

## IMPORTANT NOTICE

**IMPORTANT:** You must read the following before continuing. The following applies to the base prospectus following this page (the "**base prospectus**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of the base prospectus. In accessing the base 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 TO SELL OR A SOLICITATION OF AN OFFER TO BUY THE NOTES DESCRIBED IN THE BASE PROSPECTUS IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO.**

THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER RELEVANT JURISDICTION AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE U.S. OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT ("**REGULATION S**"), EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS. IN ORDER TO BE ELIGIBLE TO READ THE BASE PROSPECTUS OR MAKE AN INVESTMENT DECISION WITH RESPECT TO THE NOTES DESCRIBED THEREIN, YOU EITHER MUST (I) BE A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT (A "**QIB**") OR (II) NOT BE A "U.S. PERSON" AS DEFINED IN REGULATIONS.

In the United Kingdom, this base prospectus is directed only at persons who (i) are investment professionals within the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or (ii) are persons falling within Article 49(2)(a) to (d) ("*high net worth companies, unincorporated associations etc*") of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons together being referred to as "**relevant persons**").

The base prospectus must not be acted on or relied upon by persons other than relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

The base 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 unless such person is a QIB.

Any forwarding, distribution or reproduction of the base prospectus 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.

The base prospectus is being sent at your request and by accepting the email and accessing the base prospectus, you shall be deemed to have represented to us that you and any customers you represent are either (i) not a U.S. person or (ii) a QIB; and, in each case, that you consent to delivery of the base prospectus by electronic transmission and that you agree to the terms set out herein.

You are reminded that the base prospectus has been delivered to you on the basis that you are a person into whose possession the base 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 base 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.

The base 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 neither Lannraig Master Issuer plc nor Clydesdale Bank PLC nor Barclays Bank PLC nor any managers nor any person who controls Lannraig Master Issuer plc, Clydesdale Bank PLC, Barclays Bank PLC nor any director, officer, employee, agent or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Base Prospectus distributed to you in electronic format herewith and the hard copy version available to you on request from the arranger or any manager.

# BASE PROSPECTUS

## LANNRAIG MASTER ISSUER PLC

*(incorporated in England and Wales with limited liability under registered number 7454283)*

### **£10 billion Residential Buy-to-let Mortgage Backed Note Programme (ultimately backed by the mortgages trust)**

#### **Programme establishment**

The issuer will establish a residential buy-to-let mortgage backed note programme (the "**programme**") on 30 September 2011 (the "**programme date**"). The maximum aggregate principal amount of all notes from time to time outstanding under the programme will not exceed £10 billion (or its equivalent in other currencies). The issuer may increase the amount of the programme in accordance with the terms of the programme agreement.

#### **Issuance in series**

Notes issued under the programme will be issued in series. Each series will normally: (a) be issued on a single date; (b) be subject to the terms and conditions; and (c) consist of one or more classes of notes. Notes of the same class rank *pari passu* and *pro rata* among themselves. Each series of the same class will not, however, be subject to identical terms in all respects (for example, interest rates, interest calculations, expected maturity and final maturity dates will differ). The issuer may from time to time issue class A notes, class B notes, class C notes, class D notes, class E notes and class Z notes in one or more series (together, the "**notes**"). Each class of notes of any series may consist of one or more sub-classes of notes. One or more series and class of notes may be issued and outstanding at any one time.

#### **The notes**

The notes will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state of the United States or any other relevant jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**") ("**U.S. persons**") except to qualified institutional buyers ("**QIBs**") within the meaning of Rule 144A under the Securities Act ("**Rule 144A**") in reliance on Rule 144A. Such notes are collectively referred to herein as "**Rule 144A notes**". Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For the avoidance of doubt no US Notes (as defined in the terms and conditions) are being offered pursuant to this base prospectus.

The programme provides that the issuer may issue notes to be sold outside the United States to persons (other than U.S. persons) in reliance on Regulation S. Such notes are collectively referred to herein as "**Reg S notes**".

The issuer may agree with any manager and the note trustee that notes may be issued in a form not contemplated by the terms and conditions of the notes herein in which event (in the case of notes admitted to the official list only) a supplementary prospectus or a further base prospectus will be made available which will describe the effect of the agreement reached in

relation to such notes.

No manager will offer or sell any notes into the United States unless pursuant to an available exemption from registration as a broker-dealer under the United States Securities Exchange Act of 1934, as amended.

A note is not a deposit and neither the notes nor the BTL loans (as defined below) in the loan portfolio are insured or guaranteed by Clydesdale Bank PLC ("**Clydesdale Bank**") or by any United Kingdom or United States governmental agency.

#### **Final terms**

Each series will be subject to final terms, which, for the purpose of that series only, supplements the conditions of the notes in this base prospectus and must be read in conjunction with this base prospectus. The principal amount and interest payable in respect of a series and class of notes and any other terms and conditions not described in this base prospectus which are applicable to such notes will be set forth in the final terms for such notes. The final terms for listed notes will be filed with the UK Listing Authority and made available to the public in accordance with the prospectus rules made pursuant to the Financial Services and Markets Act 2000 (the "**prospectus rules**").

#### **Underlying assets**

The issuer's primary source of funds to make payments on the notes will be derived from, *inter alia*, payments pursuant to the global intercompany loan agreement entered into between the issuer and Funding. Funding pays amounts due under the global intercompany loan principally from its share of the trust property. The trust property primarily comprises a portfolio of first ranking residential buy-to-let mortgage loans intended for borrowers who wish to use the relevant mortgage loan as a means to purchase or refinance residential property which is not the borrower's main dwelling, including for the purpose of letting to third parties (a "**BTL loan**") and originated by Clydesdale Bank (and/or originated by Yorkshire Bank Home Loans Limited ("**YBHL**") and subsequently acquired by Clydesdale Bank) and, in each case, secured on properties located in England, Wales and Scotland. The mortgages trustee holds the loan portfolio on trust for the seller and Funding. Neither the issuer nor the noteholders will have any direct interest in the trust property, although the issuer will share in the benefit of a security interest created by Funding over its share of the trust property. The issuer's primary asset will be its rights under the global intercompany loan agreement and the related security created by Funding.

The BTL loans included in the loan portfolio consist of several different types with a variety of characteristics relating to, among other things, calculation of interest and repayment of principal. See "*The BTL loans – Characteristics of the BTL loans*" below for a detailed description of the BTL loans offered by the originators that may be included in the loan portfolio.

#### **Credit enhancement**

- subordination of more junior ranking notes (see "*Credit Structure – Priority of payments among the class A notes, the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes*");

- establishment of a Funding reserve fund (see "*Credit Structure – Funding reserve fund*");
- establishment of an issuer reserve fund (see "*Credit Structure – Issuer reserve fund*"); and
- over-collateralisation (see "*Credit Structure – Credit support for the notes provided by mortgages trustee available revenue receipts*").

**Liquidity support**

- use of principal to cover interest shortfalls (see "*Credit Structure – Use of Funding available principal receipts to pay Funding income deficiency*"); and
- establishment of a Funding liquidity reserve fund (if established following a seller rating downgrade and prior to the repayment in full of the AAA loan tranches and the AA loan tranches) (see "*Credit Structure – Funding liquidity reserve fund*").

**Redemption provisions**

Information on any optional and mandatory redemption of the notes is summarised in "*Description of the notes – Redemption*" and set out in full in Condition 5 (*Redemption, purchase and cancellation*) of the term and condition of the notes.

**Credit rating agencies**

Moody's Investors Service Limited ("**Moody's**") and Fitch Ratings Ltd. ("**Fitch**") (together, the "**rating agencies**"). Whether or not each credit rating applied for in relation to a series of notes will be issued by a rating agency established in the European Union and registered under Regulation (EC) No 1060/2009 (the "**CRA Regulation**") will be disclosed in the applicable final terms. 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 Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

Each of Moody's and Fitch is established in the European Union and has applied to be registered under Regulation (EC) No 1060/2009, although the result of such application has not yet been determined.

**Credit ratings**

Ratings may be assigned to all or some of the notes of a series on or before each closing date and such ratings will be set out in the applicable final terms for that series.

The ratings assigned by Fitch to a series and class of notes address the likelihood of (a) timely payment of interest due to the noteholders on each note payment date for such notes and (b) full payment of principal by a date that is not later than the final maturity date for such notes. The ratings assigned by Moody's to a series and class of notes address the expected loss to a noteholder in proportion to the initial principal amount of such class of notes held by the noteholder by the final maturity date for such notes.

**The assignment of ratings to the notes is not a recommendation to invest in the notes. Any credit rating**

**assigned to the notes may be revised or withdrawn at any time.**

**Listing**

This document has been approved by the Financial Services Authority as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**") (the "**UK Listing Authority**") as a base prospectus (the "**base prospectus**"), for the purpose of Directive 2003/71/EC (the "**Prospectus Directive**") and relevant implementing legislation in the United Kingdom. Any notes issued under the programme on or after the date of this base prospectus are issued subject to the provisions described herein. This base prospectus is not a prospectus for purposes of Section 12(a)(2) or any other provision of or rule under the United States Securities Act of 1933, as amended (the "**Securities Act**"). An application has been made to the UK Listing Authority for the notes specified as "**listed notes**" in the applicable final terms and issued under the programme during the period of 12 months from the date of this base prospectus to be admitted to the official list (the "**official list**") and application has been made to London Stock Exchange plc (the "**London Stock Exchange**") for such notes to be admitted to trading on its regulated market. The regulated market of the London Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) (the "**Markets in Financial Instruments Directive**").

The programme also provides that, in addition to listed notes, notes may be listed on such other or further stock exchange(s) as may be agreed between the issuer, the note trustee and the relevant managers and disclosed in the final terms. The issuer may also issue unlisted notes provided that the terms of any such issue are made available to all holders of listed notes.

**Maximum aggregate nominal amount of all notes**

The maximum aggregate nominal amount of all notes from time to time outstanding under the programme will not exceed £10 billion (or its equivalent in other currencies), subject to any increase in accordance with the terms of the programme agreement.

**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 or guaranteed by Clydesdale Bank, YBHL, the arranger, the managers, the dealers, the note trustee, the Funding security trustee, the issuer security trustee, Funding, the mortgages trustee, the start-up loan provider, the corporate services provider, the issuer corporate services provider, the Funding basis rate swap provider, the issuer swap providers or their guarantors, as applicable, the paying agents, the registrar, the transfer agent, the agent bank or any company in the same group of companies as Clydesdale Bank or any other party to the transaction documents (but without prejudice to the obligations of Funding to the issuer under the global intercompany loan agreement), their affiliates or any other party named in this base prospectus.

**Definitions**

Please refer to the sections entitled "*Defined Terms*" and "*Glossary*" for a list of defined terms and their meanings.

**Article 122a of the Capital**

The seller will (i) retain a material net economic interest in the securitisation of not less than 5 per cent. as contemplated by

## **Requirements Directive**

Article 122a of Directive 2006/48/EC (as amended) (the "**Capital Requirements Directive**") (as such Article is at the time implemented by the rules and guidance of the Financial Services Authority or any successor regulatory authority ("**Article 122a**") (such retention requirement will be satisfied by the Seller retaining the Class Z notes) and (ii) disclose via an RNS announcement (or in such other manner as the seller may determine) any change in the manner in which it is held as contemplated by the relevant rules.

Each prospective investor that is required to comply with Article 122a (as implemented in each member state of the European Economic Area) is required to independently assess and determine the sufficiency of the information described in this base prospectus and which may otherwise be made available to investors generally for the purposes of complying with Article 122a and none of the issuer, the arranger, the managers, the seller or any of the other transaction parties makes any representation that the information described in this base prospectus and which may otherwise be made available to investors is sufficient in all circumstances for such purposes. In addition, each prospective noteholder should ensure that they comply with the implementing provisions in respect of Article 122a in their relevant jurisdiction. Prospective investors who are uncertain as to the requirements under Article 122a which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

**THE "*RISK FACTORS*" SECTION STARTING ON PAGE 72 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.**

**Neither the Securities and Exchange Commission nor any state securities commission in the United States nor any other United States regulatory authority has approved or disapproved the notes or determined that this base prospectus is truthful or complete. Any representation to the contrary is a criminal offence in the United States.**

**Arranger for the programme**

**Barclays Capital**

**Base prospectus dated 27 September 2011**

## NOTICE TO INVESTORS

The issuer accepts responsibility for the information contained in this base prospectus to the best of its knowledge (having taken all reasonable care to ensure that such is the case), the information contained in this base 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 base prospectus has been accurately reproduced (and is clearly sourced where it appears in this prospectus) and, as far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The seller accepts responsibility for the section entitled "*Article 122a of the Capital Requirements Directive*" on page 4 and declares that, having taken all reasonable care to ensure such is the case, the information in such section, to the best of its knowledge, is in accordance with the facts and contains no omission likely to affect its import.

The notes will be obligations solely of the issuer and will not be guaranteed by, or be the responsibility of, any other entity. In particular, the notes will not be obligations of, and will not be insured or guaranteed by, any of Clydesdale Bank PLC, Yorkshire Bank Home Loans Limited, the arranger, the managers, Funding, the note trustee, the issuer security trustee, the Funding security trustee, the mortgages trustee, the Funding basis rate swap provider, any issuer swap provider, the paying agents, the agent bank (each as defined herein) and any of their respective affiliates or any other party to the programme documents other than the issuer. No liability whatsoever in respect of any failure by the issuer to pay any amount due under the notes shall be accepted by any of Clydesdale Bank PLC, Yorkshire Bank Home Loans Limited, the arranger, the managers, Funding, the note trustee, the issuer security trustee, the Funding security trustee, the mortgages trustee, the Funding basis rate swap provider, each issuer swap provider, the paying agents, the agent bank, any of their respective affiliates or any other party to the programme documents (but without prejudice to the obligations of Funding to the issuer under the global intercompany loan agreement). **PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE ISSUER AND ANY SELLER OF ANY NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.**

This base prospectus does not constitute an offer of, or an invitation by or on behalf of, the issuer, the arranger or the managers to subscribe for or purchase any of the notes. The distribution of this base prospectus and the offering of the notes in certain jurisdictions may be restricted by law. Persons into whose possession this base prospectus comes are required by the issuer and the managers to inform themselves about, and to observe, such restrictions. For a description of certain further restrictions on offers and sales of notes and distribution of this base prospectus, see "*Subscription and sale*". Neither this base prospectus nor any part hereof constitutes an offer of, or an invitation by, or on behalf of, the issuer, the arranger or the managers to subscribe for or purchase any notes and neither this base prospectus, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Accordingly, notes may not be offered or sold, directly or indirectly, and neither this base prospectus nor any part hereof nor any other prospectus, form of application, advertisement, other offering material or other information may be issued, distributed or published in any country or jurisdiction (including the United Kingdom), except in circumstances that will result in compliance with all applicable laws, orders, rules and regulations.

No person is or has been authorised to give any information or to make any representation not contained in this base 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 directors of the issuer, Clydesdale Bank PLC, Yorkshire Bank Home Loans Limited, the arranger, the managers, Funding, the note trustee, the issuer security trustee, the Funding security trustee, the mortgages trustee, the Funding basis rate swap provider, any issuer swap provider, the paying agents, the agent bank, any of their respective affiliates or any other party to the programme documents. Neither the delivery of this base prospectus nor any offer, sale or allotment made in connection with the offering of any notes shall under any circumstances constitute a representation or create any implication that there has been no change in the affairs of the issuer, Clydesdale Bank PLC, Yorkshire Bank Home Loans Limited, the arranger, the managers, Funding, the note trustee, the issuer security trustee, the Funding security trustee, the mortgages trustee, the Funding basis rate swap provider, each issuer swap provider, the paying agents, the agent bank or any of their



respective affiliates or in the information contained herein since the date hereof or that the information contained herein is correct as at any time subsequent to the date hereof or that there has been no change in any other information supplied in connection with the programme as of any time subsequent to the date indicated in the document containing the same or that such information is correct at any time subsequent to the date thereof.

