

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

Cancellation

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

Transfers and Transfer Restrictions

All transfer of Book-Entry Interests will be recorded with the book-entry systems maintained by Euroclear or Clearstream, Luxembourg, as applicable, pursuant to the customary procedures established by each respective system and its Participants.

Beneficial interests in the Global Notes may be held only through Euroclear and Clearstream, Luxembourg. 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.

Settlement and transfer of notes

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through Participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the "**beneficial owner**") will in turn be recorded on the Participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct and indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of beneficial owners. **Beneficial owners will not receive individual notes representing their ownership interests in such notes unless use of the book-entry system for the notes described in this section is discontinued.**

No clearing system has knowledge of the actual beneficial owners of the notes held within such clearing system and their records will reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Issuance of Definitive Certificates

Holders of Book-Entry Interests in the Global Note will be entitled to receive certificates evidencing definitive notes in registered form ("**Definitive Certificates**") in exchange for their respective holdings of Book-Entry Interests if (a) both Euroclear and Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business and do so cease to do business and no alternative clearing system satisfactory to the Trustee is available or (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration by a revenue authority or a court or in the administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any deduction or withholding from any payment in respect of the Notes which would not be required were the Notes in definitive form.

Any Definitive Certificates issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg. 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 Certificates issued in exchange for Book-Entry Interests in a Global Note, as the case may be, will not be entitled to exchange such Definitive Certificate, for Book-Entry Interests in a Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above 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 Certificates will not be issued in a denomination that is not an integral multiple of the Minimum Denomination or for any amount in excess thereof, in integral multiples of £1,000. As the Notes have a denomination consisting of the Minimum Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £100,000 (or its equivalent) that are not integral multiples of £100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the Minimum Denomination may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be issued) and would need to purchase a principal amount of Notes such that its holding amounts to the Minimum 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 Notes or any notice of solicitation of consents or requests for a waiver or other action by the holder of the Global Notes, the Issuer will deliver to Euroclear and Clearstream, Luxembourg a notice containing (a) such information as is contained in such notice, (b) a statement that at the close of business on a specified record date Euroclear and Clearstream, Luxembourg will be entitled to instruct the Issuer as to the consent, waiver or other action, if any, pertaining to the Book-Entry Interests or the Global Notes and (c) a statement as to the manner in which such instructions may be given. Upon the written request of Euroclear and Clearstream, Luxembourg, as applicable, the Issuer shall endeavour insofar as practicable to take such action regarding the requested consent, waiver or other action in respect of the Book-Entry Interests or the Global Notes in accordance with any instructions set forth in such request. Euroclear or Clearstream, Luxembourg are expected to follow the procedures described under "*General*" above, with respect to soliciting instructions from their respective Participants. The Registrar will not exercise any discretion in the granting of consents or waivers or the taking of any other action in respect of the Book-Entry Interests or the Global Notes.

Reports

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

TERMS AND CONDITIONS OF THE NOTES

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

1. General

- 1.1 The £295,000,000 Class A1 Mortgage Backed Floating Rate Notes due 2043 (the "**Class A1 Notes**"), the £737,000,000 Class A2 Mortgage Backed Floating Rate Notes due 2043 (the "**Class A2 Notes**" and together with the Class A1 Notes, the "**Class A Notes**") and the £168,000,000 Class B Mortgage Backed Floating Rate Notes due 2043 (the "**Class B Notes**" and, together with the Class A Notes, the "**Notes**") will be issued by Darrowby No. 1 plc (registered number 07451854) (the "**Issuer**") on or about the Closing Date.
- 1.2 The Issuer has agreed to issue the Notes subject to and with the benefit of the terms of the Trust Deed and the Agency Agreement. The security for the Notes is created pursuant to, and on the terms set out in, the Deed of Charge.
- 1.3 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the Notes.
- 1.4 Certain provisions of these Conditions are summaries of the Trust Documents and the Incorporated Terms Memorandum and the Agency Agreement and are subject to their detailed provisions.
- 1.5 The Noteholders are bound by the terms of the Trust Documents and the Incorporated Terms Memorandum, and are deemed to have notice of all the provisions of the Transaction Documents.
- 1.6 Copies of the Trust Deed, the Deed of Charge, the Agency Agreement, the Incorporated Terms Memorandum 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 principal office for the time being of the Trustee, being at the date hereof Citigroup Centre, Canada Square, London E14 5LB and at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. Definitions

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

"Account Bank " means The Royal Bank of Scotland N.V. acting in such capacity (or any successor duly appointed);

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

"Accrued Interest" means in respect of a Loan as at any date the aggregate of all interest charged to the Borrower's account (i) in the month immediately preceding the Closing Date or (ii) in the month of the relevant Substitution Date in respect of a Loan, as applicable, which remains unpaid to (but excluding) the relevant date;

"Administration Agreement" means the agreement so named dated on or about the Closing Date between the Issuer, the Cash Manager, the Administrator, the Back-Up Administrator Facilitator and the Trustee;

"Administrator" means Skipton Building Society (or any successor duly appointed);

"Administrator Report" means a report to be provided by the Administrator in respect of each Collection Period in accordance with the terms of the Transaction Documents;

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

"Agent Bank" means Citibank, N.A., London Branch in its capacity as agent bank pursuant to the Agency Agreement (or any successor duly appointed);

"Agents" means the Agent Bank and the Paying Agents and the Registrar (or any successors duly appointed) and **"Agent"** means any one of them;

"Appointee" means any delegate, agent, nominee, custodian, attorney or manager appointed by the Trustee pursuant to the provisions of the Trust Deed and other Transaction Documents;

"Authorised Investments" means:

- (a) Sterling gilt-edged securities; and
- (b) Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper), provided that in all cases either such investments (i) have been given a short term rating of at least F1+ by Fitch (or such other short term rating which is otherwise acceptable to Fitch), (ii) have a maturity date of 90 days or less and mature on or before the next following Interest Payment Date (unless the Interest Period in respect of such Interest Payment Date is greater than 90 days, in which case the maturity date of the Authorised Investments may be greater than 90 days but less than or equal to the number of days in such Interest Period) or (iii) may be broken or demanded by the Issuer (at no cost to the Issuer) on or before the next following Interest Payment Date, and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least P-1 by Moody's and F1+ by Fitch (and AA- by Fitch (long-term) (if the issuing or guaranteeing entity has a long-term rating) (or such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency) and (iv) have a yield equal to or exceeding the interest rate on the GIC Account (provided that this shall only apply if the interest rate on the GIC Account is equal to or less than LIBOR for three-month sterling deposits);

"Authorised Signatory" means, in relation to any Transaction Party, any person who is duly authorised and in respect of whom a certificate has been provided signed by a director or another duly authorised person of such Transaction Party setting out the name and signature of such person and confirming such person's authority to act;

"Arrears of Interest" means as at any date in respect of any Loan, the aggregate of all interest (other than Capitalised Arrears, Capitalised Interest or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date.

"Available Principal Receipts" means for any Interest Payment Date:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period;
- (b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (k) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and
- (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration,

less:

- (d) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits on such Interest Payment Date; and
- (e) the amount of Principal Receipts to the extent comprised in paragraph (a) above used by the Issuer during the immediately preceding Collection Period to purchase Further Advances;

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

- (a) Revenue Receipts received during the immediately preceding Collection Period, less amounts applied during such Collection Period in making payment of certain moneys which properly belong to third parties such as (but not limited to):
 - (i) payments of certain insurance premiums;
 - (ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account;
 - (iii) any amount received from a Borrower for the express purpose of payment being made to a third party or the Seller for the provision of a service to that Borrower or the Seller,(items within paragraphs (i), (ii) and (iii) being collectively referred to herein as **"Permitted Withdrawals"**), which amounts may be deducted by the Cash Manager on a daily basis from the GIC Account to make payment to the persons entitled thereto;
- (b) interest payable to the Issuer on the GIC Account and income from any Authorised Investments in each case received during the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Swap Agreements (other than (i) any amounts or securities to be credited to the Swap Collateral Accounts; and (ii) any amount received by the Issuer in respect of Swap Tax Credits) on or in respect of such Interest Payment Date;
- (d) any Swap Collateral Account Surplus;
- (e) any amounts released from the General Reserve Fund when the General Reserve Required Amount is reduced to zero (on redemption in full of the Class A Notes), provided that the Subordinated Loan has been repaid in full; and
- (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (e) above;

"BBR Swap Agreement" means the swap agreement between the Issuer and the BBR Swap Provider thereunder dated on or about the Closing Date, consisting of an ISDA Master Agreement together with a Schedule thereto, a credit support annex and confirmation documenting the BBR Swap Transaction, as such may be amended from time to time, and/or any successive or replacement swap agreement entered into by the Issuer from time to time;

"BBR Swap Provider" means The Royal Bank of Scotland plc and/or any successor or replacement swap provider or providers from time to time under the BBR Swap Agreement;

"BBR Swap Transaction" means the swap transaction dated on or about the Closing Date between the Issuer and the BBR Swap Provider, as amended from time to time, and/or any replacement or successive swap transaction or transactions entered into by the Issuer from time to time;

"Borrower" means, in relation to a 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 Loan or any part of it;

"Breach of Duty" means in relation to any person, a wilful default, fraud, illegal dealing, negligence or material breach of any agreement or breach of trust by such person;

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

"Calculation Date" means in relation to an Interest Payment Date, the fifth Business Day prior to such Interest Payment Date;

"Capital Balance" means in respect of a Loan at any date the principal balance of that Loan to which the Administrator applies the relevant interest rate and on which interest on the Loan accrues.