An investment in the notes is suitable only for financially sophisticated investors who are capable of evaluating the merits and risk of such an investment and who have sufficient resources to be able to bear any losses which may result from such an investment.

References in this base prospectus to "£", "**pounds**", "**pounds sterling**" or "**sterling**" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland. References in this base prospectus to "€" or "**euro**" are references to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty of Rome of 25 March 1957, as amended from time to time. References in this base prospectus to "\$", "**US\$**", "**US dollars**" or "**dollars**" are to the lawful currency for the time being of the United States of America. References in this base prospectus to "A\$" or "**Australian dollars**" are to the lawful currency for the time being of Australia.

The notes of each class sold in reliance on Regulation S 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 "**Reg S global note certificate**"). The Reg S global note certificates are expected to be deposited with, and registered in the name of a nominee of, a common depositary or common safekeeper, as specified in the applicable final terms, for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The notes of each class sold in reliance on Rule 144A will be represented by one or more permanent global notes of such class, in fully registered form without interest coupons or principal receipts attached (each, a "**Rule 144A global note certificate**"). Rule 144A global note certificates representing notes denominated in any currency other than US dollars are expected to be deposited with a common depositary or common safekeeper, as specified in the applicable final terms, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of a common depositary or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg. Rule 144A global note certificates representing notes denominated in US dollars are expected to be deposited with Citibank, N.A., London Branch, as custodian (the "**custodian**") for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**").

Prospective purchasers should note that the Reg S notes are not designed for, and may not be purchased or held by, any "employee benefit plan", as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), which is subject thereto, or any "plans" as defined in Section 4975 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"), or by any person any of the assets of which are, or are deemed for purposes of ERISA or Section 4975 of the Code to be, assets of such an "employee benefit plan" or "plan" (each of the foregoing a "**Benefit Plan Investor**"). Each purchaser of a Reg S note will be deemed to have represented, warranted and agreed that it is not, and for so long as it holds a Reg S note will not be, such a Benefit Plan Investor, or if it is an employee benefit plan that is not a Benefit Plan Investor which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**"), the purchase and holding of such Reg S notes, as applicable, do not and will not violate any such Similar Law.

In connection with the issue of any series and class of notes, the dealer(s) (if any) named as the stabilising manager(s) (or persons acting on behalf of any stabilising manager) in the applicable final terms may over-allot such notes (provided that, in the case of any series or class of notes to be admitted to trading on the regulated market of the London Stock Exchange or any other regulated market (within the meaning of the Markets in Financial Instruments Directive) in the European Economic Area, the aggregate principal amount of a series or class of notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant series and class of notes) or effect transactions with a view to supporting the market price of that series and class of notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager(s) (or persons acting on behalf of a stabilising manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant series and class of notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant series and class of notes and 60 days after the date of the allotment of the relevant series and class of notes. Any stabilisation action or over-allotment must be conducted by the relevant

stabilising manager(s) (or person acting on behalf of any stabilising manager(s)) in accordance with all applicable laws and rules.

A copy of this base prospectus and each of the final terms relating to listed notes will be available for inspection at the registered offices of the issuer, at the specified offices of the paying agents and each financial intermediary placing or selling such listed notes or will be available for inspection on the website of the UK Listing Authority in accordance with the prospectus rules. A copy of final terms relating to unlisted notes will be made available to the holders of such unlisted notes at the specified office of each paying agent.

Notwithstanding any provision in this base prospectus to the contrary, each prospective investor (and each employee, representative, or other agent of each such prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and U.S. federal income tax structure of any transaction contemplated in this base prospectus and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such U.S. federal income tax treatment and U.S. federal income tax structure.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

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

#### **Information as to Placement within the United States**

This base prospectus has been prepared by the issuer solely for use in connection with the offering of the notes. This base prospectus is personal to each potential investor to whom it has been delivered by the issuer, the managers or any of their respective affiliates and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the notes. Distribution of this base prospectus in the United States to any persons other than the potential investors and those persons, if any, retained to advise such offerees with respect thereto is unauthorised, and any disclosure of any of its contents, without the prior written consent of the issuer, is prohibited. Additionally, each purchaser of notes will be deemed to have made the representations, warranties and acknowledgements that are described in this base prospectus under "*Transfer restrictions*".

#### **Enforceability of Judgments**

The issuer is a public limited company registered in England and Wales. All of the issuer's assets are located outside the United States and all of the directors of the issuer reside outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the issuer or such persons not residing in the United States with respect to matters arising under the federal or state securities laws of the United States, or to enforce against them judgments of the courts of the United States predicated upon the civil liability provisions of such securities laws. There is doubt as to the enforceability in the United Kingdom, in original actions or in actions for the enforcement of judgments of U.S. courts, of civil liabilities predicated solely upon such securities laws.

### **Forward-looking statements**

This base prospectus contains statements that constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, as amended. Such statements appear in a number of places in this base prospectus, including, but not limited to, under the captions "*Risk factors*", "*The BTL loans*", and "*The servicer and the servicing agreement*". These forward-looking statements can be identified by the use of forward-looking terminology, such as the words "believes", "expects", "may", "intends", "should" or "anticipates", or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the notes, of Clydesdale Bank PLC and Yorkshire Bank Home Loans Limited or of the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among others: general economic and business conditions in the UK; currency exchange and interest fluctuations; governmental, statutory, regulatory or administrative initiatives affecting Clydesdale Bank PLC and Yorkshire Bank Home Loans Limited; changes in business strategy, lending practices or customer relationships; and other factors that may be referred to in this base prospectus. Some of the most significant of these risks, uncertainties and other factors are discussed under the caption "*Risk factors*", and you are encouraged to carefully consider those factors prior to making an investment decision.

### **Available information**

To permit compliance with Rule 144A in connection with the sale of the notes, the issuer will be required to furnish, upon request of a holder of a note, to such holder and a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, the issuer is not a reporting company under Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act. All information made available by the issuer pursuant to the terms of this paragraph may also be obtained during usual business hours free of charge at the specified office of any paying agent.

Any prospective purchaser or transferee of a note shall have an opportunity to ask questions of, and receive answers from, the issuer concerning the terms and conditions of the offering of notes and to obtain from the issuer additional information that it possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of the information included in this base prospectus or provided pursuant hereto.

The issuer will provide, without charge, to each person to whom a copy of this base prospectus has been delivered, upon the request of such person, a copy of any or all of the documents deemed to be incorporated herein by reference unless such documents have been modified or superseded as specified above. Written requests for such documents should be directed to the issuer at its registered office as set out at the end of this base prospectus.

Each of the issuer and Funding have undertaken to the managers in the programme agreement (as defined in "*Subscription and sale*") that if, after the date of this base prospectus, any significant (for the purposes of making an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the issuer and the rights attaching to the notes) new factor, material mistake or inaccuracy relating to the information included in this base prospectus arises, it shall prepare a supplementary prospectus for the purposes of section 87G of the FSMA for approval by and filing with the UK Listing Authority which will be made available to the public as required under the prospectus rules.

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## DEFINED TERMS

A glossary of certain defined terms which are not otherwise defined in the text is set out at the end of this base prospectus under "*Glossary*". Terms used in this base prospectus have the meaning set out in the glossary unless they are defined where they are used in this base prospectus.

An index of principal terms is set out on page 404. The index of principal terms lists the pages where defined terms used in the base prospectus are defined.

For purposes of this base prospectus, the term "**borrower**" has the meaning set out in the glossary, but generally means a person or persons who have borrowed money under a BTL loan.

### Note references

In this base prospectus:

- references to the "**notes**" refer to any of the notes that are issued under the programme;
- references to a "**class**" of notes refer to any of the class A notes, the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes and all sub-classes of notes included in such class. Each class of notes of any series may be comprised of one or more sub-classes of notes;
- references to a "**series**" of notes refer to all classes of notes issued on a given day and any class of notes issued on any other day which:
  - (a) is expressed to be consolidated; and
  - (b) is identical in all respects (including as to listing) except for closing date, interest commencement date and issue price,with any of the classes of notes issued on such given day; and
- references to a "**series and class**" of notes refer to a particular class of notes of a given series. A class of notes of a given series may comprise one or more sub-classes. If a class of note of a given series comprises more than one sub-class, references to "**series and class**" will refer to a particular sub-class within such class.

### References to loan tranches and the related series and class of notes

In this base prospectus:

- references to the "**loan tranches**" refer to any of the loan tranches that are made pursuant to the terms of the global intercompany loan agreement and any other Funding intercompany loan agreement; and
- references to the "**related series and class of notes**" in respect of a loan tranche refer to the series and class of notes which funded such loan tranche and references to the "**related loan tranche**" in respect of a series and class of notes refer to the loan tranche which was funded by such notes.

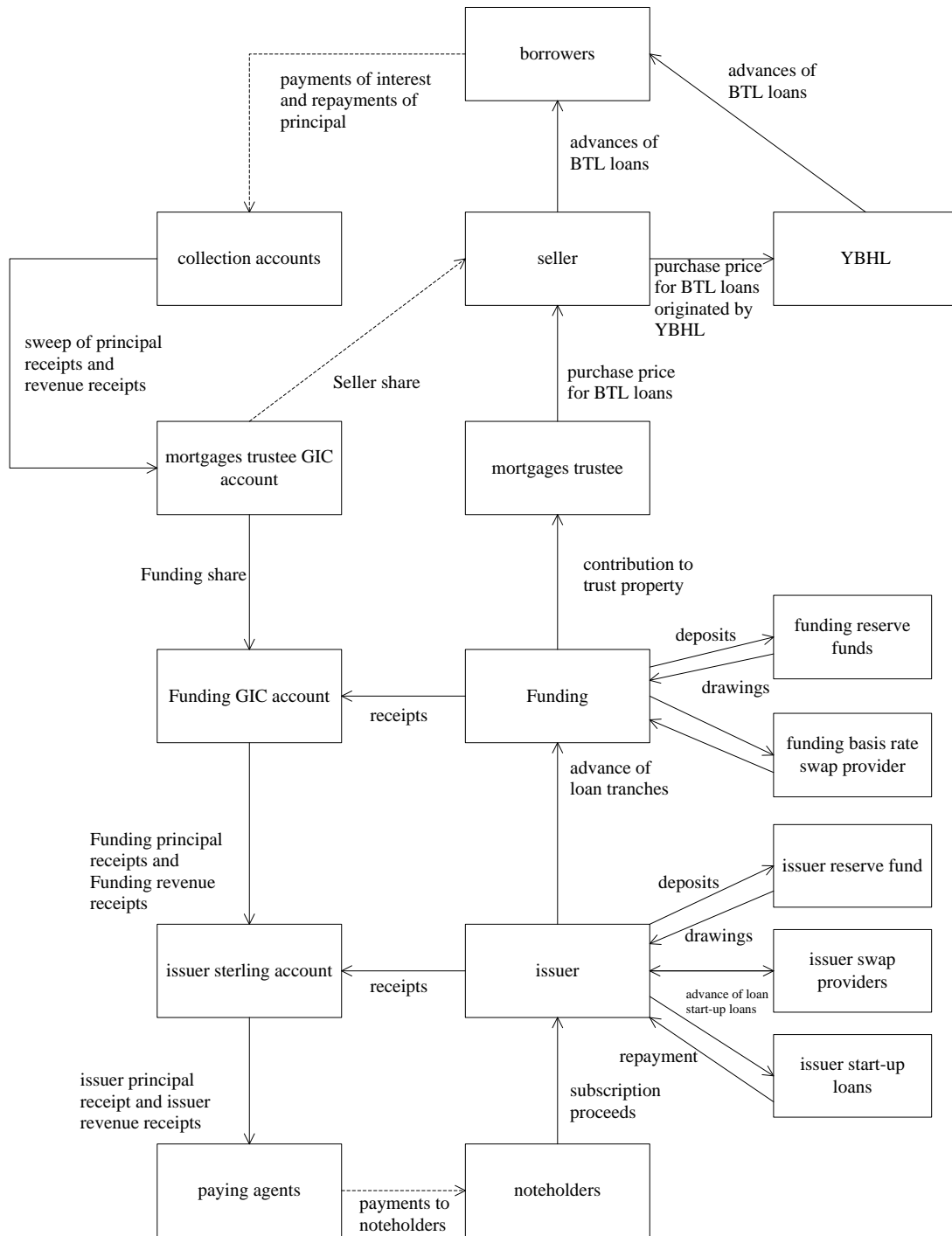
### References to final terms

In this base prospectus and in relation to a series of notes, references to the "**applicable final terms**" means the final terms to which that series of notes is subject.

## DIAGRAMMATIC OVERVIEW OF THE TRANSACTION

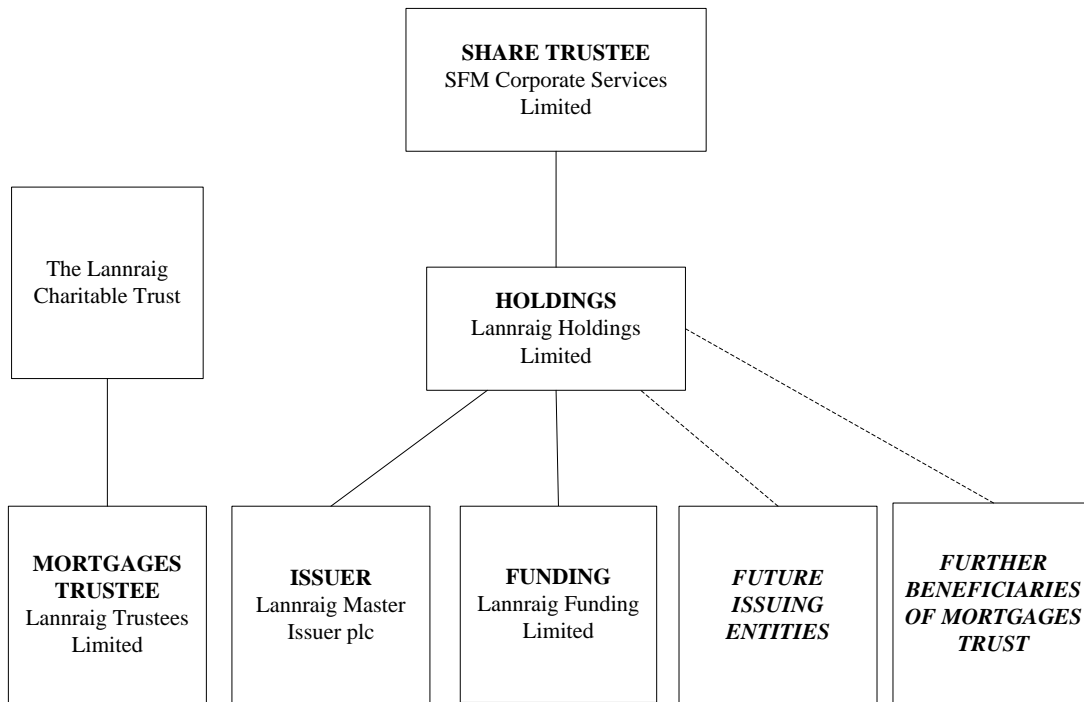


**DIAGRAMMATIC OVERVIEW OF ON-GOING CASHFLOWS**





## DIAGRAMMATIC OVERVIEW OF THE OWNERSHIP STRUCTURE



This diagram illustrates the ownership structure of the principal parties to the securitisation transaction:

- Each of Funding and the issuer is a wholly-owned subsidiary of Holdings.
- The entire issued share capital of the mortgages trustee is held on trust by a professional trust company under the terms of a discretionary trust for charitable purposes. The professional trust company is not affiliated with the seller. See "*The Mortgages Trustee*".
- The entire issued share capital of Holdings is held on trust by a professional trust company under the terms of a discretionary trust for charitable purposes. The professional trust company is not affiliated with the seller. See "*Holdings*".
- Holdings may establish additional subsidiaries in the future, to acquire an interest in the mortgages trust.