"Capitalised Arrears" means for any Loan at any date, arrears in respect of that Loan and which as at that date have been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

"Capitalised Expenses" means for any Loan at any date, expenses which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower.

"Capitalised Interest" means, for any Loan at any date, interest which is overdue in respect of that Loan and which as at that date has been added to the Capital Balance of that Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower (excluding for the avoidance of doubt any Arrears of Interest which have not been so capitalised on that 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;

"Cash Manager" means Skipton Building Society in its capacity as cash manager pursuant to the Cash Management Agreement (or any successor duly appointed);

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

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

"Class A Principal Deficiency Sub Ledger" means the sub ledger of the Principal Deficiency Ledger relating to the Class A Notes;

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

"Class B Principal Deficiency Sub Ledger" means the sub ledger of the Principal Deficiency Ledger relating to the Class B Notes;

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

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

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

"Collection Account Bank" means Barclays Bank plc acting in its capacity as the bank at which the Collection Account are maintained;

"Collection Account Declaration of Trust" means the relevant deed entered into on or about the Closing Date, between (*inter alios*) the Issuer, the Seller and the Collection Account Bank whereby the Seller declared a trust over the Collection Account (including all amounts standing to the credit of those Collection Account) in favour of the Issuer and itself;

"Collection Period" means each period from (but excluding) the last day in the calendar month immediately preceding a Calculation Date (or, in the case of the first Collection Period, from (and including) 24 March 2011) to (and including) the last day in the calendar month immediately preceding the immediately following Calculation Date (or, in the case of the first Collection Period, the last day in the calendar month immediately preceding the first Calculation Date);

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

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

"Corporate Services Provider" means Structured Finance Management Limited (or any successor duly appointed);

"Day Count Fraction" means, in respect of an Interest Period, the actual number of days in such period divided by 365 (or 366 days if the relevant calculation is being made in respect of an Interest Period ending in a leap year);

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

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

- (a) the items described in (a) to (m) inclusive of the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date;
- (b) the items described in (a) to (c) inclusive of the Pre-Enforcement Principal Priority of Payments on each Interest Payment Date; or
- (c) the items described in (a) to (l) inclusive of the Post-Enforcement Priority of Payments;

"Deferred Interest" shall have the meaning given to such term in Condition 8.11(a) (*Interest Accrual*);

"Enforcement Notice" means a notice delivered by the Trustee to the Issuer in accordance with Condition 13 (*Events of Default*) which declares the Notes to be immediately due and payable;

"English Mortgage" means a first ranking legal charge secured over freehold or leasehold Properties located in England or Wales;

"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;

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

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

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

"**Fee and Insurance Receipts**" means payments received by the Issuer directly or from the Seller in respect of which a fee or insurance premium payable by a Borrower has been identified;

"**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 and/or all other moneys and other liabilities due or owing by the Issuer have been paid or discharged in full;

"**Final Maturity Date**" means the Interest Payment Date falling in December 2043;

"**First Interest Payment Date**" means the Interest Payment Date falling in September 2011;

"**Fitch**" means Fitch Ratings Ltd;

"**Fixed Rate Swap Agreement**" means the swap agreement between the Issuer and the Fixed Rate Swap Provider thereunder dated on or about the Closing Date, consisting of an ISDA Master Agreement together with a Schedule thereto, a credit support annex and confirmation documenting the Fixed Rate Swap Transaction, as such may be amended from time to time, and/or any successive or replacement swap agreement entered into by the Issuer from time to time;

"**Fixed Rate Swap Provider**" means J.P. Morgan Securities Ltd. (whose obligations under the Fixed Rate Swap Agreement are guaranteed by JPMorgan Chase Bank, National Association) and/or any successor or replacement swap provider or providers from time to time under the Fixed Rate Swap Agreement;

"**Fixed Rate Swap Transaction**" means the swap transaction dated on or about the Closing Date between the Issuer and the Fixed Rate Swap Provider, as amended from time to time, and/or any replacement or successive swap transaction or transactions entered into by the Issuer from time to time;

"**FSMA**" means the Financial Services and Markets Act 2000;

"**Further Advance**" means, in relation to a Loan, any advance of further money after the Closing Date following a request from an existing Borrower following the making of the Loan which is secured by the same Property as the Loan where the Seller has a discretion as to whether to accept that request, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage;

"**General Reserve Fund**" means the reserve fund established on the Closing Date which will be initially funded by the Subordinated Loan up to the General Reserve Required Amount and which will subsequently be funded from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments;

"**General Reserve Required Amount**" means an amount equal to (i) £30,000,000 (being an amount equal to 2.5% of the Principal Amount Outstanding of the Notes as at the Closing Date) or (ii) upon redemption of the Class A Notes in full, zero;

"**GIC Account**" means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at such other 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;

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

"Holdings" means Darrowby Holdings Limited (registered number 07393546), 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 about the Closing Date and signed for the purpose of identification by each of the Transaction Parties;

"Initial Advance" means, in relation to a Loan, the original principal amount together with the amount of any retention advanced to the relevant Borrower after completion of the Mortgage, and it may include fees (if capitalised);

"Initial Consideration" means £1,200,016,770.65 which is paid by the Issuer to the Seller in partial consideration of the Seller's sale to the Issuer of the Loans and their Related Security comprising the Portfolio;

"Insolvency Act" means the Insolvency Act 1986;

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

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

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

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

"Interest Determination Ratio" means (i) the aggregate Revenue Receipts calculated in the three preceding Administrator Reports divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Administrator Reports;

"Interest Payment Date" means the 20th 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 unless it would as a result fall into the next calendar month, in which case it will be brought forward to the immediately preceding Business Day;

"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;

"Issuer" means Darrowby No. 1 plc (registered number 07451854), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St Helen's, London EC3A 6AP;

"Issuer Covenants" means the covenants of the Issuer set out in Schedule 5 of the Incorporated Terms Memorandum;

"Issuer Insolvency Event" in respect of the Issuer means:

- (a) such company is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts; or
- (b) the value of the assets of such company is less than the amount of its liabilities, taking into account its contingent and prospective liabilities; or
- (c) a moratorium is declared in respect of any indebtedness of such company; or
- (d) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (e) any corporate action, legal proceedings or other procedure or step is taken in relation to:
 - (i) the appointment of an Insolvency Official in relation to such company or in relation to the whole or any part of the undertaking or assets of such company except, in the case of the Issuer, the application to the Court under paragraph 12 or the filing of notice of intention to appoint an administrator under paragraph 26 of Schedule B1 to the Insolvency Act 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 (in the opinion of the Trustee) any substantial 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, 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) any procedure or step is taken, or any event occurs, analogous to those set out in (a) - (e) above, in any jurisdiction;

"Issuer Jurisdiction" means England and Wales (and the United Kingdom, for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 21 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

"Issuer Power of Attorney" means the power of attorney granted by the Issuer in favour of the Trustee under the Deed of Charge on the Closing Date;

"Issuer Profit Amount" means £10,500 on each Interest Payment Date until (and including) the Interest Payment Date in December 2011 and £300 on each Interest Payment Date thereafter in each case to be credited to the GIC Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

"Joint Lead Managers" means J.P. Morgan Securities Ltd. and The Royal Bank of Scotland plc;

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

"LIBOR" means the London Interbank Offered Rate.

"Loans" means the residential loans in the Portfolio sold or to be sold (as applicable) to the Issuer by the Seller on the Closing Date pursuant to the Mortgage Sale Agreement and the residential loans which are Substitute Loans sold or to be sold (as applicable) to the Issuer by the Seller on any Substitution Date, pursuant to the Mortgage Sale Agreement including, where the context so requires, any further advance made by the Seller to a Borrower prior to the Closing Date and sold to the Issuer pursuant to the Mortgage Sale Agreement, each Further Advance sold or to be sold (as applicable) to the Issuer by the Seller after the Closing Date and any loan which is the subject of a Product Switch but excluding (for the avoidance of doubt) (a) each loan and its Related Security redeemed or repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it;

"Losses" means any losses arising in relation to a Loan in the Portfolio which would cause a shortfall in the amount available to pay principal on the Notes;

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

"Minimum Amount" means one penny;

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

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

"Mortgage" means each English Mortgage and each Scottish Mortgage, and together the **"Mortgages"**;

"Mortgage Conditions" means the terms and conditions applicable to a Loan and/or Mortgage as contained in the Seller's "Mortgage Conditions" booklet applicable from time to time;

"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 Administrator;

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

"Note Principal Payment" means the principal amount redeemable in respect of each Note of a particular class or sub-class, which shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such class or sub-class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such class or sub-class of Notes rounded down to the nearest Minimum Amount; provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note;

"Note Rate" for each Interest Period means in respect of each class or sub-class of Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such class or sub-class;

"Noteholder" means the Class A Noteholders and the Class B Noteholders or, where the context otherwise requires, the holders of Notes of a particular class or classes or sub-class or sub-classes, as the case may be;

"Notices Condition" means Condition 22 (*Notices*);

"Notices Details" means, in relation to any Agent, the provisions set out in Schedule 7 (*Notice 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 or the Principal Paying Agent in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with the Notices Condition) and remain available for payment in accordance with the Conditions;
- (c) those which have been purchased and surrendered for cancellation as provided in Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and notice of the cancellation of which has been given to the Trustee;
- (d) those which have become void under the Conditions;
- (e) those mutilated or defaced Notes which have been surrendered or cancelled and those Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement Notes have been issued pursuant to the Conditions; and
- (f) any Global Note, to the extent that it shall have been exchanged for the related Definitive Certificates 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 16 (*Waiver*), Clause 17 (*Modifications*), Clause 20 (*Proceedings and Actions by the Trustee*), Clause 28 (*Appointment of Trustees*) and Clause 29 (*Notice of New Trustee*) of the Trust Deed and Condition 13 (*Events of Default*), Condition 14 (*Enforcement*) and Condition 16 (*Meetings of Noteholders*) and the Provisions for Meetings of Noteholders; and
- (iii) any discretion, power or authority, whether contained in the Trust Deed, or any other Transaction Documents 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, the Seller, any holding company of any of them or any other subsidiary of either 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, in the case of the Seller, any holding company of the Seller or any other subsidiary of such holding company (the "**Relevant Persons**") 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 and any other paying agents named in the Agency Agreement together with any successor or additional paying agents appointed from time to time in connection with the Notes under the Agency Agreement;

"**Portfolio**" means the portfolio of Loans, the Mortgages, the Related Security and all moneys derived therefrom sold to the Issuer by the Seller on the Closing Date and thereafter in accordance with the terms of the Mortgage Sale Agreement (including pursuant to a substitution);

"**Post-Enforcement Priority of Payments**" means the provisions relating to the order of priority of payments from the GIC Account, set out in Clause 15 (*Post-Enforcement Priority of Payments*) 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 Principal Priority of Payments" means the provision relating to the order of priority of payments from the Principal Ledger set out in Schedule 2 of the Cash Management Agreement;

"Pre-Enforcement Revenue Priority of Payments" means the provisions relating to the order of priority of payments from the Revenue Ledger set out in Schedule 2 of the Cash Management Agreement;

"Principal Amount Outstanding" means, on any day:

- (a) in relation to a Note, the principal amount outstanding of that Note as at the Closing Date, less the aggregate of any principal payments in respect of that Note which have become due and payable (and been paid) on or prior to that day;
- (b) in relation to a class or sub-class, the aggregate of the amount in (a) in respect of all Notes outstanding in such class or sub-class; and
- (c) in relation to the Notes outstanding at any time, the aggregate of the amount in (a) in respect of all Notes outstanding, regardless of class;

"Principal Deficiency Ledger" means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub Ledger and the Class B Principal Deficiency Sub Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Losses allocated to the Notes and Principal Receipts used to pay a Remaining Income Deficit;

"Principal Ledger" means the ledger maintained by the Cash Manager on behalf of the Issuer which records all Principal Receipts received by the Issuer and the distribution of the Principal Receipts to pay any Further Advance Purchase Price and in accordance with the Pre-Enforcement Principal Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);

"Principal Paying Agent" means Citibank, N.A., London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement (or any successor duly appointed);

"Principal Receipts" means (a) principal repayments under the Loans (b) payments in respect of Accrued Interest and Arrears of Interest as at the Closing Date or the relevant Substitution Date in respect of a Loan, as applicable, Capitalised Interest and Capitalised Expenses and Capitalised Arrears, (c) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property), (d) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio, (e) and any disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the Seller's normal charging practices and repaid via a Borrower's monthly instalment, provided that payments received in respect of any fees which have been allocated by the Seller (in accordance with its collection policies) as interest payments, shall not constitute Principal Receipts, (f) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (including, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date);

"Priority of Payments" means the Pre-Enforcement Revenue Priority of Payments, the Pre-Enforcement Principal Priority of Payments and the Post-Enforcement Priority of Payments;

"Product Switch" means a change or variation in the financial terms and conditions applicable to a Borrower's Loan other than:

- (a) an addition or a release of a party to the Loan;
- (b) any variation agreed with a Borrower to control or manage arrears on the Loan;

- (c) any variation which extends the maturity date of the Loan up to the Interest Payment Date falling in December 2040;
- (d) any variation imposed by statute; and
- (e) any variation of a Loan from repayment loan to an interest only loan or vice versa.

"Property" means a freehold, heritable or leasehold property (or in Scotland property held under a long lease) which is subject to a Mortgage;

"Provisions for Meetings of Noteholders" means the provisions contained in Schedule 4 of the Trust Deed;

"Rating Agencies" means Moody's and Fitch and **"Rating Agency"** means any of them;

"Receiver" means any receiver, manager, receiver or manager or administrative receiver appointed by the Trustee in accordance with Clause 17.2 (*Appointment of Receiver*) of the Deed of Charge;

"Reconciliation Amount" means in respect of any Collection Period, (i) the actual Principal Receipts as determined in accordance with the available Administrator Reports, less (ii) the Calculated Principal Receipts in respect of such Collection Period, plus (iii) any Reconciliation Amount not applied in previous Collection Periods;

"Reference Banks" means the principal London office of four major banks in the London interbank market, selected by the Agent Bank at the relevant time;

"Reference Rate" means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the 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;

"Register" means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

"Registrar" means the party responsible for the registration of the Notes, which at the Closing Date is Citigroup Global Markets Deutschland AG acting in such capacity pursuant to the Agency Agreement (or any successor duly appointed);

"Related Security" means, in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement including (without limitation):

- (a) the benefit of all affidavits, declarations, consents, renunciations, guarantees, indemnities, waivers and postponements (including, without limitation, deeds of consent relating to the relevant Property) from occupiers and other persons having an interest in or rights in connection with the relevant Property (including any such affidavits, declarations, consents or renunciations granted in terms of the Matrimonial Homes

(Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the property secured thereby);

- (b) each right of action of the Seller against any person (including, without limitation, any solicitor, licensed conveyancer, qualified conveyancer, valuer, registrar or registry or other person) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion (including, without limitation, each certificate of title and valuation report) given or received in connection with all or part of any Loan and its Related Security or affecting the decision of the Seller to make or offer to make all or part of the Loan; and
- (c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, and returns of premium and proceeds of claims under) insurance and assurance policies (including, the relevant insurance policies) deposited, charged, obtained, or held in connection with the Loan, Mortgage and/or Property and relevant loan files;

"Relevant Margin" means:

- (a) for the Class A1 Notes, 1.25 per cent. per annum up to and excluding the relevant Step-Up Date and thereafter 2.50 per cent. per annum;
- (b) for the Class A2 Notes, 1.50 per cent. per annum up to and excluding the relevant Step-Up Date and thereafter 3.00 per cent. per annum; and
- (c) for the Class B Notes, 0.00 per cent. per annum;

"Relevant Period" means, in relation to the first Interest Determination Date, the linear interpolation of five months and six months and, in relation to each subsequent 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;