The purpose of this diagram is to draw your attention to two facts:

- *Firstly*, the seller has no ownership interest in any of the entities in this diagram. As a result, the financial condition of the seller should not directly affect the mortgages trustee, Funding, the issuer, the other Holdings issuers, or, ultimately, investors in the notes, *inter alia*, although the seller will still have a connection with the transaction for other reasons (such as acting as servicer of the BTL loans in the loan portfolio and as Funding basis rate swap provider or as maturity purchaser in respect of a series and class of maturity purchase notes); and
- *Secondly*, Holdings may establish issuers that will be permitted to issue new notes which will be ultimately secured by the same trust property (primarily consisting of the loan portfolio) as each series of notes offered by the issuer under the programme.

## TRANSACTION OVERVIEW

*The information set out below is an overview of various aspects of the transaction. This overview is not purported to be complete, should be read in conjunction with, and is qualified in its entirety by references to, the detailed information presented elsewhere in this base prospectus.*

### Transaction parties

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
<b>Arranger</b>	Barclays Bank PLC, acting through its investment banking division Barclays Capital	5 The North Colonnade London E14 4BB	N/A
<b>Managers</b>	This will be disclosed in the applicable final terms		
<b>Issuer</b>	Lannraig Master Issuer plc	35 Great St. Helen's London EC3A 6AP	N/A. See " <i>The issuer</i> " for more information.
<b>Mortgages trustee</b>	Lannraig Trustees Limited	47 Esplanade St Helier Jersey JE1 0BD	N/A. See " <i>The mortgages trustee</i> " for more information.
<b>Funding</b>	Lannraig Funding Limited	35 Great St. Helen's London EC3A 6AP	N/A. See " <i>Funding</i> " for more information.
<b>Holdings</b>	Lannraig Holdings Limited	35 Great St. Helen's London EC3A 6AP	N/A. See " <i>Holdings</i> " for more information.
<b>Seller</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	N/A. See " <i>Conditions to assignment</i> " for more information.
<b>Originators</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	N/A. See " <i>Clydesdale Bank and YBHL</i> " for more information.
	Yorkshire Bank Home Loans Limited	20 Merrion Way Leeds LS2 8NZ	N/A. See " <i>Clydesdale Bank and YBHL</i> " for more information.
<b>Servicer</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The servicer will be appointed pursuant to the servicing agreement. See " <i>The servicer and the servicing agreement</i> " for more information.

## Transaction parties

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
<b>Funding security trustee</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The Funding security trustee will be appointed pursuant to the Funding deed of charge. See " <i>The Funding security trustee, note trustee and the issuer security trustee</i> " for more information.
<b>Issuer security trustee</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The issuer security trustee will be appointed pursuant to the issuer deed of charge. See " <i>The Funding security trustee, note trustee and the issuer security trustee</i> " for more information.
<b>Note trustee</b>	Citicorp Trustee Company Limited	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The note trustee will be appointed pursuant to the issuer trust deed. See " <i>The Funding security trustee, note trustee and the issuer security trustee</i> " for more information.
<b>Cash manager</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The cash manager will be appointed pursuant to the cash management agreement. See " <i>Cash management for the mortgages trustee and Funding</i> " for more information.
<b>Issuer cash manager</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The issuer cash manager will be appointed pursuant to the issuer cash management agreement. See " <i>Cash management for the issuer</i> " for more information.

## Transaction parties

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
<b>Corporate services provider (with respect to the mortgages trustee)</b>	Structured Finance Management Offshore Limited	47 Esplanade St Helier Jersey JE1 0BD	The corporate services provider with respect to the mortgages trustee will be appointed pursuant to the corporate services agreement between Structured Finance Management Offshore Limited and the mortgages trustee.
<b>Corporate services provider (with respect to the issuer and Funding)</b>	Structured Finance Management Limited	35 Great St. Helen's London EC3A 6AP	The corporate services provider with respect to the issuer and Funding will be appointed pursuant to the corporate services agreement between, among others, Structured Finance Management Limited, the issuer and Funding.
<b>Account bank (with respect to the mortgages trustee and Funding)</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The account bank will be appointed pursuant to the bank account agreement. See " <i>cash management for the mortgages trustee and Funding – Mortgages trust bank accounts</i> " and " <i>cash management for the mortgages trustee and Funding – Funding bank accounts</i> " for more information.
<b>Collection bank</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The collection bank will be appointed pursuant to the collection bank account agreement. See " <i>The servicer and the servicing agreement – The servicing agreement – Collection of payments</i> " for more information

## Transaction parties

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
<b>Issuer account bank</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The issuer account bank will be appointed pursuant to the issuer bank account agreement. See " <i>cash management for the issuer – Issuer bank accounts</i> " for more information.
<b>Start-up loan provider</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The start-up loan provider may advance start-up loans to the issuer under the start-up loan agreements. See " <i>Credit Structure – start-up loans</i> " for more information.
<b>Funding basis rate swap provider</b>	Clydesdale Bank PLC	30 Vincent Place Glasgow G1 2HL	The Funding basis rate swap provider will be appointed pursuant to the Funding swap agreement. See " <i>The swap agreements – The Funding basis rate swaps</i> " for more information.
<b>Issuer swap provider</b>	The issuer swap provider for a series and class of notes. This will be disclosed in the applicable final terms.		See " <i>The swap agreements – The issuer swaps</i> " for more information.
<b>Principal paying agent</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The principal paying agent will be appointed pursuant to the issuer paying agent and agent bank agreement.
<b>Agent bank</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The agent bank will be appointed pursuant to the issuer paying agent and agent bank agreement.
<b>Registrar</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The registrar will be appointed pursuant to the issuer paying agent and agent bank agreement.
<b>Transfer agent</b>	Citibank, N.A., London Branch	Citigroup Centre Canada Square Canary Wharf London E14 5LB	The transfer agent will be appointed pursuant to the issuer paying agent and agent bank agreement.

### Transaction parties

<b>Party</b>	<b>Name</b>	<b>Address</b>	<b>Document under which appointed / Further Information</b>
<b>Listing Authority</b>	The UK Listing Authority	N/A	N/A
<b>Stock Exchange</b>	London Stock Exchange's regulated market	N/A	N/A
<b>Clearing Systems</b>	Euroclear, Clearstream, Luxembourg and DTC	N/A	N/A
<b>Rating Agencies</b>	Moody's Investors Service Limited and Fitch Ratings Ltd.	N/A	N/A

## OVERVIEW OF LOAN PORTFOLIO AND SERVICING

Please refer to the sections entitled "Conditions to assignment" and "The servicer and the servicing agreement" for further detail in respect of the characteristics of the loan portfolio and the assignment and the servicing arrangements in respect of the loan portfolio. Note: the final terms for each series will contain pool stratification information.

### Assignment of loan portfolio

The loan portfolio will consist of BTL loans and the related security and all monies derived therefrom which have been sold to the mortgages trustee from time to time, in each case subject to and in accordance with the terms of the mortgage sale agreement. The seller may assign new BTL loans and their related security to the mortgages trustee in order to increase or maintain the size of the trust property. In particular, the seller may assign BTL loans and their related security to the mortgages trustee: (a) in connection with an issue of notes by the issuer, the proceeds of which are applied ultimately to fund the acquisition (by assignment) of such BTL loans and their related security by the mortgages trustee; or (b) to maintain adequate over-collateralisation in the mortgages trust.

Each of the English and Welsh BTL loans in the loan portfolio and their related security will be governed by English law and each of the Scottish BTL loans in the loan portfolio and their related security will be governed by Scots law.

See "Conditions to assignment" for more information.

### YBHL

The seller will acquire from YBHL the English and Welsh BTL loans and related security and the Scottish BTL loans and related security originated by YBHL which are to form part of a portfolio of BTL loans sold or to be sold to the mortgages trustee pursuant to the terms of the mortgage sale agreement.

### Features of BTL loans

The following is a summary of certain features of the BTL loans. Investors should refer to, and carefully consider, further details in respect of the BTL loans set out in the final terms.

Type of borrower:	100 per cent. buy-to-let
Type of mortgage:	first charge by way of legal mortgage or (in Scotland) standard security
Type of BTL loan:	principal repayment, interest-only, or part principal repayment/part interest only
Fixed rate BTL loans:	yes
Standard variable rate BTL loans:	yes
Variable rate BTL loans:	yes
Discount rate BTL loans:	yes
Tracker rate BTL loans:	yes
Offset variable BTL loans:	yes
Offset tracker rate BTL loans:	yes
Capped rate BTL loans:	yes
Self-certified BTL loans:	no

Home-owner mortgage loans:	no
Flexible BTL loans:	yes
Offset BTL loans:	yes

It should be noted that new types of BTL loans may be sold to the mortgages trustee (in which case the representations and warranties in the mortgage sale agreement may be modified as required to accommodate such new types of BTL loans). The prior consent or sanction of the noteholders to the requisite amendments will not be required to be obtained, provided that the conditions for the sale of new mortgage loans to the mortgages trustee have been satisfied, including the receipt of a ratings confirmation with respect to the new types of BTL loans.

**Lending criteria**

BTL loans may only be assigned to the mortgages trustee if they have been originated in accordance with the relevant originator's lending criteria applicable at the time the BTL loan is offered to the relevant borrower(s). The lending criteria include, amongst other things:

- applicant's employment details;
- property valuation;
- property types;
- loan amount;
- age of applicant;
- status of applicant(s);
- applicant's credit history; and
- scorecard.

See a description of the lending criteria in "*The BTL loans – Lending criteria*".

**Consideration**

Consideration payable to the seller in respect of the assignment of BTL loans into the loan portfolio on each assignment date shall be equal to: (i) the proceeds of the new loan tranches advanced by the issuer to Funding under the global intercompany loan agreement on such assignment date; and (ii) the deferred purchase price.

**Representations and warranties**

The seller will make representations and warranties in relation to the BTL loans on each assignment date.

In addition to representations and warranties in respect of the legal nature of the BTL loans and their related security (e.g. the valid, binding and enforceable nature of the relevant BTL loan and the related security), the representations and warranties include (but are not limited to):

- the mortgage loan constitutes a BTL loan;
- the mortgage constitutes a first ranking charge by way of mortgage (in England and Wales) or a first ranking standard security (in Scotland) over the relevant mortgaged property;
- each BTL loan is (or is a combination of) a fixed rate BTL loan, a standard variable rate BTL loan, a variable rate BTL loan, a capped rate BTL loan, a discount rate BTL loan or a tracker rate BTL loan;



- each BTL loan was originated in accordance with the relevant originator's lending criteria in force at the time of origination of such BTL loan (as described further in "*The BTL loans – Underwriting*" below;
- no BTL loan has a current principal balance outstanding of greater than £1,000,000;
- the aggregate amount overdue in respect of each BTL loan does not exceed an amount equal to the aggregate of the scheduled payments due in a calendar month; and
- the final maturity date of each loan is no later than (a) December 2058 or (b) such later date as specified in the most recent final terms.

See "*Assignment of the BTL loans and related security – Representations and warranties*" for more information.

**Conditions for purchase**

The assignment of any new BTL loans and the related security to the mortgages trustee on an assignment date is subject to compliance with, among other things, the following conditions:

- limits on loans in arrears;
- limits on the aggregate balance of BTL loans sold;
- minimum weighted average yield;
- maximum weighted average LTV ratio; and
- the Fitch conditions.

See a description of these and other conditions in "*Assignment of the BTL loans and related security – Assignment of the BTL loans and related security*".

**Repurchase of the loans and related security**

The seller will re-purchase any BTL loan and its related security in the following circumstances:

- upon a material breach of the representations and warranties made by the seller in relation to the relevant BTL loan, which could have a material adverse effect on such BTL loan and/or its related security (subject to a 28 days grace period).
- if the relevant originator receives an application from or intends to make an offer (which is accepted) to a borrower for a product switch.

See "*Assignment of the BTL loans and related security – Repurchase by the seller*" and "*Assignment of the BTL loans and related security – Product switches and further advances*" for more information.

The seller is entitled, but not obliged, (although it is its current intention) to purchase from the mortgages trustee any BTL loan in the loan portfolio that may become the subject of a further advance.

See "*Assignment of the BTL loans and related security – Product switches and further advances*" for more information.

**Consideration for repurchase**

Consideration payable by the seller in respect of the repurchase of a BTL loan shall be a price (not less than zero) equal to the current balance of that BTL loan together with any accrued interest or arrears of interest as at the date of

completion of such repurchase.

**Perfection events**

Transfer of the legal title to the relevant BTL loans to the mortgages trustee will be completed on the occurrence of certain events, which include insolvency of the seller, termination of the role of Clydesdale Bank as servicer pursuant to the terms of the servicing agreement and various other events, as set out further under "*Assignment of the BTL loans and related security – Transfer of legal title to the mortgages trustee*" below.

Prior to the completion of the transfer of legal title to the relevant BTL loans, the mortgages trustee will hold only the equitable title to those BTL loans (or, in the case of the relevant Scottish loans, the beneficial interest in those loans pursuant to the Scottish declarations of trust) and will therefore be subject to certain risks, as set out in the risk factor entitled "*There may be risks associated with the fact that the mortgages trustee has no legal title to the BTL loans and their related security which may adversely affect payments on the notes*" in the section entitled "*Risk Factors*". More information on the transfer of legal title to the BTL loans in the loan portfolio is provided under "*Assignment of the BTL loans and related security – Transfer of legal title to the mortgages trustee*".

**All moneys mortgage trust**

An all moneys mortgage is a mortgage in respect of a BTL loan that was originated by an originator as an "all moneys charge" in that such mortgage purports to secure the repayment of associated debt (being indebtedness a borrower owes or may owe to the originator from time to time which is not assigned to the mortgages trustee (such as business loans)) along with the BTL loan. The beneficial interest of each all moneys mortgage and the proceeds of enforcement of such mortgage will be held by the mortgages trustee on trust for the benefit of itself and the relevant originator. In the event proceeds are available to be distributed from such trust property, such proceeds will be distributed, firstly, to the mortgages trustee (in an amount up to, but not to exceed, the then current balance of the related BTL loan) and thereafter, to the relevant originator. Currently, no borrower in respect of a BTL loan originated by YBHL owes associated debt to YBHL. See further "*Conditions to assignment – All moneys mortgage*".

**Servicing of the portfolio**

The servicer will be appointed by the mortgages trustee, Funding and the seller to service the loan portfolio on a day-to-day basis. The appointment of the servicer may be terminated by the mortgages trustee or Funding (in each case, with the consent of the Funding security trustee) or the Funding security trustee upon the occurrence of certain servicer termination events, including:

- an insolvency event occurs in relation to the servicer;
- material non-performance of its obligations (subject to a 20 London business days grace period);
- default in the payment of any amount due by the servicer (subject to a five London business days grace period); or
- failure by the servicer to obtain or maintain the necessary licence or permission or regulatory approval enabling it to continue administering BTL loans.

The servicer may also resign upon giving 12 months' notice provided a replacement servicer has been appointed.

**Delegation**

The servicer may delegate any of its servicing functions to a third party, provided that the servicer remains responsible for the performance of any of its servicing function so delegated. See "*The servicer and the servicing agreement – The Servicing Agreement – Delegation by the servicer*" for more

information.