"Remaining Income Deficit" means for each Calculation Date, the extent, if any, by which Available Revenue Receipts are insufficient to pay or provide for payment of items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments after application by the Cash Manager (on behalf of the Issuer) of amounts standing to the credit of the General Reserve Fund;

"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 modify 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, or date fixed for, any payment in respect of the Notes of any class;
- (b) (except in accordance with Condition 21 (*Substitution of Issuer*) and Clause 18 (*Substitution*) of the Trust Deed) to effect the exchange, conversion or substitution of the Notes of any class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (c) to change the currency in which amounts due in respect of the Notes are payable;
- (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 maintained by the Cash Manager on behalf of the Issuer which records all Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);

"Revenue Receipts" means (a) payments of interest (excluding payments in respect of Accrued Interest and Arrears of Interest as at the Closing Date or the relevant Substitution Date of a Loan, as applicable) of the Loans (including any early repayment fees) and other amounts received by the Issuer in respect of the Loans other than Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced, (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed and (d) certain fees (which do not fall within paragraph (e) of the definition of "Principal Receipts") which have been allocated by the Seller (in accordance with its collection policies) as interest payments and charged by the Administrator in respect of servicing the loans, which have been charged and repaid by a means other than the Borrower's monthly instalment.;

"Rounded Arithmetic Mean" means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards);

"Scottish Declaration of Trust" means each such Scots law declaration of trust granted by the Seller in favour of the Issuer pursuant to the Mortgage Sale Agreement;

"Scottish Loan" means a Loan secured by a Scottish Mortgage;

"Scottish Mortgage" means either a first priority standard security over a heritable Property or Property held under a long lease located in Scotland;

"Scottish Sub-Security" means each standard security granted by the Issuer in favour of the Trustee pursuant to the Deed of Charge;

"Scottish Supplemental Charge" means each assignment in security granted by the Issuer in favour of the Trustee pursuant to the Deed of Charge;

"Screen" means Reuters Screen LIBOR01; or

- (a) such other page as may replace Reuters Screen LIBOR01 on that service for the purpose of displaying such information; or
- (b) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace such screen;

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

"Secured Creditors" means the Trustee in its own capacity, any Receiver or any Appointee appointed by the Trustee, each in its own capacity, the Agent Bank, the Registrar, the Paying Agents, the Corporate Services Provider, the Administrator, any Back-Up Administrator, the Cash Manager or any Back-Up Cash Manager, the Account Bank, any bank at which a Swap Collateral Account is held, the Back-Up Administrator Facilitator, the Swap Providers, the Noteholders, the Subordinated Loan Provider and the Seller (in respect of any Deferred Consideration);

"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 Skipton Building Society acting in its capacity as seller of the Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;

"Seller Security Power of Attorney" means the power of attorney in substantially the same form as that set out in Schedule 8 of the Mortgage Sale Agreement;

"Share Trustee" means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helen's, London EC3A 6AP;

"Specified Office" means, in relation to any Agent:

- (a) the office specified against its name in the Notices Details; or
- (b) such other office as such Agent may specify in accordance with Clause 13.8 (*Changes in Specified Offices*) of the Agency Agreement;

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

"Step-Up Date" means the Interest Payment Date falling in March 2016;

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

"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 Bank in its absolute discretion for Sterling loans for the Relevant Period in the Representative Amount to major banks in the London interbank market; or
- (b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

"Sterling Screen Rate" means, in relation to (i) the first Interest Determination Date, the linear interpolation of the offered quotations for five month sterling deposits and six month sterling deposits, each in the London interbank market displayed on the Screen or (ii) any subsequent Interest Determination Date, the offered quotations for Sterling deposits for the Relevant Period which appears on the Screen as at or about 11:00 a.m. (London time) on that date (rounded upwards if necessary, to five decimal places);

"Stock Exchange" means the London Stock Exchange Limited;

"Subordinated Loan" means the subordinated loan that the Subordinated Loan Provider made available to the Issuer pursuant to the Subordinated Loan Agreement;

"Subordinated Loan Agreement" means the start-up 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 Skipton Building Society in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;

"Substitute Loan" means a Loan and its Related Security which has been assigned to the Issuer as consideration for the repurchase of a Loan which was found to be in breach of any representation or warranty in accordance with the terms of the Mortgage Sale Agreement;

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

"Substitution Date" means the date upon which a Substitute Loan is assigned to the Issuer;

"SVR Swap Agreement" means the swap agreement between the Issuer and the SVR Swap Provider thereunder dated on or about the Closing Date, consisting of an ISDA Master

Agreement together with a Schedule thereto, a credit support annex and confirmation documenting the SVR Swap Transaction, as such may be amended from time to time, and/or any successive or replacement swap agreement entered into by the Issuer from time to time;

"SVR Swap Provider" means The Royal Bank of Scotland plc and/or any successor or replacement swap provider or providers from time to time under the SVR Swap Agreement;

"SVR Swap Transaction" means the swap transaction dated on or about the Closing Date between the Issuer and the SVR Swap Provider, as amended from time to time, and/or any replacement or successive swap transaction or transactions entered into by the Issuer from time to time;

"Swap Agreements" means the Fixed Rate Swap Agreement, the BBR Swap Agreement and the SVR Swap Agreement and/or any replacement(s) thereof and **"Swap Agreement"** means any of them;

"Swap Collateral" means any cash or securities transferred by any Swap Provider to the Issuer on any date pursuant to the terms of the Swap Credit Support Annex to the applicable Swap Agreement (and any income or distributions earned thereon);

"Swap Collateral Account" means any cash and/or securities accounts opened in the name of the Issuer for the purposes of, among other things, posting collateral pursuant to the Swap Agreements;

"Swap Collateral Account Priority of Payments", in respect of each Swap Collateral Account, has the meaning given thereto in Paragraph 14 (*Swap Collateral Accounts Priority of Payments*) of Schedule 2 (*Cash Management and Maintenance of Ledgers*) to the Cash Management Agreement;

"Swap Collateral Account Surplus" means, in respect of a Swap Collateral Account, any surplus amounts remaining after funds standing to the credit of such Swap Collateral Account have been applied in accordance with the relevant Swap Collateral Account Priority of Payments;

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

"Swap Providers" means the Fixed Rate Swap Provider, the BBR Swap Provider and the SVR Swap Provider and **"Swap Provider"** means any of them;

"Swap Subordinated Amount" means any amount due to a Swap Provider in connection with an early termination of a Swap Agreement where such termination results from an Event of Default (as defined in the relevant Swap Agreement) in respect of which the Swap Provider is the Defaulting Party or an Additional Termination Event (as defined in the relevant Swap Agreement) resulting from a ratings downgrade of the Swap Provider, to the extent such amount is not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments;

"Swap Tax Credit" means any amounts relating to tax credits payable by the Issuer to any Swap Provider pursuant to the provisions of the ISDA Schedule to the relevant Swap Agreement;

"Swap Transactions" means the Fixed Rate Swap Transaction, the BBR Swap Transaction and the SVR Swap Transaction;

"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 on account of Tax;

"Transaction Documents" means the Account Bank Agreement, the Administration Agreement, the Agency Agreement, the Cash Management Agreement, the Collection Account Declarations of Trust, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge, including without limitation, each Scottish Supplemental Charge and Scottish Sub-Security), the Swap Agreements, the Issuer Power of Attorney, the Incorporated Terms Memorandum, the Mortgage Sale Agreement, the Seller Security Power of Attorney, the Subordinated Loan Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes;

"Transaction Party" means any person who is a party to a Transaction Document and **"Transaction Parties"** means some or all of them;

"Treaty" means the Treaty establishing the European Community, as amended;

"Trust Deed" means the deed so named dated on or about the Closing Date between the Issuer and the Trustee and any document expressed to be supplemented to the Trust Deed;

"Trust Documents" means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);

"Trustee" means Citicorp Trustee Company Limited in its capacity as trustee under the Trust Deed and the Deed of Charge; and

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

2.2 **Interpretation:** Any reference in the Conditions to:

"continuing", in respect of an Event of Default, shall be construed as a reference to an Event of Default which has not been waived in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document;

a **"class"** shall be a reference to a class of the Notes being the Class A Notes or the Class B Notes and **"classes"** shall be construed accordingly and **"sub-class"** shall be a reference to any sub-class of such class of Notes (including, for the avoidance of doubt, the Class A1 Notes and the Class A2 Notes which are a sub-class of the Class A Notes);

"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; and

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.

2.3 **Transaction Documents and other agreements:** Any reference to any document defined as a Transaction Document or any other agreement or document shall be construed as a reference to such Transaction Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, restated, varied, novated, supplemented or replaced.