## DESCRIPTION OF THE TERMS AND CONDITIONS OF THE NOTES

Please refer to section entitled "Terms and conditions of the notes" for further information in respect of the terms of the notes.

### **General**

The notes will be issued in series. Each series will comprise one or more class of notes on a single closing date. Each class may comprise one or more sub-classes. A class designation determines the relative seniority for receipt of cashflows. The notes of a particular class in different series (and the notes of differing sub-classes of the same class and series) will not necessarily have all the same terms. Differences may include principal amount, interest rates, interest rate calculations, currency, permitted redemption dates and/or final maturity dates. Each series and class of notes will be secured over the same property.

### **Payment priority and ranking**

The notes of each series are direct, secured and are unconditional obligations of the issuer subject to the limited recourse provisions in Condition 10(c).

Payments of interest and principal on the class A notes of each series due and payable on a note payment date will rank equally and rateably and ahead of payments of interest and principal on the class B notes of any series, the class C notes of any series, the class D notes of any series, the class E notes of any series and the class Z notes of any series (in each case, due and payable on such note payment date). Payments of interest and principal on the class B notes of any series due and payable on a note payment date will rank equally and rateably and ahead of payments of interest and principal on the class C notes of any series, the class D notes of any series, the class E notes of any series and the class Z notes of any series (in each case, due and payable on such note payment date). Payments of interest and principal on the class C notes of any series due and payable on a note payment date will rank equally and rateably and ahead of payments of interest and principal on the class D notes of any series, the class E notes of any series and the class Z notes of any series (in each case, due and payable on such note payment date). Payments of interest and principal on the class D notes of any series due and payable on a note payment date will rank equally and rateably and ahead of payments of interest and principal on the class E notes of any series and the class Z notes of any series (in each case, due and payable on such note payment date). Payments of interest and principal on the class E notes of any series due and payable on a note payment date will rank equally and rateably and ahead of payments of interest and principal on the class Z notes of any series (in each case, due and payable on such note payment date). For more information on the priority of payments to you, see "Cashflows" and see also "Risk factors – Subordination of other note classes may not protect you from all risk of loss".

The note payment dates for a series and class of notes will be the dates specified for such notes in the applicable final terms. For more information on the priority of payments, see "Cashflows" and see also "Risk factors – Subordination of other note classes may not protect you from all risk of loss".

### **Relationship between a particular series of notes and the corresponding loan tranche**

Prior to service of an issuer enforcement notice, the issuer will, in accordance with the relevant issuer priority of payments (and after making the appropriate hedging exchanges pursuant to the swap agreement(s) entered into by the applicable issuer (as described under "The swap agreements")), pay interest on and repay principal of each series of notes from the proceeds of interest payments and principal repayments made by Funding in respect to the corresponding loan tranche under the global intercompany loan agreement. The issuer will only receive a principal repayment in respect of such loan tranche if certain repayment tests are satisfied (as to which, see "Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security – Rules for application of Funding available principal receipts"). Following service of an issuer enforcement notice, the issuer will

apply amounts received by it from Funding under the global intercompany loan agreement to repay all series and classes of outstanding notes in accordance with the issuer post enforcement priority of payments.

#### **Issuer security**

As security for the payment of all monies payable in respect of the notes of each series, the issuer will, pursuant to the issuer deed of charge create security in favour of the issuer security trustee for itself and on trust for, *inter alios*, the noteholders of each series over, among other things, the following:

- an assignment by way of fixed security of the issuer's rights and claims in respect of all security and other rights held on trust by the Funding security trustee pursuant to the Funding deed of charge;
- an assignment by way of fixed security of the issuer's right, title, interest and benefit in the programme documents to which it is a party (but excluding all of the issuer's right, title, interest and benefit in the issuer deed of charge);
- a first fixed charge of the issuer's right, title, interest and benefit in the issuer sterling account, any issuer swap collateral account and each other account (if any) of the issuer and all amounts or securities standing to the credit of those accounts (including all interest or other income or distributions earned on such amounts or securities);
- a first fixed charge of the issuer's right, title, interest and benefit in all authorised investments made by or on behalf of the issuer (including all interest and other income or distributions paid or payable on such investments); and
- a first floating charge over all the assets and undertaking of the issuer which are not otherwise effectively subject to a fixed charge or assignment by way of security as described in the preceding paragraphs (and also extending over all of the issuer's Scottish assets whether or not effectively charged or assigned by way of security as aforesaid).

See "*Security for the issuer's obligations*" for more information.

#### **Funding security**

To secure its obligations to the issuer and the other Funding secured creditors, Funding will enter into the Funding deed of charge with, *inter alios*, the Funding security trustee to grant the following security interests:

- an assignment by way of fixed security of the Funding share of the trust property;
- an assignment by way of fixed security of all of Funding's right, title, interest and benefit in the programme documents to which Funding is a party from time to time (including for the avoidance of doubt rights against the mortgages trustee under the mortgages trust deed, but excluding all of Funding's right, title, interest and benefit in the Funding deed of charge);
- a first fixed charge of Funding's right, title, interest and benefit in the Funding GIC account, any Funding swap collateral account and each other account (if any) of Funding and all amounts or securities standing to the credit of those accounts (including all interest or other income or distributions earned on such amounts or securities);
- a first fixed charge of Funding's right, title, interest and benefit in all authorised investments made by or on behalf of Funding (including all interest and other income or distributions paid or payable on such

investments); and

- a first floating charge over all the assets and the undertaking of Funding which are not otherwise effectively subject to a fixed charge or assignment by way of security as described in the preceding paragraphs (and also extending over all of Funding's Scottish assets whether or not effectively charged or assigned by way of security as aforesaid).

See "*Security for Fundings obligations*" for more information.

**Interest provisions**

Interest will accrue on a series and class of notes from its date of issuance (or such other date specified for such notes in the applicable final terms) at the interest rate specified for such notes in the applicable final terms, which may be a fixed or floating rate or have a combination of these characteristics (see Condition 4 (*Interest*) of the terms and conditions of the notes). Interest on a series and class of notes will be due and payable on the note payment dates specified for such notes in the applicable final terms.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of notes, interest in respect of such notes will become due and payable on monthly payment dates and interest will accrue on a monthly basis.

Please refer to the final terms for the relevant series of notes for the applicable interest-related provisions.

**Interest deferral**

The issuer is not permitted to defer payments of interest in respect of the most senior class of notes of any series then outstanding. The failure to pay interest on such senior classes of notes will, subject to a three business day grace period, constitute a note event of default. The issuer may defer payments of interest on subordinated classes of notes, and failure to pay interest on such subordinated classes of notes will not constitute a note event of default until the final maturity date of the applicable series and class of notes.

**Gross-up**

Neither the issuer nor any paying agent will be obliged to gross-up payments to the noteholders if there is any withholding or deduction in respect of the notes on account of taxes.

**Redemption**

The notes are subject to the following optional or mandatory redemption events, as indicated in the applicable final terms (and as fully set out in Condition 5 (*Redemption, purchase and cancellation*) of the terms and conditions of the notes):

- mandatory redemption in part or in full in accordance with the terms and conditions of the notes for that series;
- optional redemption of a series and class of notes exercisable by the issuer in whole on the date specified as the step-up date for such series or class of notes in the applicable final terms and on any monthly payment date for such series and class of notes following that date;
- optional redemption of a series and class of notes exercisable by the issuer in whole on any note payment date on which the aggregate principal amount outstanding of such series and class of notes and all other classes of notes of the same series is less than 10 per cent. of the aggregate principal amount outstanding of such series of notes as at the date upon which such series of notes were issued;
- optional redemption of a series and class of notes exercisable by the issuer on any date provided that all of the holders of such series and class of notes (but not the holders of any other notes) have given prior

written consent to such redemption;

- optional redemption of a series and class of notes exercisable by the issuer in whole for tax reasons;
- optional redemption of a series and class of notes exercisable by the issuer on any note payment date in respect of such series and class of notes after it becomes unlawful for the issuer to make, fund or allow to remain outstanding the related loan tranche and the issuer has required Funding to prepay such loan tranche; and
- each series and class of maturity purchase notes shall, subject to certain conditions, be transferred on the relevant transfer date in exchange for payment of the relevant maturity purchase price by the maturity purchaser to the holders of such series and class of maturity purchase notes.

Unless stated otherwise in the applicable final terms, any note redeemed pursuant to the above redemption provisions will be redeemed at an amount equal to the principal amount outstanding of the relevant note to be redeemed, together with accrued (and unpaid) interest on the principal amount outstanding of the relevant note.

**Early amortisation or extension risk**

Early amortisation or extension may be caused by either an asset trigger event or a non-asset trigger event (see further below "*Triggers Tables – Non-Rating Triggers Table*" and "*The mortgages trust - Cash management of trust property – principal receipts*" for more information).

Following the occurrence of a non-asset trigger event, the notes will be subject to prepayment risk (that is, they may be repaid earlier than expected). This is because following a non-asset trigger event, mortgages trustee available principal receipts will be applied (i) first, to Funding until the Funding share of the trust property has been reduced to zero, and (ii) second, to the seller. Such an event will lead to an acceleration in the repayment of the Funding intercompany loan, which will in turn be used to make payments under the notes.

Following the occurrence of an asset trigger event, certain series and classes of notes will be subject to prepayment risk and other series and classes of notes will be subject to extension risk. This is because following the occurrence of an asset trigger event, mortgages trustee available principal receipts will be applied (in proportion to the respective amounts due), to Funding and the seller according to their respective shares in the trust property, until the Funding share of the trust property is zero. When the Funding share of the trust property is zero, the remaining mortgages trustee available principal receipts (if any) will be allocated to the seller.

**Note event of default**

As fully set out in Condition 9 (*Events of default*) of the terms and conditions of the notes, a note event of default broadly includes (where relevant, subject to any applicable grace period):

- non-payment of principal on any note of the relevant series and/or non-payment of interest on any note of the relevant series, in each case when such payment ought to have been paid in accordance with the terms and conditions of the notes, and in each case in relation only to the most senior class of notes then outstanding;
- breach of contractual obligations by the issuer under the transaction documents that are material in the context of the most senior class of notes then outstanding;

- certain insolvency related events (unless in certain cases it is approved by the most senior class of notes then outstanding); or
- a Funding enforcement notice is served.

**Limited recourse**

The notes will be limited recourse obligations of the issuer. Upon realisation of the issuer security and application thereof, if any amounts outstanding are not paid in full such amounts shall cease to be due and payable, which is described in more detail in Condition 10(B) of the terms and conditions of the notes.

**Non petition**

The noteholders shall not be entitled to take any steps to enforce their rights for any amounts owing to them, unless the note trustee or, as applicable, the issuer security trustee has become bound to institute such proceedings but has failed to do so within 30 days of becoming so bound and the failure is continuing. In any event, no class B noteholder, class C noteholder, class D noteholder, class E noteholder or class Z noteholder will be entitled to commence proceedings for the winding up or administration of the issuer unless there are no outstanding notes of a class with higher priority, or if notes of a class with higher priority are outstanding, there is consent of noteholders of not less than one quarter of the aggregate principal amount of the notes outstanding (as defined in the issuer trust deed) of the class or classes of notes with higher priority.

**Ratings of the notes**

It is a condition of the issuance of each series and class of notes issued by the issuer (other than the class Z notes) that they be assigned the following ratings by at least one of Moody's or Fitch.

	<b>Moody's</b>	<b>Fitch</b>
<b>Class A</b>	Aaa (sf)	AAA sf
<b>Class B</b>	Aa3 (sf)	AA sf
<b>Class C</b>	A2 (sf)	A sf
<b>Class D</b>	Baa2 (sf)	BBB sf
<b>Class E</b>	Ba2 (sf)	BB sf

It is a condition of the issuance of any series and class of notes which are money market notes that they be assigned a rating of "P-1" or "F1+" by at least one of Moody's or Fitch, respectively.

The ratings assigned to a series and class of notes will be the ratings specified for such notes in the applicable final terms.

The class Z notes will not be assigned ratings by any of Moody's or Fitch.

**ERISA considerations for investors**

See "*ERISA Considerations*".

**Governing Law**

The notes and any non-contractual obligations arising out of or in connection with them will be governed by English law.



## OVERVIEW OF RIGHTS OF NOTEHOLDERS

*Please refer to section entitled "Terms and conditions of the notes" for further information respect of the rights of noteholders, conditions for exercising such rights and relationship with other issuer secured creditors.*

### **Acceleration**

All notes will become immediately due and payable and the note trustee will be entitled to instruct the issuer security trustee to enforce the issuer security upon the service on the issuer by the note trustee of an issuer enforcement notice. The note trustee will be entitled to serve an issuer enforcement notice at any time after the occurrence of a note event of default in respect of the most senior class of notes then outstanding and it shall do so, subject in each case to being indemnified, secured and/or prefunded to its satisfaction: (i) on the written instructions of the noteholders of the applicable class of notes across all series (holding in aggregate at least one quarter in principal amount outstanding of such class of notes); or (ii) if directed to do so by an extraordinary resolution of the holders of the relevant class of notes across all series provided that, at such time, all notes ranking in priority to such class of notes have been repaid in full.

### **Enforcement**

At any time after the issuer security has become enforceable (including after the service of an issuer enforcement notice), the issuer security trustee will be bound to take action to enforce the issuer security if it has been so directed by the note trustee, provided that the issuer security trustee has been indemnified, secured and/or prefunded to its satisfaction.

The note trustee shall not be bound to so direct the issuer security trustee unless:

- (a) (subject in all cases to restrictions contained in the issuer trust deed to protect the interests of any higher ranking class of noteholders) it shall have been so directed by an extraordinary resolution of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders or the class Z noteholders or so requested in writing by the holders of at least one quarter in aggregate principal amount outstanding of the class A notes, class B notes, class C notes, class D notes, class E notes or class Z notes; and
- (b) it shall have been indemnified, secured and/or prefunded to its satisfaction.

Any extraordinary resolution of the noteholders of any class of notes to direct the note trustee to deliver an issuer enforcement notice or to take any enforcement action or to instruct the issuer security trustee to enforce the issuer security shall only be capable of being passed at a single meeting of the noteholders of all series of such class of notes.

Noteholders may institute proceedings against the issuer to enforce their rights under or in respect of the notes or the issuer deed of charge only if (i) the note trustee or, as applicable, the issuer security trustee has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound; and (ii) such failure is continuing.

### **Convening a Meeting**

Meetings of the noteholders to consider matters relating to the notes of one or more series will be convened by the note trustee if it is requested to do so by noteholders holding no less than one tenth in principal amount of the notes of any class for the time being outstanding subject in each case to the note trustee having been indemnified, secured and/or prefunded to its satisfaction. Noteholders may also participate in any appropriate noteholders' meeting convened by the issuer or the note trustee to consider

any matter affecting such noteholders' interests.

**Noteholders meeting provisions**

**Notice Periods**

*Initial meeting:* 21 clear days for the initial meeting

*Adjourned Meeting:* No less than 13 clear days and no more than 42 clear days for the adjourned meeting

**Quorum for extraordinary resolution**

Other than in respect of a basic terms modification:

*Initial Meeting:* one or more persons holding or representing more than half of the aggregate principal amount outstanding of such series and class of notes or such one or more series of notes of the same class

*Adjourned Meeting:* one or more persons being or representing noteholders of such series and class of notes or such one or more series of notes of the same class, whatever the aggregate principal amount outstanding of the notes so held or represented.

Basic terms modification:

*Initial Meeting:* one or more persons holding or representing not less than three quarters of the aggregate principal amount outstanding of the notes of the relevant series and class or of the relevant one or more series of notes of the same class.