2.4 **Statutes and Treaties:** Any reference to a statute or treaty shall be construed as a reference to such statute or treaty as the same may have been, or may from time to time be, amended or, in the case of a statute, re-enacted.

2.5 **Schedules:** Any Schedule of, or Appendix to a Transaction Document forms part of such Transaction Document and shall have the same force and effect as if the provisions of such Schedule or Appendix were set out in the body of such Transaction Document. Any reference to a Transaction Document shall include any such Schedule or Appendix.

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

2.7 **Sections:** Except as otherwise specified in the Condition, reference in the Conditions to:

(a) a "**Section**" shall be construed as a reference to a Section of such Transaction Document;

(b) a "**Part**" shall be construed as a reference to a Part of such Transaction Document;

(c) a "**Schedule**" shall be construed as a reference to a Schedule of such Transaction Document;

(d) a "**Clause**" shall be construed as a reference to a Clause of a Part or Section (as applicable) of such Transaction Document; and

(e) a "**Paragraph**" shall be construed as a reference to a Paragraph of a Schedule of such Transaction Document.

2.8 **Number**

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

3. **Form and Denomination**

3.1 The Notes are in fully registered form in the Minimum Denomination for such Notes, without principal receipts, interest coupons or talons attached.

3.2 The Principal Amount Outstanding of the Notes of each class or sub-class initially offered and sold outside the United States to non U.S. persons pursuant to Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") is represented by one or more global registered notes in fully registered form (the "**Global Notes**") without coupons attached. References herein to the "**Notes**" shall include (i) in relation to any Notes of a class or sub-class represented by a Global Note, units of the Minimum Denomination of such

class or sub-class, (ii) any Global Note and (iii) any Definitive Certificate issued in exchange for a Global Note.

- 3.3 For so long as any Notes are represented by a Global Note, transfers and exchanges of beneficial interests in Global Notes and entitlement to payments thereunder will be effected subject to and in accordance with the rules and procedures from time to time of Euroclear Bank S.A./N.V. ("**Euroclear**") or Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"), as appropriate.
- 3.4 For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradable only in minimal amounts of £100,000 and integral multiples of £1,000 thereafter.
- 3.5 Certificates evidencing definitive registered Notes in an aggregate principal amount equal to the Principal Amount Outstanding of the Global Notes (the "**Definitive Certificates**") will be issued in registered form and serially numbered in the circumstances referred to below. Definitive Certificates, if issued, will be issued in the denomination of £100,000 and any amount in excess thereof in integral multiples of £1,000.
- 3.6 If, while any Notes are represented by a Global Note:
- (a) in the case of a Global Note held in Euroclear or Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg 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 or do so cease business and no alternative clearing system satisfactory to the Trustee is available; or
 - (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee,

(each a "**relevant event**") the Issuer will issue Definitive Certificates 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 Certificates in any other circumstances.

4. **Title**

- 4.1 The person registered in the Register as the holder of any Note will (to the fullest extent permitted by applicable law) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon or, if more than one person, the first named of such persons who will be treated as the absolute owner of such Note.
- 4.2 The Issuer shall cause to be kept at the Specified Office of the Registrar, the Register on which shall be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of the Notes.
- 4.3 No transfer of a Note will be valid unless and until entered on the Register.
- 4.4 Transfers and exchanges of beneficial interests in the Global Note and any Definitive Certificates and entries on the Register relating thereto will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the legend appearing on the face of the Notes. In no event will the transfer of a beneficial interest in a Global Note or the transfer of a Definitive

Certificate be made absent compliance with the regulations referred to above, and any purported transfer in violation of such regulations shall be void *ab initio* and will not be honoured by the Issuer or the Trustee. The regulations referred to above may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be sent by the Principal Paying Agent in the U.K. or the Registrar to any holder of a Note who so requests (and who provides evidence of such holding where the Notes are in global form) and will be available upon request at the Specified Office of the Registrar or the Principal Paying Agent.

- 4.5 A Definitive Certificate, may be transferred in whole or in part upon the surrender of the relevant Definitive Certificate, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar or the Principal Paying Agent. In the case of a transfer of part only of a Definitive Certificate, a new Definitive Certificate, in respect of the balance remaining will be issued to the transferor by or by order of the Registrar.
- 4.6 Each new Definitive Certificate, to be issued upon transfer of Definitive Certificates will, within five Business Days of receipt of such request for transfer, be available for delivery at the Specified Office of the Registrar or the Principal Paying Agent stipulated in the request for transfer, or be mailed at the risk of the holder entitled to the Definitive Certificate, to such address as may be specified in such request.
- 4.7 Registration of Definitive Certificates on transfer will be effected without charge by or on behalf of the Issuer or the Registrar, but upon payment of (or the giving of such indemnity as the Registrar may require in respect of) any tax or other governmental charges which may be imposed in relation to it.
- 4.8 No holder of a Definitive Certificate, may require the transfer of such Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on such Note.

5. **Status and Ranking**

- 5.1 **Status:** The Notes of each class constitute direct, secured and unconditional obligations of the Issuer.
- 5.2 **Ranking:** The Class A1 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class A2 Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class B Notes will at all times rank without preference or priority *pari passu* amongst themselves.
- 5.3 **Sole Obligations:** The Notes are obligations solely of the Issuer and are not obligations of, or guaranteed by, any of the other Transaction Parties.
- 5.4 **Priority of Interest Payments:** Payments of interest on the Class A Notes will at all times rank in priority to payments of interest on the Class B Notes, in accordance with the Pre-Enforcement Revenue Priority of Payments. Payments of interest on the Class A1 Notes and the Class A2 Notes will rank *pari passu* and *pro-rata*.
- 5.5 **Priority of Principal Payments:** Payments of principal on the Class A Notes will rank in priority to payments of principal on the Class B Notes.

Payments of principal on the Class A1 Notes will rank in priority to payments of principal on the Class A2 Notes in accordance with the Pre-Enforcement Principal Priority of Payments unless an Enforcement Notice has been served on the Issuer by the Trustee, in which case, payments of principal on the Class A1 Notes and the Class A2 Notes will rank *pari passu* and *pro rata* in accordance with the Post-Enforcement Priority of Payments.

- 5.6 **Priority of Payments:** Prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Revenue Receipts and Available Principal Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments and Pre-Enforcement Principal Priority of Payments (as applicable) and thereafter, in accordance with the Post-Enforcement Priority of Payments.

6. **Security**

6.1 **Security:** The Notes are secured by the Security.

6.2 **Enforceability:** The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 13 (*Events of Default*) and subject to the matters referred to in Condition 14 (*Enforcement*).

7. **Issuer Covenants**

The Issuer makes the Issuer Covenants in favour of the Trustee which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness (save as permitted in the Trust Deed), dispose of assets or change the nature of its business, without the prior written consent of the Trustee. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

8. **Interest**

8.1 **Accrual of Interest:** Each Note bears interest on its Principal Amount Outstanding, from (and including) the Closing Date.

8.2 **Cessation of Interest:** Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused or default is otherwise made in respect of the payment, in which case, it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of:

- (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 day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of such class (in accordance with Condition 22 (*Notices*)) that the full amount payable is available for collection by the Noteholder, provided that on due presentation payment is in fact made.

8.3 **Interest Payments:** Interest on each Note is payable in Sterling in arrear on each Interest Payment Date commencing on the First 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.

8.4 **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 to calculate) the Interest Amount payable on each Note for the related Interest Period.

8.5 **Determination of Note Rate, Interest Amount and Interest Payment Date:** The Agent Bank will, on each Interest Determination Date, determine:

- (a) the Note Rate for each class (or sub-class) for the related Interest Period;
- (b) the Interest Amount for each class (or sub-class) for the related Interest Period; and
- (c) the Interest Payment Date next following the related Interest Period;

and notify the Issuer, the Administrator, the Cash Manager, the Trustee, the Registrar, the Swap Providers and the Paying Agents and for so long as the Notes are listed on the Stock Exchange, the Stock Exchange.

8.6 **Publication of Note Rate, Interest Amount 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 8.5 (*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 Interest Amount for each class (or sub-class) and the next following Interest Payment Date to be published in accordance with the Notices Condition.

8.7 **Amendments to Publications:** The Note Rate, Interest Amount for each class (or sub-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.

8.8 **Determination or Calculation by Trustee:** If the Agent Bank does not at any time for any reason determine the Note Rate or the Interest Amount for each class (or sub-class) in accordance with this Condition 8 (*Interest*), the Trustee may (but without, save in the case of any fraud or negligence by the Trustee, any liability accruing to the Trustee as a result):

- (a) determine the Note Rate for each class (or sub-class) 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 (or sub-class) in the manner specified in this Condition,

and any such determination and/or calculation shall be deemed to have been made by the Agent Bank. In each case the Trustee may, at the expense of the Issuer, employ an expert to make the determination and any such determination shall be deemed to have been made by the Agent Bank.