*Adjourned Meeting:* one or more persons holding or representing not less than one quarter of the aggregate principal amount outstanding of the notes of the relevant series and class or of the relevant one or more series of notes of the same class.

**Required Majority**

*Ordinary resolution:* Simple majority

*Extraordinary resolution:* 75% of votes cast for matters requiring an extraordinary resolution

*Written resolution:* A resolution signed by or on behalf of 90% of the noteholders of the relevant series and class or of the relevant class of more than one series of notes. A written resolution has the same effect as an extraordinary resolution.

**Matters requiring extraordinary resolution**

The following matters (among others), require an extraordinary resolution:

- the sanction of any basic terms modification;
- the sanction of any compromise or arrangement proposed to be made between the issuer, the note trustee, any appointee of the note trustee and the noteholders or any of them;
- the sanction of any abrogation, modification, compromise or arrangement in respect of the rights of the note trustee, any appointee of the note trustee, the noteholders or the issuer against any other or others of them or against any other party to any of the programme documents or against any of their property, whether

such rights shall arise under the issuer trust deed, any other programme document or otherwise;

- the assent to any modification of the provisions of the terms and conditions of the notes, the issuer trust deed or any other programme document which shall be proposed by the issuer, the note trustee, or any noteholder or any other person where such notification cannot be agreed to by the note trustee in accordance with Condition 11(E) (*Modifications and determinations by note trustee*);
- the approval of a person to be appointed as a note trustee or issuer security trustee and the removal of any note trustee or issuer security trustee for the time being;
- the discharge or exoneration of the note trustee and/or any appointee of the note trustee from all liability in respect of any act or omission for which the note trustee and/or such appointee may have become responsible under the issuer trust deed; and
- instructions to the note trustee to deliver an issuer enforcement notice following a note event of default.

See Condition 11 (*Meeting of noteholders modifications and waiver*) of the terms and conditions of the notes for further information.

**Relationship between classes of noteholders**

The issuer security trustee will be bound to exercise its rights under the issuer deed of charge only in accordance with the directions of the note trustee, which will in turn be bound to act as directed by the noteholders, subject, in each case, to both the issuer security trustee and the note trustee being indemnified, secured and/or prefunded to their respective satisfaction. If there is a conflict between the interests of one class of noteholders of one series and the same class of noteholders of another series, then a resolution directing the note trustee to take any action must be passed at separate meetings of the holders of each series of the relevant class of notes. Where the interests of one class of the noteholders conflicts with the interests of another class or classes of the noteholders, then:

- the note trustee is to have regard only to the interests of the class A noteholders in the event of a conflict between the interests of the class A noteholders on the one hand and the class B noteholders and/or the class C noteholders and/or the class D noteholders and/or the class E noteholders and/or the class Z noteholders on the other hand;
- subject to the preceding paragraph, the note trustee is to have regard only to the interests of the class B noteholders in the event of a conflict between the interests of the class B noteholders on the one hand and the class C noteholders and/or the class D noteholders and/or the class E noteholders and/or the class Z noteholders on the other hand;
- subject to the preceding paragraphs, the note trustee is to have regard only to the interests of the class C noteholders in the event of a conflict between the interests of the class C noteholders on the one hand and the class D noteholders and/or the class E noteholders and/or the class Z noteholders on the other hand;
- subject to the preceding paragraphs, the note trustee is to have regard only to the interests of the class D noteholders in the event of a conflict between the interests of the class D noteholders on the one hand and the class E noteholders and/or the class Z noteholders on

the other hand; and

- subject to the preceding paragraphs, the note trustee is to have regard only to the interests of the class E noteholders in the event of a conflict between the interests of the class E noteholders on the one hand and the class Z noteholders on the other hand.

For the avoidance of doubt, a resolution may only be passed at a single meeting of the noteholders of each sub-class of the relevant class of notes of that series if the note trustee is, in its absolute discretion, satisfied that there is no conflict between them.

**Seller as noteholder** There are no restrictions on the ability of the seller to exercise voting rights to the extent that it holds any of the notes.

**Relationship between noteholders and other issuer secured creditors** The note trustee will only take into account the interests of the noteholders in the exercise of its powers, trusts, authorities and discretions under the issuer trust deed, the notes or any other transaction documents, and not the interests of any other issuer secured creditor. While the notes are outstanding, the issuer security trustee will act only at the direction of the note trustee.

**Provision of information to the noteholders** Information in respect of the loan portfolio will be provided to the investors on a monthly basis.

**Communication with noteholders** Any notice to be given by the issuer or the note trustee to noteholders may be given in the following manner:

- so long as the notes are held in the clearing systems, by delivering to the relevant clearing system for communication by it to noteholders; or
- sent by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the register, and published in The Financial Times and, for so long as amounts are outstanding on the Rule 144A notes, in a daily newspaper of general circulation in New York (which is expected to be The New York Times); and
- publication of the notice in accordance with the rules of the relevant stock exchange on or by which the relevant notes are listed and/or admitted to trading.;

In addition to the above, simultaneous notice may also be given at such time to noteholders via a regulatory information service (such as the Regulatory News Service ("**RNS**") of the London Stock Exchange).

## OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

Please refer to the sections entitled "Cashflows" and "Credit Structure" for further detail in respect of the credit structure and cash flow of the transaction.

### **Mortgages trust**

Pursuant to the terms of the mortgages trust deed, the mortgages trust shall be formed under English law by the mortgages trustee as trustee for the benefit of the seller and Funding as beneficiaries. The mortgages trust shall be formed for the financings of the issuer described in this base prospectus and for the financings of any new issuing entities that may be established by Holdings from time to time. New beneficiaries may become beneficiaries of the mortgages trust from time to time, subject to obtaining a ratings confirmation in respect thereof (see "*Risk Factors – Potential future role of new beneficiaries in the mortgages trust*"). The mortgages trustee will hold the trust property on trust for the benefit of the seller and Funding pursuant to the mortgages trust deed. The trust property includes the loan portfolio, together with all amounts derived from the BTL loans and their related security.

The trust property shall include all amounts standing to the credit of the mortgages trustee GIC account and the mortgage trustee transaction accounts and any contribution paid by each beneficiary to the mortgages trustee (until the relevant funds are applied by the mortgages trustee in accordance with the mortgages trust deed).

See "*The mortgages trust – General legal structure*" for more information.

Each of the seller and Funding will have a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property is in proportion to their respective shares of the trust property, as further described under "*The mortgages trust*" below. Funding's beneficial interest in the trust property is referred to as the "**Funding share**" of the trust property and the seller's beneficial interest in the trust property is referred to as the "**seller share**" of the trust property. The Funding share and the seller share of the trust property will be recalculated in accordance with the mortgages trust deed on each calculation date, assignment date and contribution date and will fluctuate over time. The final terms for a series of notes will set out the approximate amounts of the Funding share of the trust property and the seller share of the trust property as at the relevant closing date for that series.

The size of the trust property may be increased from time to time as a result of an issuance of notes by the issuer, the proceeds of which are advanced by the issuer to Funding under the global intercompany loan agreement and applied by Funding, by way of a contribution to the mortgages trustee, to fund the assignment of the new BTL loans and their related security to the mortgages trustee as described under "*Conditions to assignment*" below.

Any new BTL loans assigned to the mortgages trustee will increase the total size of the trust property and will increase the Funding share of the trust property to the extent only that Funding has made a contribution to the mortgages trust in association with the acquisition of the BTL loans by the mortgages trustee. To the extent that Funding has made such a contribution to the mortgages trust in an amount equivalent to the full principal amount outstanding on the BTL loans, the Funding share of the trust property will increase accordingly with no increase in the size of the seller share of the trust property. To the extent that Funding has made a smaller contribution amount (or no contribution) to the mortgages trust with respect to the assignment of the BTL loans, the seller share of the trust property will increase by an amount equal to the difference between the amount (if any) which has been contributed by Funding and the purchase price which the

mortgages trustee paid to the seller.

From time to time and pursuant to the terms of the mortgages trust deed, Funding will make deferred contributions to the mortgages trustee in respect of the Funding share of the trust property. From such deferred contributions the mortgages trustee will from time to time make corresponding payments of deferred purchase price to the seller (which will not alter the Funding share or the seller share of the trust property at such time).

See "*The mortgages trust – General legal structure*" and "*The mortgages trust – Fluctuation of the seller share and the Funding share of the trust property*" for more information.

**Minimum seller share**

The minimum seller share is designed to provide Funding with a level of protection against certain transaction risks (including set-off risks, enforceability and priority risks relating to further advances, etc.) by ensuring that these are collateralised by the seller share of the trust property. The size of the minimum seller share will fluctuate over time.

See "*The mortgages trust – Minimum seller share*" for more information.

**Allocation of losses**

Save as otherwise provided, losses in respect of the loan portfolio are allocated *pro rata* to the seller and Funding according to their respective shares in the trust property.

See "*The mortgages trust – Adjustments to trust property*" for information as to the allocation of certain reductions to the trust property to the seller share.

See "*The mortgages trust – Losses*" and "*Credit structure – Funding principal deficiency ledger*" for more information.

**Available funds of the mortgages trustee**

The cash manager will apply mortgages trustee available revenue receipts and mortgages trustee available principal receipts on each distribution date in accordance with the order of priority set out in the mortgages trust deed, as summarised below.

***Mortgages trustee available revenue receipts:*** These will, broadly, include the following:

- revenue receipts on the loans;
- any all moneys mortgage revenue receipts;
- interest payable to the mortgages trustee on the mortgages trustee GIC account and the mortgages trustee transaction account; and
- any offset rebate amount received by the mortgages trustee from the seller to fund the application of any offset benefit in respect of any offset BTL loan in the loan portfolio, which will be received on or prior to the relevant distribution date and of any amounts standing to the credit of the offset benefit reserve ledger,

*less:*

- certain amounts due to third parties; and
- amounts distributed on each previous distribution date in accordance with the mortgages trust allocation of revenue receipts.

***Mortgages trustee available principal receipts:*** These will, broadly, include all principal receipts received during the previous trust calculation period.

On or before each distribution date, the cash manager will determine the mortgages trustee available revenue receipts and the mortgages trustee available principal receipts to be applied on that distribution date and will then apply the mortgages trustee available revenue receipts and the mortgages trustee available principal receipts on that distribution date in accordance with the order of priority set out in the mortgages trust deed and summarised below.

The cash manager will re-calculate the seller share and the Funding share on each calculation date, on each assignment date and on each contribution date.

The mortgages trustee allocates principal receipts on the BTL loans between the seller and Funding in amounts depending on, among other things, whether Funding is required to pay amounts on the global intercompany loan on the next monthly payment date, or whether Funding is accumulating cash to repay a bullet loan tranche or a controlled amortisation amount under a controlled amortisation loan tranche (made under the global intercompany loan agreement).

**Summary of order of priority of distribution of mortgages trustee available revenue receipts and mortgages trustee available principal receipts**

Below is a summary of the order of priority of distribution of mortgages trustee available revenue receipts and mortgages trustee available principal receipts, as set out in full in the mortgages trust deed. See "*The mortgages trust - Cash management of trust property – revenue receipts*" and "*The mortgages trust - Cash management of trust property – principal receipts*" for more information.

**Priority of payment with respect to mortgages trustee available revenue receipts**

**Priority of payment with respect to mortgages trustee available principal receipts**

1. Payment of the amounts due to the mortgages trustee (including the mortgages trustee fee) and of amounts due to third parties from the mortgages trustee in respect of the mortgages trust (subject to certain conditions).
2. Payment of the amounts due to the servicer and the cash manager.
3. Allocation and payment of mortgages trustee available revenue receipts to the seller and funding.

*Pre-trigger events:*

1. Payment to the seller and/or Funding of the amount of any special distribution which is then allocable and payable to the seller and/or Funding.
2. Payment to Funding of an amount equal to the lesser of (i) any repayment requirement it has on that distribution date and (ii) its share of the mortgages trustee available principal receipts.
3. To the extent not paid pursuant to item 2 above, payment to Funding of an amount up to the amount of any repayment requirement it has on that distribution date.

See "*The mortgages trustee – Mortgages trust allocation of revenue receipts*" for more information relating to the above order of priority.

**Priority of payment with respect to mortgages trustee available revenue receipts**

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**Priority of payment with respect to mortgages trustee available principal receipts**

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5. To the extent the relevant distribution date is not a seller share distribution event, allocation and payment to the seller of the remainder.

See "*The mortgages trust – Mortgages trust allocation and distribution of mortgages trustee available principal receipts prior to the occurrence of a trigger event*" for more information, including certain rules applicable to the above order of priority.

***Post non-asset trigger event:***

All mortgages trustee available principal receipts paid to:

1. *first*, Funding, until the Funding share of the trust property has been reduced to zero; and
2. then, the remainder, if any, of such receipts will be allocated and paid to the seller.

***Post asset trigger event:***

All mortgages trustee available principal receipts will be allocated and paid as follows:

- (a) if the immediately preceding distribution date was a seller share event distribution date, all mortgages trustee retained principal receipts will be paid to Funding; and then
- (b) without priority among them but in proportion to the respective amounts due, to Funding and the seller according to their respective shares of the trust until the Funding share of the trust property is zero (even if those payments reduce the seller share of the trust property to an amount less than the minimum seller share).

**Loan tranches**

The issuer will make loan tranches available to Funding pursuant to the global intercompany loan agreement. Each loan tranche will be funded from the proceeds of a series and class of notes. Each loan tranche may be a bullet loan tranche, a controlled amortisation loan tranche or a pass-through loan tranche, as described in the applicable final terms.



Each loan tranche will correspond to a particular series and class of notes. The loan tranches may comprise AAA loan tranches, AA loan tranches, A loan tranches, BBB loan tranches and BB loan tranches, reflecting the designated credit rating assigned to each such loan tranche. The loan tranches may also include Z loan tranches, which do not have a designated credit rating and are funded using the proceeds of the corresponding series and class of class Z notes. See "*Global intercompany loan agreement – Classes of loan tranches*" below. The loan tranche related to a series and class of notes will be specified for such series and class of notes in the applicable final terms. The repayment terms of a series and class of notes (for example, dates for payment of principal and the type of amortisation or redemption) will reflect the terms of the loan tranche funded by such notes.

Subject to the provisions of the relevant Funding priority of payments (see "*Cashflows*" below), Funding will repay the global intercompany loan from payments received from the mortgages trustee. Prior to the occurrence of a trigger event or service of an issuer enforcement notice or a Funding enforcement notice, Funding is generally required to repay principal on the loan tranches as follows: the AAA loan tranches are repaid before the AA loan tranches, which in turn are repaid before the A loan tranches, which in turn are repaid before the BBB loan tranches, which in turn are repaid before the BB loan tranches, which are in turn repaid before the Z loan tranches. Prior to the occurrence of a trigger event or the service of an issuer enforcement notice or a Funding enforcement notice, there are a number of exceptions to this priority of payments. For further information on such exceptions you should read "*Cashflows*" below. In certain circumstances, principal payments on the Z loan tranches, the BB loan tranches, the BBB loan tranches, the A rated loan tranches and the AA loan tranches will be deferred. In certain circumstances, payment on the pass-through loan tranches and the controlled amortisation loan tranches will be deferred. Please refer to "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security*" for details. See also "*Risk factors – The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the BTL loans or repurchases of BTL loans by the seller*".

The issuer will make payments of interest on and principal in respect of the notes from payments of interest and principal made by Funding to it under the global intercompany loan agreement.

See "*The global intercompany loan agreement*" for more information, including the uses for which Funding may apply proceeds of each loan tranche.

**Available funds of Funding:**

Funding expects to have Funding available revenue receipts and Funding available principal receipts for the purposes of making interest and principal payments due under the loan tranches and other obligations pursuant to the other transaction documents.