8.9 **Notifications to be final:** All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 (*Interest*), whether by the Reference Banks (or any of them), the Paying Agents, the Registrar, the Agent Bank or the Trustee shall (in the absence of any Breach of Duty, or manifest error) be binding on the Issuer and all Noteholders and (in the absence of any Breach of Duty or manifest error) no liability to the Trustee or the Noteholders shall attach to the Reference Banks, the Agents, the Registrar or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 8 (*Interest*).

8.10 **Reference Banks and Agent Bank:** The Issuer shall ensure that, so long as any of the Notes remains outstanding there shall at all times be four Reference Banks, an Agent Bank, a Paying Agent and a Principal Paying Agent. In the event of any of the Reference Banks being unable or unwilling to continue to act as a Reference Bank or an Agent being unable or unwilling to continue to act as an Agent, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved in writing by the Trustee is appointed by the Issuer. Notice of any change in any of the Reference Banks or Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with the Notices Condition.

8.11 **Interest Accrual:**

- (a) To the extent that funds available to the Issuer to pay interest on the Notes of any class (other than the Class A Notes) on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall in respect of such class of Notes ("**Deferred Interest**") will not then fall due but will instead be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer (after allowing for the Issuer's liabilities of higher priority and subject to and in accordance with these Conditions) to fund the payment of such Deferred Interest to the extent of such available funds.
- (b) Such Deferred Interest will accrue interest ("**Additional Interest**") at the rate of interest applicable from time to time to such Notes and such portion of interest (as determined by this Condition 8 (*Interest*)) and payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available (subject to and in accordance with these Conditions) to the Issuer to pay such Additional Interest to the extent of such available funds.

- (c) Payment of any amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date or beyond any earlier date on which each respective class of Notes falls to be redeemed in full in accordance with Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and any such amount which has not then been paid in respect of the relevant class of Notes shall thereupon become due and payable in full.

8.12 ***Determinations and Reconciliation***

- (a) In the event that the Cash Manager does not receive an Administrator Report with respect to a Collection Period (the "**Determination Period**"), then the Cash Manager may use the Administrator Report in respect of the three most recent Collection Periods (or, where there are not at least three previous Administrator Reports, any previous Administrator Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 8.12 (*Determinations and Reconciliation*). When the Cash Manager receives the Administrator Report relating to the Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in Condition 8.12(c). Any (i) calculations properly done on the basis of such estimates in accordance with Conditions 8.12(b) and/or 8.12(c); (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 8.12(b) and/or 8.12(c), shall be deemed to be done, in accordance with the provisions of the Transaction Documents will in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.
- (b) Where, in respect of any Determination Period the Cash Manager shall:
 - (i) determine the Interest Determination Ratio by reference to the three most recently received Administrator Reports (or, where there are not at least three previous Administrator Reports, any previous Administrator Reports received in the preceding Collection Periods);
 - (ii) calculate the Revenue Receipts for such Determination Period as the product of (i) the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the "**Calculated Revenue Receipts**");
 - (iii) calculate the Principal Receipts for such Determination Period as the product of (i) 1 minus the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the "**Calculated Principal Receipts**").
- (c) Following any Determination Period, upon receipt by the Cash Manager of the Administrator Reports in respect of such Determination Period, the Cash Manager shall reconcile the calculations made in accordance with Condition 8.12(b) above to the actual collections set out in the Administrator Reports by allocating the Reconciliation Amount as follows:
 - (i) If the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Revenue Ledger, as Principal Receipts (with a corresponding debit of the Revenue Ledger);
 - (ii) If the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Principal Ledger, as Revenue Receipts (with a corresponding debit of the Principal Ledger),

provided that the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Receipts and Available Principal Receipts for such Collection Period in accordance with the terms of the Cash Management Agreement and the Cash Manager shall promptly notify the Issuer and the Trustee of such Reconciliation Amount.

9. **Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation**

9.1 **Final Redemption:** Unless previously redeemed or purchased and cancelled as provided in this Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*), the Issuer shall redeem the Notes in each class at their Principal Amount Outstanding together with any accrued interest on the Final Maturity Date.

9.2 **Mandatory Redemption in part:** On each Interest Payment Date prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Principal Receipts towards the redemption of the Notes to the extent that there are such amounts available to do so in accordance with the Pre-Enforcement Principal Priority of Payments.

9.3 **Optional Redemption in whole:** The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding on any Interest Payment Date:

- (a) when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of the outstanding Notes is less than 10 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date; or
- (b) from and including the Step-Up Date,

subject to the following:

- (a) no Enforcement Notice has been delivered by the Trustee;
- (b) the Issuer has given not more than 60 nor less than 14 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 in 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 Principal Priority of Payments.

9.4 **Optional Redemption in whole for taxation reasons:** The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding, on any Interest Payment Date:

- (a) after the date on which, by virtue of a change in Tax law (or the application or official interpretation of Tax law), the Issuer (or the Paying Agents on the Issuer's behalf) are to make any payment in respect of the Notes or Swap Provider is to make any payments in respect of the relevant Swap Agreement and either the Issuer (or the Paying Agents on the Issuer's behalf) 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) after the date on which, by virtue of a change in the Tax law (or the application or official interpretation of Tax law), 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:

- (c) no Enforcement Notice has been delivered by the Trustee;

- (d) that the Issuer has given not more than 60 nor less than 14 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 in each class; and
- (e) that prior to giving any such notice, the Issuer (or in respect to Condition (a), any Swap Provider (if applicable)) has provided to the Trustee:
 - (i) in the case of 9.4(a) above only, a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in Tax law; and
 - (ii) in the case of 9.4(b) above only, a certificate signed by two directors of the Issuer or, in the case of the Swap Provider, an Authorised Signatory to the effect that the obligation to make a Tax Deduction cannot be avoided; and
 - (iii) in the case of 9.4(a) and 9.4(b) above only, 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 Principal Priority of Payments.

9.5 **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 in each class on the Interest Payment Date immediately succeeding such Calculation Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date in relation to such class); and
- (c) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that class (as referred to in Condition 9.5(b) above) and the denominator is the principal amount of that Note on issue expressed as an entire integer,

and notify the Issuer, the Trustee, the Paying Agents, the Agent Bank, the Swap Providers, the Registrar and for so long as the Notes are listed on the Stock Exchange, the Stock Exchange by not less than two Business Days prior to the relevant Interest Payment Date.

9.6 **Calculations final and binding:** Each calculation by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note of each class and the Pool Factor shall in each case (in the absence of any Breach of Duty or manifest error) be final and binding on all persons.

9.7 **Trustee to determine amounts in case of Issuer default:** If the Issuer does not at any time for any reason calculate (or cause the Cash Manager to calculate) any Note Principal Payment, the Principal Amount Outstanding in relation to 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 or negligence, any liability accruing to the Trustee as a result) in accordance with this Condition (based on information supplied to it by the Issuer or the Cash Manager) and each such calculation shall be deemed to have been made by the Issuer. In each case, the Trustee may, at the expense of the Issuer employ an expert to make such calculations and any such calculations shall be deemed to have been made by the Issuer.

9.8 **Conclusiveness of certificates and legal opinions:** Any certificate and legal opinion given by or on behalf of the Issuer or, as the case may be, the Swap Provider pursuant to Condition 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional Redemption in whole for taxation reasons*) may be relied on by the Trustee without further investigation, without liability to any

other person and shall be conclusive and binding on the Noteholders, the Trustee and on the other Secured Creditors.

- 9.9 **Notice of Calculation:** The Issuer will cause each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each class and the Pool Factor to be notified immediately after calculation to the Trustee, the Agents and, for so long as the Notes are listed on the Stock Exchange, the Stock Exchange and will immediately cause details of each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each class and the Pool Factor to be published in accordance with the Notices Condition by no later than two Business Days prior to each Interest Payment Date.
- 9.10 **Notice irrevocable:** Any such notice as is referred to in Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) or Condition 9.9 (*Notice of Calculation*) shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes to which such notice relates at their Principal Amount Outstanding if effected pursuant to Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) and in an amount equal to the Note Principal Payment in respect of each Note calculated as at the related Calculation Date if effected pursuant to Condition 9.2 (*Mandatory Redemption in part*).
- 9.11 **Cancellation or redeemed Notes:** All Notes redeemed in full will be cancelled forthwith by the Issuer and may not be reissued or resold.