***Funding available revenue receipts:*** On any monthly payment date these will, broadly, consist of the following:

- all mortgages trustee available revenue receipts distributed or to be distributed to Funding during the period from (and including) the preceding monthly payment date to (but excluding) the relevant monthly payment date;
- all amounts of interest received on the Funding bank accounts and all income from authorised investments received or to be received during the period from (and including) the preceding monthly

payment date to (but excluding) the relevant monthly payment date;

- certain amounts received by Funding under the Funding basis rate swap agreement;
- the amounts then standing to the credit of the Funding principal ledger or the Funding cash accumulation ledger, subject to relevant limits or conditions;
- any Funding intercompany loan surplus amounts pursuant to items (Q) of the issuer pre-enforcement revenue priority of payments and (U) of the issuer post-enforcement priority of payments;
- the amount available to be drawn from the Funding reserve fund, subject to relevant limits or conditions; and
- prior to the repayment in full of the AAA loan tranches and the AA loan tranches, the amount available to be drawn from the Funding liquidity reserve fund (if any) subject to relevant limits or conditions and following the repayment in full of the AAA loan tranches and the AA loan tranches, any monies credited to the Funding liquidity reserve.

***Funding available principal receipts:*** On any monthly payment date these will, broadly, consist of the following:

- all mortgages trustee available principal receipts distributed or to be distributed to Funding that are or will be standing to the credit of the Funding cash accumulation ledger which are to be applied on the relevant monthly payment date to repay the bullet loan amount in relation to an original bullet loan tranche which is in a cash accumulation period and/or or to make a payment under items 1 or 2 set out in the summary of the Funding pre-enforcement principal priority of payments below and, if such monthly payment date occurs on or after a trigger event or the delivery by the note trustee of an issuer enforcement notice to the issuer, the remainder of such receipts standing to the credit of the Funding cash accumulation ledger;
- all other mortgages trustee available principal receipts received or to be received by Funding from the mortgages trustee that are or will be standing to the credit of the Funding principal ledger which are to be applied on the relevant monthly payment date to repay a controlled amortisation amount repayable in respect of a controlled amortisation loan tranche or a principal amount repayable in respect of a pass-through loan tranche;
- the amount, if any, credited to the Funding principal deficiency ledger pursuant to the Funding pre-enforcement revenue priority of payments on the relevant monthly payment date;
- in so far as needed to make a Funding reserve principal payment (as to which, see "*Credit structure – Funding reserve fund*"), any amount available to be drawn under the Funding reserve fund less any amounts applied or to be applied on the relevant monthly payment date in payment of interest and expenses under the Funding pre-enforcement revenue priority of payments; and
- in so far as needed to make a Funding liquidity reserve principal payment (as to which, see "*Credit structure – Funding liquidity reserve fund*"), any amount available to be drawn under the Funding liquidity reserve fund less any amounts applied or to be applied on

the relevant monthly payment date in payment of interest and expenses under the Funding pre-enforcement revenue priority of payments, plus any amounts to be credited to the Funding liquidity reserve ledger on the relevant monthly payment date;

- any excess special distribution proceeds and/or excess proceeds of a new loan tranche,
- any Funding intercompany loan surplus amounts received pursuant to item (H) of the issuer pre-enforcement principal priority of payments

*less*

- amounts to be applied on the relevant monthly payment date to pay items 7, 9, 12, 14 and 16 set out in the summary of the Funding pre-enforcement revenue priority of payments

**Summary of Funding priority of payments**

Below is a summary of the Funding priority of payments. It should be noted that this is a summary of some of the main cashflows, and does not include every possible cashflow. For more information on cashflows (including those applicable following a trigger event or the delivery of an issuer enforcement notice) please refer to "*Cashflows*".

<b>Funding pre-enforcement revenue priority of payments</b>	<b>Funding pre-enforcement principal priority of payments (before a trigger event and before delivery of a Funding enforcement notice or an issuer enforcement notice)</b>	<b>Funding post-enforcement priority of payments</b>
1. amounts due to the Funding security trustee (together with any VAT on those amounts)	1. to the extent that monies have previously been drawn from the Funding reserve fund to make Funding reserve principal payments, replenishment of the Funding reserve fund up to the Funding reserve required amount	1. amounts due to the Funding security trustee and any receiver appointed by the Funding security trustee (together with any VAT on those amounts)
2. amounts due to the issuer in respect of the issuer's obligations specified in items 1 through 4 (inclusive) set out in the summary of the issuer pre-enforcement revenue priority of payments or, as applicable, items 1 through 3 (inclusive) set out in the summary of the issuer post-enforcement priority of payments	2. if a Funding liquidity reserve rating event has occurred and is continuing (i) initial funding of the Funding liquidity reserve fund up to the Funding liquidity reserve required amount and (ii) once it has been initially funded, to the extent that Funding available revenue receipts are insufficient to do so, replenishment of the Funding liquidity reserve fund up to the Funding liquidity reserve required amount	2. amounts due to the issuer in respect of the issuer's obligations specified in items 1 through 4 of the issuer pre-enforcement revenue priority of payments or, as the case may be, items 1 through 3 of the issuer post-enforcement priority of payments
3. amounts due to third party creditors (properly incurred and to the extent	3. in order of their final maturity dates (and if two or more AAA loan	3. amounts due to the cash manager

<b>Funding pre-enforcement revenue priority of payments</b>	<b>Funding pre-enforcement principal priority of payments (before a trigger event and before delivery of a Funding enforcement notice or an issuer enforcement notice)</b>	<b>Funding post-enforcement priority of payments</b>
not provided for elsewhere) and certain tax liabilities	tranches have the same final maturity date, in proportion to the respective amounts due), repayment of the principal amounts due (if any) on such monthly payment date on the AAA loan tranches	
4. amounts due to the cash manager	4. in no order of priority, repayment of the principal amounts due (if any) on such monthly payment date on the AA loan tranches	4. in no order of priority, amounts due to the account bank and the corporate services provider (together, in the case of the corporate services provider, with any VAT on those amounts)
5. in no order of priority, amounts due to the account bank (excluding amounts referred to in item 26 below) and the corporate services provider (together, in the case of the corporate services provider, with any VAT on those amounts)	5. in no order of priority, repayment of the principal amounts due (if any) on such monthly payment date on the A loan tranches	5. amounts due to the Funding basis rate swap provider (excluding any Funding basis rate swap excluded termination amount)
6. amounts due to the Funding basis rate swap provider (excluding any Funding basis rate swap excluded termination amount)	6. in no order of priority, repayment of the principal amounts due (if any) on such monthly payment date on the BBB loan tranches	6. in no order of priority, interest, principal and fees due on the AAA loan tranches
7. interest due and payable on the AAA loan tranches	7. in no order of priority, repayment of the principal amounts due (if any) on such monthly payment date on the BB loan tranches	7. in no order of priority, interest, principal and fees due on the AA loan tranches
8. credit to the AAA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that sub-ledger	8. in no order of priority, repayment of the principal amounts due (if any) on such monthly payment date on the Z loan tranches	8. in no order of priority, interest, principal and fees due on the A loan tranches
9. interest due and payable on the AA loan tranches	9. credit to the Funding cash accumulation ledger until the balance of the Funding cash accumulation ledger is equal to the cash accumulation requirement (as calculated after any payments are made at item	9. in no order of priority, interest, principal and fees due on the BBB loan tranches

<b>Funding pre-enforcement revenue priority of payments</b>	<b>Funding pre-enforcement principal priority of payments (before a trigger event and before delivery of a Funding enforcement notice or an issuer enforcement notice)</b>	<b>Funding post-enforcement priority of payments</b>
	3 of this priority of payments)	
10. after taking account of the replenishment of the Funding liquidity reserve fund on the relevant monthly payment date from Funding available principal receipts, replenishment of the Funding liquidity reserve fund, if any, up to the Funding liquidity reserve required amount but only to the extent that there are AAA loan tranches and AA loan tranches outstanding on such monthly payment date	<p>10. credit to the Funding principal ledger of any remaining Funding available principal receipts</p> <p>11. any amount remaining to the mortgages trustee as a deferred contribution pursuant to the terms of the mortgages trust deed</p> <p>In certain circumstances, Rules (1) and (2) (as described in "<i>Cashflows – Distribution of Funding available principal receipts prior to enforcement of the Funding security</i>") may apply in determining the amounts to be paid under items 3, 4, 5, 6, 7 and 8 in the summary of the Funding pre-enforcement principal priority of payments above.</p>	10. in no order of priority, interest, principal and fees due on the BB loan tranches
11. credit to the AA principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger		11. in no order of priority, interest, principal and fees due on the Z loan tranches
12. interest due and payable on the A loan tranches		12. amounts due to the issuer in respect of the issuer's obligations to make payments under the start-up loan agreement(s) specified in item 13 of the issuer pre-enforcement revenue priority of payments or, as the case may be, item 17 of the issuer post-enforcement priority of payments
13. credit to the A principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that sub-ledger		13. amounts due to the issuer in respect of its obligations, if any, to make a swap termination payment to any issuer swap provider (but excluding any issuer swap excluded termination amount)

<b>Funding pre-enforcement revenue priority of payments</b>	<b>Funding pre-enforcement principal priority of payments (before a trigger event and before delivery of a Funding enforcement notice or an issuer enforcement notice)</b>	<b>Funding post-enforcement priority of payments</b>
14. interest due and payable on the BBB loan tranches		14. in no order of priority, amounts due (without double counting) to: (i) the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount; and (ii) the Funding basis rate swap provider in respect of any Funding basis rate swap excluded termination amount
15. credit to the BBB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that sub-ledger		15. in no order of priority (i) to retain an amount rounded up to the nearest penny, equal to the lesser of one-twelfth of (a) £12,000 and (b) the aggregate of £1,200 per loan tranche outstanding during the course of the previous 11 monthly periods, which amount will be retained by Funding as profit; and (ii) amounts due to the issuer in respect of the issuer's obligations specified in item 11 set out in the summary of the issuer pre-enforcement revenue priority of payments or, as applicable, item 20 set out in the summary of the issuer post-enforcement priority of payments
16. interest due and payable on the BB loan tranches		16. deferred contribution due to the mortgages trustee under the mortgages trust deed
17. credit to the BB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that sub-ledger		
18. after taking account any replenishment of the Funding reserve fund on that monthly payment date from Funding available principal receipts, credit to the Funding reserve ledger		

<b>Funding pre-enforcement revenue priority of payments</b>	<b>Funding pre-enforcement principal priority of payments (before a trigger event and before delivery of a Funding enforcement notice or an issuer enforcement notice)</b>	<b>Funding post-enforcement priority of payments</b>
<p>up to an amount no less than the Funding reserve required amount or, if an arrears or step-up trigger event has occurred, credit to the Funding reserve ledger of certain additional amounts</p> <p>19. credit to the Z principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that sub-ledger</p> <p>20. in no order of priority: (i) to retain an amount rounded up to the nearest penny, equal to the lesser of one-twelfth of (a) £12,000 and (b) the aggregate of £1,200 per loan tranche outstanding during the course of the previous 11 monthly periods, which amount will be retained by Funding as profit; and (ii) amounts due to the issuer in respect of the issuer's obligations specified in item 11 set out in the summary of the issuer pre-enforcement revenue priority of payments or, as applicable, item 20 set out in the summary of the issuer post-enforcement priority of payments</p> <p>21. interest due and payable on the Z loan tranches</p> <p>22. amounts due to the issuer in respect of the issuer's obligations to make payments under the start-up loan agreement(s) specified in item 13 set out in the summary of the issuer pre-enforcement revenue priority of payments or, as the case may be, item 17 set out in the summary of the issuer</p>		

<b>Funding pre-enforcement revenue priority of payments</b>	<b>Funding pre-enforcement principal priority of payments (before a trigger event and before delivery of a Funding enforcement notice or an issuer enforcement notice)</b>	<b>Funding post-enforcement priority of payments</b>
post-enforcement revenue priority of payments		
23. amounts due to the issuer in respect of its obligations (if any) to make a swap termination payment to any issuer swap provider (but excluding any issuer swap excluded termination amount)		
24. in no order of priority, amounts due (without double counting) to: (i) the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount; and (ii) the Funding basis rate swap provider in respect of its obligations to pay any Funding basis rate swap excluded termination amount		
25. any amount remaining to the mortgages trustee as a deferred contribution pursuant to the terms of the mortgages trust deed		

**Available funds of  
the issuer**

On any monthly payment date, the issuer expects to have issuer available revenue receipts and issuer available principal receipts for the purposes of making interest payments and principal repayments under the notes and the other transaction documents.

**Issuer available revenue receipts:** These will, broadly, include the following:

- interest, fees and other amounts paid by Funding to the issuer pursuant to the terms of the global intercompany loan agreement;
- interest received on the issuer bank accounts and/or any income from authorised investments (excluding swap collateral (if any) standing to the credit of the issuer swap collateral accounts and any interest or other income thereon);
- the amounts available to be drawn under the issuer reserve fund, subject to certain limits and conditions as described further under "*Credit structure – Issuer reserve fund*"; and



- other net income of the issuer.

**Issuer available principal receipts:** These will (prior to service of an issuer enforcement notice), broadly speaking, include:

- all principal amounts to be repaid by Funding to the issuer under the global intercompany loan on the applicable monthly payment date; and
- certain amounts which are available to be drawn from the issuer reserve fund, as further in more detail under "*Cashflows – Definition of issuer available principal receipts*".

**Summary of issuer priority of payments** Below is a summary of the issuer priority of payments. It should be noted that this is a summary of some of the main cashflows, and does not include every possible cashflow. For more information on cashflows please refer to "*Cashflows*".