10. Limited Recourse

10.1 If at any time following:

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

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority of Payments, to pay in full all amounts then due and payable under any class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such class of Notes (and any class of Notes junior to that class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer. For the purposes of this Condition 10, "**Realisation**" means, in relation to any Charged Property, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by an obligor.

11. Payments

- 11.1 **Principal and interest:** Payments of principal and interest shall be made by cheque drawn in Sterling 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 Sterling, maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the Specified Office of any Paying Agent in accordance with the terms of the Agency Agreement.
- 11.2 **Record date:** Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address

shown as the address of the Noteholder in the Register at the opening of business on the relevant Record Date. The person shown in the Register at the opening of business on the relevant Record Date in respect of a Note shall be the only person entitled to receive payments in respect of Notes represented by such Note and the Issuer will be discharged by payment to, or to the order of, such person in respect of each amount so paid.

- 11.3 **Payments subject to fiscal laws:** All payments in respect of the Notes are subject in each case to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- 11.4 **Partial Payments:** If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note.
- 11.5 **Payments on Business Days:** If the due date for payment of any amount in respect of any Note is not a Business Day, then the holder shall not be entitled to payment until the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note.

12. **Taxation**

- 12.1 **Payments free of Tax:** All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by the Issuer Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer, the Trustee or the Paying Agents (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer, the Trustee or the Paying Agents (as the case may be) shall make such payments after such Tax Deduction and shall account to the relevant authorities for the amount so withheld or deducted.
- 12.2 **No payment of additional amounts:** Neither the Issuer, the Trustee nor the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

13. **Events of Default**

- 13.1 **Events of Default:** Subject to the other provisions of this Condition, each of the following events shall be treated as an "**Event of Default**":
- (a) *Non-payment:* the Issuer fails to pay any amount of principal in respect of the Most Senior Class of Notes within seven days following the due date for payment of such principal or fails to pay any amount of interest in respect of the Most Senior Class of Notes within fourteen days following the due date for payment of such interest (provided that, for the avoidance of doubt, a deferral of interest in respect of a Class of Notes (other than the Class A Notes) in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest for the purposes of this Condition 13 (*Events of Default*)); or
 - (b) *Breach of other obligations:* the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Most Senior Class of Notes, the Issuer Covenants, the Trust Deed, the Deed of Charge or any of the other Transaction Documents and such default (a) is, in the opinion of the Trustee, incapable of remedy or (b) is, in the opinion of the Trustee, capable of remedy, but remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice of such default to the Issuer; or
 - (c) an Issuer Insolvency Event occurs; or
 - (d) 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 Trust Documents or any of the other Transaction Documents.

- 13.2 ***Delivery of Enforcement Notice:*** If an Event of Default occurs and is continuing, the Trustee may at its discretion and shall:
- (a) if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes outstanding; or
 - (b) if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes outstanding;
- deliver an Enforcement Notice to the Issuer.
- 13.3 ***Conditions to delivery of Enforcement Notice:*** Notwithstanding Condition 13.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless:
- (a) in the case of the occurrence of any of the events mentioned in Condition 13.1(b) (*Breach of other obligations*) the Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes outstanding; and
 - (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.
- 13.4 ***Consequences of delivery of Enforcement Notice:*** Upon the delivery of an Enforcement Notice, the Notes of each class shall become immediately due and payable, without further action or formality, at their Principal Amount Outstanding together with any accrued interest.
14. **Enforcement**
- 14.1 ***Proceedings:*** The Trustee may, at its discretion and without further notice, institute such steps, actions, proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under the other Transaction Documents or to enforce the Security, but it shall not be bound to do so unless:
- (a) so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes; or
 - (b) so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of outstanding Notes,
- and in any such case, only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.
- 14.2 ***Directions to the Trustee:*** If the Trustee shall take any action described in Condition 14.1 (*Proceedings*) it may take such action without having regard to the effect of such action on individual Noteholders or any other Secured Creditor, provided that so long as any of the Most Senior Class of Notes are outstanding, the Trustee shall not, and shall not be bound to, act at the request or direction of the Noteholders of any other class of Notes unless:
- (a) to do so would not, in its opinion, be materially prejudicial to the interests of the Noteholders of the classes of Notes ranking senior to such other class; or
 - (b) (if the Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Notes ranking senior to such other class.
- 14.3 ***Restrictions on disposal of Issuer's assets:*** If an Enforcement Notice has been delivered by the Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Trustee will not be entitled to dispose of the Charged Property or any part thereof (apart from amounts or securities standing to the credit of the Swap Collateral Accounts in accordance with the relevant Swap Collateral Account Priority of Payment) unless either:

- (a) the Cash Manager certifies to the Trustee that a sufficient amount would be realised to allow payment in full of all amounts owing to the Noteholders of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; or
 - (b) the Trustee is of the opinion, which shall be binding on the Noteholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, (and if the Trustee is unable to obtain such advice having made reasonable efforts to do so this Condition 14.3(b) shall not apply) that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; and
 - (c) the Trustee shall not be bound to make the determination contained in Condition 14.3(b) unless the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.
- 14.4 **Third Party Rights:** No person shall have any right to enforce any Condition or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.
15. **No action by Noteholders or any other Secured Creditor**
- 15.1 Only the Trustee may pursue the remedies available under the general law or under the Trust Documents to enforce the Security and no Noteholder or other Secured Creditor shall be entitled to proceed directly against the Issuer to enforce the Security. In particular, none of the Noteholders or any other Secured Creditor (nor any person on its or their behalf, other than the 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 Priority of Payments not being observed.
16. **Meetings of Noteholders**
- 16.1 **Convening:** The Trust Deed contains "*Provisions for Meetings of Noteholders*" for convening separate or combined meetings of Noteholders of any class to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed, which modification may be made if sanctioned by an Extraordinary Resolution.
- 16.2 **Separate and combined meetings:** The Trust Deed and the Deed of Charge provide that:
- (a) an Extraordinary Resolution which in the opinion of the Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;
 - (b) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one class of Notes and the holders of another class of Notes shall be transacted either at separate meetings of the Noteholders of each such

class or at a single meeting of the Noteholders of all such classes of Notes as the Trustee shall determine in its absolute discretion; and

- (c) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class and gives rise to any actual or potential conflict of interest between the Noteholders of one class of Notes and the Noteholders of any other class of Notes shall be transacted at separate meetings of the Noteholders of each such class.

16.3 **Request from Noteholders:** A meeting of Noteholders of a particular class may be convened by the Trustee or the Issuer at any time and must be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than ten per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that class. However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any action, either directly or indirectly through the Trustee, without consent of the Issuer and, if applicable, certain other Transaction Parties pursuant to any relevant Transaction Documents, unless the Issuer has an obligation to take such action under the relevant Transaction Documents.

16.4 **Quorum:** The quorum at any meeting convened to vote on:

- (a) an Extraordinary Resolution, other than regarding a Reserved Matter, relating to a meeting of a particular class or classes of the Notes will be one or more persons holding or representing, in aggregate, a majority of the Principal Amount Outstanding of the outstanding Notes in that class or those classes or, at any adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the outstanding Notes so held or represented in such class or classes; and
- (b) an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be one or more persons holding or representing in aggregate 75 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes or, at any adjourned meeting, one or more persons holding or representing not less than in aggregate 25 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes.

16.5 **Relationship between Classes:**

In relation to each class of Notes:

- (a) no Extraordinary Resolution involving a Reserved Matter that is passed by the holders of one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes (to the extent that there are outstanding Notes in each such other classes);
- (b) no Extraordinary Resolution to approve any matter other than a Reserved Matter of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class); and
- (c) any resolution passed at a Meeting of Noteholders of one or more classes of Notes duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such class or classes, whether or not present at such Meeting and whether or not voting and, except in the case of a meeting relating to a Reserved Matter, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes.

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

17. **Modification and Waiver**

17.1 **Modification:** the Trustee may at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, concur with the Issuer and any other relevant parties in making:

- (a) any modification to these Conditions, the Trust Documents, the Notes or the other Transaction Documents in relation to which its consent is required (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, in the opinion of the Trustee, it may be proper to make and will not be materially prejudicial to the holders of the Most Senior Class of outstanding Notes; or
- (b) any modification to these Conditions, the Trust Documents or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error,

provided that, in respect of any changes to any of the Transaction Documents which would (in the commercially reasonable opinion of the Issuer) have the effect of altering the amount, timing or priority of any payments due from the Issuer to any Swap Provider or any payments due from any Swap Provider to the Issuer, the written consent of such Swap Provider is required.

17.2 **Waiver:** In addition, the Trustee may, without the consent of the Noteholders or any other Secured Creditor concur with the Issuer or any other relevant parties in authorising or waiving any proposed breach or breach of the covenants or provisions contained in the Trust Documents, the Notes or any of the other Transaction Documents (including an Event of Default or Potential Event of Default) if, in the opinion of the Trustee, the holders of the Most Senior Class of outstanding Notes will not be materially prejudiced by such waiver.

17.3 **Restriction on power to waive:** The Trustee shall not exercise any powers conferred upon it by Condition 17.2 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of outstanding Notes, but so that no such direction or request (a) shall affect any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any such proposed breach or breach relating to a Reserved Matter unless the holders of each class of outstanding Notes has, by Extraordinary Resolution, so authorised its exercise.

17.4 **Notification:** Unless the Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification or determination to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the Transaction Documents, as soon as practicable after it has been made.

17.5 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 17.1 (*Modification*) or Condition 17.2 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

18. **Prescription**

18.1 **Principal:** Claims for principal in respect of Notes shall become void where application for payment is made more than ten years after the due date therefor.

18.2 **Interest:** Claims for interest in respect of Notes, shall become void where application for payment is made more than five years after the due date therefor.

19. **Replacement of Notes**

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and Stock Exchange requirements, upon payment by the claimant of the expenses incurred in connection with such

replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

20. **Trustee and Agents**

20.1 **Trustee's right to Indemnity:** Under the Transaction Documents, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid or reimbursed for any Liabilities incurred by it in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

20.2 **Trustee not responsible for loss or for monitoring:** The Trustee is not 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 Administrator or by any person on behalf of the Trustee (as applicable). The Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents.

20.3 **Regard to classes of Noteholders:** In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will:

- (a) have regard to the interests of each class of Noteholders as a class and will not be responsible for any consequence for individual Noteholders 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 interests of the holders of the Most Senior Class of outstanding Notes and will not have regard to any lower ranking class of Notes nor, prior to the redemption in full of the Notes, to the interests of the other Secured Creditors except to ensure the application of the Issuer's funds after the delivery of an Enforcement Notice in accordance with the Post-Enforcement Priority of Payments.

20.4 **Paying Agents solely agents of Issuer:** In acting under the Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

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

21. **Substitution of Issuer**

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

- (a) the consent of the Issuer;
- (b) the approval of the Rating Agencies in relation thereto; and
- (c) such further conditions as are specified in the Trust Deed,

agree to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Trust Documents, the Transaction Documents, the Notes and the Secured Amounts.

21.2 **Notice of Substitution of Issuer:** Not later than fourteen days after any substitution of the Issuer in accordance with this Condition, the Substituted Obligor shall cause notice of such substitution

to be given to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the other relevant Transaction Documents.

21.3 **Change of Law:** In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors to a change of the law governing the Notes and/or any of the Transaction Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes, provided that the Rating Agencies are notified. For the avoidance of doubt, a Transaction Document cannot be amended without the agreement of all the parties thereto.

21.4 **No indemnity:** No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

22. Notices

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

- (a) published in the Financial Times or, if such newspaper shall cease to be published or timely publication therein shall not be practicable, in such English language newspaper or newspapers as the Trustee shall approve having a general circulation in Europe; or
- (b) published on the Relevant Screen; or
- (c) prior to the issue of any Definitive Certificates and so long as the Global Notes are held on behalf of Euroclear and/or Clearstream, Luxembourg upon delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg for communication by them to Noteholders.

22.2 **Date of publication:** Any notices so published shall be deemed to have been given on the date on which it was so sent or, as the case may be, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required or on the Relevant Screen or on the applicable date of delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as applicable).

22.3 **Other Methods:** The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the Stock Exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

23. Governing Law and Jurisdiction

23.1 **Governing law:** The Transaction Documents and the Notes and all non-contractual obligations arising from or connected with them are governed by, and shall be construed in accordance with, English law other than certain provisions of the Transaction Documents particular to the law of Scotland (which are governed by, and shall be construed in accordance with, Scots law).

23.2 **Jurisdiction:** The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and the Transaction Documents (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 may be brought in such Courts. The Issuer has in each of the Transaction Documents to which it is a party irrevocably submitted to the jurisdiction of such Courts.

TAX TREATMENT ON THE NOTES

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and the practice of Her Majesty's Revenue and Customs ("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. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

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 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Provision of Information

Noteholders 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 Noteholders (other than solely by clearing or arranging the clearing of a cheque) (a "**collecting agent**"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain 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 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 per cent.. 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 prepared 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.

Other Rules Relating to United Kingdom Withholding Tax

- (a) Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.
- (b) The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law.
- (c) The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 21 (*Substitution of the Issuer*) of the Notes or otherwise and does not consider the tax consequences of any such substitution.

SUBSCRIPTION AND SALE

J.P. Morgan Securities Ltd. and The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated on or about the date hereof amongst the Seller, the Joint Lead Managers and the Issuer (the "**Subscription Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for (i) £100,000,000 of the Class A1 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes and (ii) £250,000,000 of the Class A2 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A2 Notes.

In the Subscription Agreement the Seller undertakes (i) to hold a material net economic interest pursuant to paragraphs (a) to (d) (as applicable) of Article 122a(1) of Directive 2006/48/EC until maturity of the Notes and (ii) to comply with its obligations under paragraph 7 of Article 122(a) of Directive 2006/48/EC, subject always to any requirement of law, provided that the Seller will not be in breach of such undertaking if the Seller fails to so comply due to events, actions or circumstances beyond the Seller's control. The information made available by the Seller pursuant to this undertaking can be viewed by Noteholders on the Seller's website at www.skipton.co.uk/about_us. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

Skipton Building Society has, pursuant to a note purchase agreement dated on or about the date hereof between Skipton Building Society and the Issuer (the "**Note Purchase Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for (i) £195,000,000 of the Class A1 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A1 Notes; (ii) £487,000,000 of the Class A2 Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A2 Notes; and (iii) 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 date hereof.

Skipton Building Society will enter into the Securities Lending Transaction with J.P. Morgan Securities Ltd. (or one of its affiliates) with respect to not less than £143,000,000 Class A1 Notes and not less than £357,000,000 Class A2 Notes.

The Issuer has agreed to indemnify Skipton Building Society and the Joint 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 Joint Lead Managers or Skipton Building Society, 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 Joint Lead Managers and Skipton Building Society has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each of the Joint Lead Managers and Skipton Building Society 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 Joint Lead Managers or Skipton Building Society that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements. Accordingly, the Notes are being offered outside the United States to persons other than U.S. persons (as defined in and pursuant to Regulation S of the Securities Act).

Each of the Joint Lead Managers and Skipton Building Society has agreed that, except as permitted by the Subscription Agreement or Note Purchase Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering of the Notes 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 of, U.S. persons.

General

Each of the Joint Lead Managers and Skipton Building Society has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

LISTING AND GENERAL INFORMATION

- (a) It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the London Stock Exchange's Regulated Market will be granted on or around 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 and for delivery on the third working day after the date of the transaction.
- (b) None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 25 November 2010 (being the date of incorporation of the Issuer) and 30 September 2010 (being the date of incorporation of Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).
- (c) No statutory or non-statutory accounts within the meaning of Sections 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 25 November 2010 (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) Since 30 September 2010 (being the date of incorporation of Holdings), there has been (a) no material adverse change in the financial position or prospects of Holdings and (b) no significant change in the financial or trading position of Holdings.
- (h) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 25 March 2011.
- (i) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Codes:

<u>Class of Notes</u>	<u>ISIN</u>	<u>Common Code</u>
Class A1	XS0607048641	060704864
Class A2	XS0607053641	060705364
Class B	XS0607049029	060704902

- (j) From the date of this Prospectus and for so long as the Notes are listed on the London Stock Exchange's Regulated Market, copies of the following documents may be inspected at the registered office of the Trustee during usual business hours, on any weekday (public holidays excepted):
 - (i) the Memorandum and Articles of Association of each of the Issuer and Holdings;
 - (ii) copies of the following documents:
 - (A) the Trust Deed;
 - (B) the Deed of Charge;
 - (C) the Agency Agreement; and

(D) the Incorporated Terms Memorandum.

- (k) The Cash Manager on behalf of the Issuer will publish the monthly investor report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such investor reports will be published on the Seller's website at www.skipton.co.uk/about_us, the first investor report being provided no earlier than the date falling one month from the Closing Date. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus. Investor reports will also be made available to the Seller, the Swap Providers and the Rating Agencies. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.
- (l) The Issuer confirms that the 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.

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