<b>Issuer pre-enforcement revenue priority of payments</b>	<b>Issuer pre-enforcement principal priority of payments</b>	<b>Issuer post-enforcement priority of payments</b>
1. in no order of priority, amounts due to the note trustee and the issuer security trustee (together with any VAT on those amounts)	1. to the extent that monies have been drawn from the issuer reserve fund to make issuer reserve principal payments, towards the replenishment of the issuer reserve fund up to the issuer reserve required amount, such amount to be debited to the sub-ledger(s) of the series and class(es) of notes in respect of which such issuer reserve principal payments were made	1. in no order of priority, amounts due to the note trustee, the issuer security trustee and any receiver appointed by the issuer security trustee (together with any VAT on those amounts)
2. in no order of priority, amounts due to the agent bank, the paying agents, the transfer agent and/or the registrar (together with any VAT on those amounts)	2. from principal amounts received by the issuer from Funding in respect of each AAA loan tranche: (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class A notes; and (ii) (also using certain principal amounts received (if any) from the issuer swap provider(s) in respect of the related series and class of notes) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the	2. in no order of priority, amounts due to the agent bank, the paying agents, the transfer agent and/or the registrar (together with any VAT on those amounts)

<b><u>Issuer pre-enforcement revenue priority of payments</u></b>	<b><u>Issuer pre-enforcement principal priority of payments</u></b>	<b><u>Issuer post-enforcement priority of payments</u></b>
<p>3. amounts due to third party creditors of the issuer (properly incurred and to the extent not provided for elsewhere) and certain tax liabilities</p>	<p>related series and class of class A notes</p> <p>3. from principal amounts received by the issuer from Funding in respect of each AA loan tranche: (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class B notes; and (ii) (also using certain principal amounts received (if any) from the issuer swap provider(s) in respect of the related series and class of notes) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class B notes</p>	<p>3. in no order of priority, amounts due to the issuer cash manager, the issuer corporate services provider, any tender agent and the issuer account bank (together, in the case of the issuer corporate services provider and any tender agent, with any VAT on those amounts)</p>
<p>4. in no order or priority, amounts due to the issuer cash manager, the issuer corporate services provider, any tender agent and the issuer account bank (excluding amounts referred to in item 17 below) (together, in the case of the issuer corporate services provider and any tender agent, with any VAT on those amounts)</p>	<p>4. from principal amounts received by the issuer from Funding in respect of each A loan tranche: (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class C notes; and (ii) (also using certain principal amounts received (if any) from the issuer swap provider(s) in respect of the related series and class of notes) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class C notes</p>	<p>4. in no order of priority, amounts due to the issuer swap providers for each series of class A notes (excluding any swap termination payment)</p>

**Issuer pre-enforcement  
revenue priority of payments**

5. from revenue amounts received by the issuer from Funding in respect of each AAA loan tranche: (i) amounts due and payable to the issuer swap provider(s) (if any) in respect of the class A notes of each series of notes (excluding any issuer swap excluded termination amount); and (ii) (also using certain amounts received from the issuer swap provider(s) in respect of the class A notes of each series of notes) interest due and payable (if any) on the class A notes of each series of notes on such monthly payment date

6. from revenue amounts received by the issuer from Funding in respect of each AA loan tranche: (i) amounts due and payable to the issuer swap provider(s) (if any) in respect of the class B notes of each series of notes (excluding any issuer swap excluded termination amount); and (ii) (also using certain amounts received from the issuer swap provider(s) in respect of the class B notes of each series of notes) interest due and payable (if any) on the class B notes of each series of notes on such monthly payment date

**Issuer pre-enforcement  
principal priority of payments**

5. from principal amounts received by the issuer from Funding in respect of each BBB loan tranche: (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class D notes; and (ii) (also using certain principal amounts received (if any) from the issuer swap provider(s) in respect of the related series and class of notes) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class D notes

6. from principal amounts received by the issuer from Funding in respect of each BB loan tranche: (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class E notes; and (ii) (also using certain principal amounts received (if any) from the issuer swap provider(s) in respect of the related series and class of notes) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class E notes

**Issuer post-enforcement  
priority of payments**

5. in no order of priority, interest due or overdue on, and principal of, the applicable series of class A notes and any swap termination payment due to the issuer swap provider for each series of class A notes (but excluding any issuer swap excluded termination amount)

6. in no order of priority, to pay amounts due to the issuer swap providers for each series of class B notes (excluding any swap termination payment)

**Issuer pre-enforcement  
revenue priority of payments**

7. from revenue amounts received by the issuer from Funding in respect of each A loan tranche: (i) amounts due and payable to the issuer swap provider(s) (if any) in respect of the class C notes of each series of notes (excluding any issuer swap excluded termination amount); and (ii) (also using certain amounts received from the issuer swap provider(s) in respect of the class C notes of each series of notes) interest due and payable (if any) on the class C notes of each series of notes on such monthly payment date
8. from revenue amounts received by the issuer from Funding in respect of each BBB loan tranche: (i) amounts due and payable to the issuer swap provider(s) (if any) in respect of the class D notes of each series of notes (excluding any issuer swap excluded termination amount); and (ii) (also using certain amounts received from the issuer swap provider(s) in respect of the class D notes of each series of notes) interest due and payable (if any) on the class D notes of each series of notes on such monthly payment date

**Issuer pre-enforcement  
principal priority of payments**

7. from principal amounts received by the issuer from Funding in respect of each Z loan tranche: (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class Z notes; and (ii) (also using certain principal amounts received (if any) from the issuer swap provider(s) in respect of the related series and class of notes) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class Z notes
8. the remainder (if any) to Funding as a Funding intercompany loan surplus amount

**Issuer post-enforcement  
priority of payments**

7. in no order of priority, interest due or overdue on, and principal of, the applicable series of class B notes and any swap termination payment due to the issuer swap provider for each series of class B notes (but excluding any issuer swap excluded termination amount)
8. in no order of priority, amounts due to the issuer swap providers for each series of class C notes (excluding any swap termination payment)

**Issuer pre-enforcement  
revenue priority of payments**

**Issuer pre-enforcement  
principal priority of payments**

**Issuer post-enforcement  
priority of payments**

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| <p>9. from revenue amounts received by the issuer from Funding in respect of each BB loan tranche: (i) amounts due and payable to the issuer swap provider(s) (if any) in respect of the class E notes of each series of notes (excluding any issuer swap excluded termination amount); and (ii) (also using certain amounts received from the issuer swap provider(s) in respect of the class E notes of each series of notes) interest due and payable (if any) on the class E notes of each series of notes on such monthly payment date</p> <p>10. after taking account of any replenishment of the issuer reserve fund on the relevant monthly payment date from issuer available principal receipts, credit to the issuer reserve ledger up to an amount no less than the issuer reserve required amount</p> <p>11. an amount equal to the issuer profit amount to be retained by the issuer</p> | <p>9. in no order of priority, interest due or overdue on, and principal of, the applicable series of class C notes and any swap termination payment due to the issuer swap provider for each series of class C notes (but excluding any issuer swap excluded termination amount)</p> <p>10. in no order of priority, amounts due to the issuer swap providers for each series of class D notes (excluding any swap termination payment)</p> <p>11. in no order of priority, interest due or overdue on, and principal of, the applicable series of class D notes and any swap termination payment due to the issuer swap provider for each series of class D notes (but excluding any issuer swap excluded termination amount)</p> |  |
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**Issuer pre-enforcement  
revenue priority of payments**

**Issuer pre-enforcement  
principal priority of payments**

**Issuer post-enforcement  
priority of payments**

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| <p>12. from revenue amounts received by the issuer from Funding in respect of each Z loan tranche: (i) amounts due and payable to the issuer swap provider(s) (if any) in respect of the class Z notes of each series of notes (excluding any issuer swap excluded termination amount); and (ii) (also using certain amounts received from the issuer swap provider(s) in respect of the class Z notes of each series of notes) interest due and payable (if any) on the class Z notes of each series of notes on such monthly payment date</p> <p>13. in no order of priority (i) interest amounts due to the start-up loan provider(s) and (ii) principal amounts due to the start-up loan provider(s) (to the extent of issuance fees received from Funding under the global intercompany loan agreement) under the start-up loan agreement(s)</p> <p>14. on the monthly payment date falling in December of each year, an amount to the issuer account bank equal to the amount of the debit balances (if any) in the issuer bank accounts, as permitted by the issuer account bank and outstanding at such monthly payment date</p> <p>15. in no order of priority, any issuer swap excluded termination payments to the issuer swap providers</p> |  | <p>12. in no order of priority, amounts due to the issuer swap providers for each series of class E notes (excluding any swap termination payment)</p> <p>13. in no order of priority, interest due or overdue on, and principal of, the applicable series of class E notes and any swap termination payment due to the issuer swap provider for each series of class E notes (but excluding any issuer swap excluded termination amount)</p> <p>14. in no order of priority, amounts due to the issuer swap providers for each series of class Z notes (excluding any swap termination payment)</p> <p>15. in no order of priority, interest due or overdue on, and principal of, the applicable series of class Z notes and any swap termination payment due to the issuer swap provider for each series of class Z notes (but excluding any issuer swap excluded termination amount)</p> |
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**Issuer pre-enforcement  
revenue priority of payments**

16. in no order of priority, the principal amounts due to the start-up loan provider(s) under the start-up loan agreement(s) (save to the extent such amounts are paid under item 13)
17. certain amounts due to the issuer account bank under the issuer bank account agreement in respect of the issuer sterling account
18. the remainder (if any) to Funding as a Funding intercompany loan surplus amount

**Issuer pre-enforcement  
principal priority of payments**

**Issuer post-enforcement  
priority of payments**

16. on the monthly payment date falling in December of each year, an amount to the issuer account bank equal to the amount of any debit balance in the issuer transaction account, as permitted by the issuer account bank and outstanding at such monthly payment date
17. in no order of priority (i) interest amounts due to the start-up loan provider(s) and (ii) principal amounts due to the start-up loan provider(s) (to the extent of issuance fees received from Funding under the global intercompany loan agreement); under the start-up loan agreement(s)
18. in no order of priority, any issuer swap excluded termination payments to the issuer swap providers
19. in no order of priority, principal amounts due to the start-up loan provider(s) under the start-up loan agreements
20. an amount equal to the issuer profit amount to be retained by the issuer
21. the remainder (if any) to Funding as a Funding intercompany loan surplus amount

**General credit  
structure**

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

(a) **Credit support**

*Issuer reserve fund:* An issuer reserve fund has been established to help meet:

- (i) any deficit in issuer available revenue receipts available for interest and fees due under the notes (other than interest due under the class Z notes);
- (ii) to help meet expenses in connection with the issuance of

notes by the issuer; and

- (iii) to help meet any deficit in issuer available principal receipts available for repayment of principal in respect of the original bullet notes (which are class A notes).

The issuer reserve fund will be funded and replenished from issuer available revenue receipts, issuer available principal receipts and all or part of the proceeds of a start-up loan made to the issuer by a start-up loan provider pursuant to the terms of a start-up loan agreement. See "*Credit Structure – Issuer reserve fund*" for more information.

**Funding reserve fund:** A Funding reserve fund has been established to help meet:

- (i) any shortfall in Funding available revenue receipts available for payment of interest and fees due pursuant to the terms of the global intercompany loan agreement (other than the payment of interest due on the Z loan tranches) and any deficit recorded on the Funding principal deficiency ledger (other than any deficit caused by a debit balance on the Z principal deficiency sub-ledger); and
- (ii) any shortfall in Funding available principal receipts available for repayment of principal in respect of the original bullet loan tranches (which are AAA loan tranches).

The Funding reserve fund will be funded and replenished from Funding available revenue receipts and Funding available principal receipts. See "*Credit Structure – Funding reserve fund*" for more information.

**Junior classes of notes:** Junior classes of notes will be subordinated to more senior classes of notes, thereby ensuring that available funds are applied to the most senior class of notes in priority to more junior classes of notes. See "*Credit Structure – Priority of payments among the class A notes, the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes*" for more information.

**Over-collateralisation:** See "*Credit Structure – Credit support for the notes provided by mortgages trustee available revenue receipts*" for more information.

(b) **Liquidity support**

**Funding liquidity reserve fund:** Funding will be obliged to establish a liquidity reserve fund if the seller ceases to have a long-term unsecured, unsubordinated and unguaranteed credit rating by Moody's of at least A3 (unless Moody's confirms that the current rating of the notes will not be reduced, withdrawn or qualified by such rating downgrade of the seller). Prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the Funding liquidity reserve fund may be used to help meet:



- (i) any shortfall in Funding available revenue receipts available for payment of interest and fees due on the relevant monthly payment date pursuant to the terms of the global intercompany loan agreement and any other Funding intercompany loan agreement in respect of certain loan tranches;
- (ii) any deficit recorded on the AAA principal deficiency sub-ledger; and
- (iii) any shortfall in Funding available principal receipts available for repayment of original bullet loan tranches (which are AAA loan tranches),

The Funding liquidity reserve fund, if required to be funded, will be funded initially from Funding available principal receipts in accordance with the Funding pre-enforcement principal priority of payments. Once it has been initially funded and prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the Funding liquidity reserve fund will be replenished from any Funding available revenue receipts or Funding available principal receipts. See "*Credit Structure – Funding liquidity reserve fund*" for more information.

***Funding principal deficiency ledger:*** The Funding principal deficiency ledger will be established, with a separate sub-ledger corresponding to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and the Z loan tranches to record:

- (i) any principal losses on the BTL loans and allocated to Funding, such losses to be applied to each such sub-ledger in reverse sequential order;
- (ii) the application of Funding available principal receipts to meet any deficiency in Funding available revenue receipts; and
- (iii) the application of Funding available principal receipts to fund the Funding liquidity reserve fund.

Funding available revenue receipts will be applied in accordance with the Funding pre-enforcement revenue priority of payments to make up the relevant sub-ledger of the Funding principal deficiency ledger in sequential order. See "*Credit Structure – Funding principal deficiency ledger*" for more information.

(c) **Hedging**

***Funding basis rate swap:*** Funding will enter into a basis rate swap transaction with the Funding basis rate swap provider to hedge against variations in the difference between the rates of interest payable by the borrowers under the BTL loans in the loan portfolio (which may be variable interest rates linked to the seller's standard variable BTL rate or linked to other variable rates, such as an interest rate that tracks the Bank of England base rate, or fixed rates of interest) and the LIBOR rate for sterling deposits payable in respect of any outstanding loan tranches under the global intercompany loan agreement. See "*The swap agreements – The Funding basis rate swap*" for more information.

**Issuer swaps:** For each class of notes of a series other than a class of notes of a series that is denominated in GBP and provides for quarterly LIBOR based interest payments, the issuer may enter into an issuer swap with an issuer swap provider to protect the issuer against certain interest rate and/or currency fluctuations in respect of amounts payable to the issuer by Funding under loan tranches under the global intercompany loan agreement that correspond to the classes of notes of the relevant series and amounts payable by the issuer under such corresponding classes of notes of the relevant series. See "*The swap agreements – The issuer swaps*" for more information.

(d) **Ancillary Support**

The mortgages trustee GIC account and the Funding GIC account each earn interest at a specified rate. See "*Credit Structure – Mortgages trustee GIC account, Funding GIC account and issuer sterling account*" for more information.

Funding available revenue receipts are expected to exceed interest payable to the issuer and amounts ranking senior thereto;

Start-up loans may be provided to the issuer from time to time:

- (i) to fund the issuer reserve fund;
- (ii) to meet the costs and expenses incurred by Funding and the issuer in connection with the issuance of notes, the making of loan tranches under the global intercompany loan agreement and the acquisition by Funding of any additional Funding share of the trust property; and/or
- (iii) to fund the payment of interest due and payable on a series and class of notes on the redemption of such notes pursuant to Condition 5(D) or Condition 5(E) of the terms and conditions of the notes.

See "*Credit Structure – Start-up loans*" for more information.

**Funding conditions precedent to drawdown**

Funding will not be able to make any drawings under the global intercompany loan agreement unless:

- (a) the related series and class of notes has been issued by the issuer and the proceeds thereof have been received by the issuer or on its behalf;
- (b) if required, one or more deeds of accession relating to the Funding deed of charge have been executed by the parties to the Funding deed of charge;
- (c) each of the applicable programme issuance documents has been executed by the relevant parties to those documents; and
- (d) Funding has delivered a solvency certificate to the Funding security trustee in form and substance satisfactory to the Funding security trustee.

**Issuer conditions precedent to issuance**

The issuer may issue notes in one or more series and classes from time to time, subject to satisfying certain conditions precedent, including:

- (a) the issuance tests in relation to each class of notes to be issued as part of such series of notes are satisfied;
- (b) there being no debit balance on the Funding principal deficiency ledger (in respect of any loan tranche) excluding any debit balance caused by a debit balance on the Z principal deficiency sub-ledger;
- (c) no note event of default having occurred and being continuing (and not having been waived) or to occur as a consequence of the issue of such notes;
- (d) no issuer enforcement notice having been delivered to the issuer by the note trustee;
- (e) no Funding enforcement notice having been delivered to Funding by the Funding security trustee;
- (f) the issuer reserve fund and the Funding reserve fund being (in aggregate) fully funded up to the programme reserve required amount (or if the issuer reserve fund or the Funding reserve fund are not so fully funded, no payments having been made from the issuer reserve fund or the Funding reserve fund, as applicable);
- (g) each of the applicable programme issuance documents having been executed by the relevant parties to those documents;
- (h) the issuer having delivered a solvency certificate to the note trustee and the issuer security trustee in form and substance satisfactory to the note trustee and the issuer security trustee; and
- (i) obtaining a ratings confirmation in respect thereof.

**Bank accounts and cash management**

Collections of interest and principal in respect of the BTL loans in the loan portfolio are received by the seller into a number of collection accounts and swept into the mortgages trustee GIC account no later than three London business day after they are deposited in such collection accounts. Payments of interest and, in the case of repayment BTL loans, principal, are predominantly payable monthly in arrears (although some BTL loans in the Loan portfolio allow payments on a weekly or fortnightly basis). See "*The servicer and the servicing agreement*" for more information.

**Summary of key swap terms**

The Funding basis rate swap agreement will have the following key commercial terms:

- **Swap notional amount:** sized in relation to the loan tranches which remain outstanding;
- **Funding payment:** periodic sterling amounts calculated by reference to a weighted average of the various rates of interest applicable under the BTL loans in the loan portfolio;
- **Funding basis rate swap provider payment:** periodic sterling amounts calculated by reference to a LIBOR rate; and
- **Frequency of payment:** each monthly payment date.

Each issuer swap will have the following key commercial terms:

- **Issuer notional amount:** the sterling equivalent of the principal

amount outstanding from time to time under the series and class of notes to which the issuer swap relates;

- ***Issuer swap provider notional amount:*** the principal amount outstanding from time to time under the series and class of notes to which the issuer swap relates;
- ***Issuer initial payment:*** where applicable, the principal amount of the series and class of notes to which the issuer swap relates as of the closing date for those notes;
- ***Issuer swap provider initial payment:*** where applicable, the sterling equivalent of the principal amount of the series and class of notes to which the issuer swap relates as of the closing date for those notes;
- ***Issuer ongoing payments:*** sterling interest amounts received on the loan tranche corresponding to the series and class of notes to which the issuer swap relates;
- ***Issuer swap provider ongoing payments:*** the amounts of interest to be paid on the series and class of notes to which the issuer swap relates;
- ***Issuer repayment amount:*** the sterling equivalent of the principal amount of the series and class of notes to which the issuer swap relates being redeemed on a given day;
- ***Issuer swap provider repayment amount:*** the principal amount of the series and class of notes to which the issuer swap relates being redeemed on a given day; and
- ***Frequency of payment:*** As described in the applicable final terms.

See "*The swap agreements*" for further information.

## TRIGGERS TABLES

### Rating Triggers Table

Transaction Party	Required Ratings/Triggers	Possible effects of Trigger being breached include the following
<b>Seller</b>	<p>Long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated no lower than "A3" by Moody's and "A-" by Fitch</p> <p>Long-term, unsecured, unsubordinated and unguaranteed debt obligations are at least "A3" by Moody's</p> <p>Short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are rated at least "P-1" by Moody's and "F1+" by Fitch and the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are rated at least "Aa3" by Moody's</p> <p>Short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are rated at least "P-1" by Moody's and "F1" by Fitch and the long-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are rated at least "A3" by Moody's</p>	<p>Unless a solvency certificate is provided by each originator as at the intended assignment date, the seller is not entitled to assign BTL loans and their related security to the mortgages trustee pursuant to the mortgage sale agreement</p> <p>If required by Moody's, the beneficiaries shall appoint a firm of independent auditors (approved by the rating agencies) to determine whether the BTL loans in the loan portfolio and their related security complied with the representations and warranties applicable to the BTL loans as at the date such BTL loans were assigned to the mortgages trustee</p> <p>The component of the minimum seller share represented in the applicable formula by "W" is increased from 20 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio to the greater of:</p> <ul style="list-style-type: none"> <li>(a) 60 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio; and</li> <li>(b) 100 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio less 5 per cent. of the aggregate current principal balance of the BTL loans in the loan portfolio as at the last day of the immediately preceding trust calculation period,</li> </ul> <p>as set out further in "<i>The Mortgages Trust – Minimum seller share</i>"</p> <p>The component of the minimum seller share represented in the applicable formula by "W" is increased to 100 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio, as set out further in "<i>The Mortgages Trust – Minimum seller share</i>"</p>

<b>Transaction Party</b>	<b>Required Ratings/Triggers</b>	<b>Possible effects of Trigger being breached include the following</b>
	<p>Long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated at least "Baa1" by Moody's and "BBB+" from Fitch</p>	<p>Each of the seller and YBHL is obliged to deliver to the mortgages trustee and Funding and (upon request) the Funding security trustee and the rating agencies details of the names and addresses of the borrowers with BTL loans in the loan portfolio to which it holds the legal title and a draft letter of notice to such borrowers of the sale and assignment of those BTL loans and their related security to the mortgages trustee (unless a ratings confirmation is received)</p>
	<p>Long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated at least "BBB-" by Fitch or "Baa3" by Moody's</p>	<p>Within 10 business days, each of the seller and YBHL is obliged to give notice of the sale and assignment effected by the mortgage sale agreement to each borrower with a BTL loan in the loan portfolio to which it holds the legal title (unless a ratings confirmation is received)</p>
	<p>Long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated at least "A3" by Moody's</p>	<p>Establishment of the Funding liquidity reserve fund (unless a ratings confirmation is received)</p>
<b>Funding basis rate swap provider, or any credit support provider of the Funding basis rate swap provider</b>	<p>In respect of Moody's either (1) short-term, unsecured and unsubordinated debt obligations rating of "P-1" and long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A2" or (2) if the relevant party is not subject to short term ratings, long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A1" or above by Moody's; or</p>	<p>Depending on which rating agency's relevant rating has not been maintained either collateral posting, transfer its rights and obligations, obtain a co-obligor basis swap agreement or guarantee in respect of its obligations under the Funding, or such action as is required to maintain the rating of the notes</p>
	<p>In respect of Fitch, long-term, unsecured and unsubordinated debt obligations of A or above (or, if the Funding basis rate swap provider is on "rating watch negative", "A+" or above) and short-term, unsecured and unsubordinated debt obligations of "F1" or above (or, if the Funding basis rate swap provider is on "rating watch negative", "F1+" or above).</p>	<p>Depending on which rating agency's relevant rating has not been maintained, collateral posting and either transfer its rights and obligations, to an eligible transferee, obtain a co-obligor or guarantee in respect of its obligations under the Funding, or take such action as is required to maintain the rating of the notes</p>
	<p>In respect of Moody's either (1) short-term, unsecured and unsubordinated debt obligations rating of "P-2" by Moody's and long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A3" or above by Moody's or (2) if not the relevant entity is subject to Moody's short term ratings, long-term, unsecured and</p>	

<b>Transaction Party</b>	<b>Required Ratings/Triggers</b>	<b>Possible effects of Trigger being breached include the following</b>
<b>Issuer swap provider, or any guarantor or co-obligor of the issuer swap provider</b>	<p>unsubordinated debt or counterparty obligations rating of "A3" or above</p>	
	<p>In respect of Fitch, long-term, unsecured and unsubordinated debt obligations of "BBB+" or above (or, if the Funding basis rate swap provider is on "rating watch negative", "A-" or above) and short-term, unsecured and unsubordinated debt obligations of "F2" or above (or, if the Funding basis rate swap provider is on "rating watch negative", "F1" or above).</p>	
	<p>Long-term, unsecured and unsubordinated debt obligations of "BBB-" or above (or, if the Funding basis rate swap provider is on "rating watch negative", "BBB" or above) and short-term, unsecured and unsubordinated debt obligations of "F3" (or, if the Funding basis rate swap provider is on "rating watch negative", "F2" or above) or above.</p>	<p>Transfer its rights and obligations under the Funding basis rate swap agreement to an eligible transferee, obtain a co-obligor or guarantee in respect of its obligations under the Funding basis rate swap agreement, or take such action as is required to maintain the rating of the notes (and in the interim, post collateral).</p>
	<p>In respect of Moody's, either (1) short-term, unsecured and unsubordinated debt obligations rating of "P-1" and long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A2" or above or (2) if the relevant party is not subject to short-term ratings, long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A1" or above.</p>	<p>Depending on which rating agency's relevant rating has not been maintained, either collateral posting, transfer its rights and obligations under the Funding basis rate swap agreement to an eligible transferee, obtain a co-obligor or guarantee in respect of its obligations under the issuer swap agreement, or such action as is required to maintain the rating of the notes.</p>
	<p>In respect of Fitch, long-term, unsecured and unsubordinated debt obligations of "A" or above (or, if the issuer swap provider is on "rating watch negative" "A+", or above) and short-term, unsecured and unsubordinated debt obligations of "F1" or above (or, if the issuer swap provider is on "rating watch negative", "F1+" or above).</p>	
	<p>In respect of Moody's, either (1) short-term, unsecured and unsubordinated debt obligations rating of "P-2" or above and long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A3" or above or (2) if the relevant entity is not subject to Moody's short term ratings, long-term, unsecured and unsubordinated debt or counterparty obligations rating of "A3" or above.</p>	<p>Depending on which rating agency's relevant rating has not been maintained, collateral posting and either transfer its rights and obligations to an eligible transferee, obtain a co-obligor or guarantee in respect of its obligations under the issuer swap agreement, or take such action as is required to maintain the rating of the note</p>

<b>Transaction Party</b>	<b>Required Ratings/Triggers</b>	<b>Possible effects of Trigger being breached include the following</b>
	<p>In respect of Fitch, long-term, unsecured and unsubordinated debt obligations of "BBB+" or above (or, if the issuer swap provider is on "rating watch negative", "A-" or above) and short-term, unsecured and unsubordinated debt obligations of "F2" or above (or, if the issuer swap provider is on "rating watch negative", "F1" or above).</p> <p>Long-term, unsecured and unsubordinated debt obligations of BBB- or above (or, if the issuer swap provider is on "rating watch negative", "BBB" or above) and short-term, unsecured and unsubordinated debt obligations of "F3" or above (or, if the issuer swap provider is on "rating watch negative", "F2" or above).</p>	<p>Transfer its rights and obligations under the issuer swap agreement to an eligible transferee, obtain a co-obligor or guarantee in respect of its obligations under the issuer swap agreement, or take such action as is required to maintain the rating of the notes (and in the interim, post collateral).</p> <p>Transfer its rights and obligations, obtain a co-obligation or guarantee of its rights and obligations, or such action as is required to maintain the rating of the notes (and in the interim, post collateral)</p>
<b>Servicer</b>	<p>Short-term, unsecured, unguaranteed and unsubordinated debt obligations of the servicer rated at least "F1" by Fitch and long-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller rated "A-" by Fitch</p> <p>Short-term, unsecured, unguaranteed and unsubordinated debt obligations of the servicer rated at least "F2" by Fitch and long-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller rated "BBB+" by Fitch</p> <p>Long-term unsecured, unsubordinated and unguaranteed debt obligations of the servicer cease to be rated at least "A3" by Moody's</p>	<p>The period within which any money received by the servicer, which belongs to the mortgages trustee and is to be paid to the relevant collection account, shall be paid into such collection account by the servicer is decreased from three (3) London business days to two (2) London business days</p> <p>The period within which any money received by the servicer, which belongs to the mortgages trustee and is to be paid to the relevant collection account, shall be paid into such collection account by the servicer is decreased to one (1) London business day</p> <p>A back-up servicer facilitator will be appointed pursuant to the corporate services agreement and will be responsible for finding and appointing a back-up servicer</p>
<b>Account bank</b>	<p>Short-term, unsecured, unguaranteed and unsubordinated debt obligations of the account bank of at least "P-1" by Moody's and "F1" by Fitch (or, if the account bank is on "rating watch negative", "F1+") and a long-term issuer default rating of at least "A" by Fitch (or, if the account bank is on "rating</p>	<p>Within 30 days of breach of this trigger either: (i) the account bank shall obtain a guarantee from a financial institution satisfying the required ratings and a ratings confirmation with respect to such guarantee; or (ii) the appointment of the account bank will be required to be terminated and the cash manager will be required to establish replacement</p>



<b>Transaction Party</b>	<b>Required Ratings/Triggers</b>	<b>Possible effects of Trigger being breached include the following</b>
<b>Issuer account bank</b>	<p>watch negative", "A+" )</p> <p>Short-term, unsecured, unguaranteed and unsubordinated debt obligations of the account bank of at least "P-1" by Moody's and "F1" by Fitch (or, if the issuer account bank is on "rating watch negative", "F1+") and a long-term issuer default rating of at least "A" by Fitch (or, if the issuer account bank is on "rating watch negative," "A+")</p>	<p>bank accounts with new banks that satisfy the required ratings within such 30 day period.</p> <p>Within 30 days of breach of this trigger either: (i) the issuer account bank shall obtain a guarantee from a financial institution which satisfies the required ratings and and a ratings confirmation with respect to such guarantee; or (ii) the appointment of the issuer account bank will be required to be terminated and the issuer cash manager will be required to establish replacement issuer bank accounts with new banks that satisfy the required ratings within such 30 day period.</p>
<b>Collection Bank</b>	<p>Short-term unsecured, unsubordinated and unguaranteed debt rating of at least "P-1" by Moody's.</p> <p>Short-term issuer default rating of at least "F1" by Fitch (or, if the collection bank is on "rating watch negative", "F1+") and a long-term issuer default rating of at least "A" by Fitch (or, if the collection bank is on "rating watch negative", "A+").</p>	<p>The mortgages trustee and the collection bank will as soon as practicable be required to use reasonable commercial efforts to procure the transfer of the collection accounts to a replacement entity that satisfies the required ratings or obtain a guarantee of the obligations of the collection bank from a financial institution that satisfies the required ratings.</p>

## Non-Rating Triggers Table

*There are two forms of non-rating trigger events: (i) an asset trigger event and (ii) a non-asset trigger event. Following the occurrence of a trigger event, the priority of payments in respect of the mortgages trustee for principal will change.*

### Non-asset trigger events

Non-asset trigger events relate primarily (but not exclusively) to events associated with the seller/servicer. Please see "*The mortgages trust – Mortgages trust allocation and distribution of mortgages trustee available principal receipts on or after the occurrence of a trigger event*" for more details.

<u>Nature of Trigger</u>	<u>Description of Trigger</u>	<u>Consequence of Trigger</u>
Insolvency event	An insolvency event occurs in relation to the seller	Mortgages trustee available principal receipts will be applied (i) first, to Funding according to its share in the trust property until its share has been reduced to zero, and (ii) second, to the seller
Termination of servicer	The seller's role as servicer under the servicing agreement is terminated and a new servicer is not appointed within 60 days	Mortgages trustee available principal receipts will be applied (i) first, to Funding according to its share in the trust property until its share has been reduced to zero, and (ii) second, to the seller
Failure to make payments	Failure by the seller to make certain payments to the mortgages trustee, where such failure to pay is materially prejudicial to the interests of the holders of the notes issued by all issuers	Mortgages trustee available principal receipts will be applied (i) first, to Funding according to its share in the trust property until its share has been reduced to zero, and (ii) second, to the seller
Breach of minimum seller share	On any two consecutive distribution dates, the current seller share is equal to or less than the minimum seller share as set out under " <i>The mortgages trust – Cash management of the trust property – Principal receipts</i> " for two consecutive distribution dates	Mortgages trustee available principal receipts will be applied (i) first, to Funding according to its share in the trust property until its share has been reduced to zero, and (ii) second, to the seller

### Asset trigger events

Asset trigger events relate to the performance of the underlying portfolio and will be activated if certain events occur. Please see "*The mortgages trust – Mortgages trust allocation and distribution of mortgages trustee available principal receipts on or after the occurrence of a trigger event*" for more details.

<b>Nature of Trigger</b>	<b>Description of Trigger</b>	<b>Consequence of Trigger</b>
Principal deficiencies	The debiting of an amount to the AAA principal deficiency sub-ledger	<p>Mortgages trustee available principal receipts will be applied (i) if the immediately preceding distribution date was a seller share event distribution date, to Funding; and then (ii) in no order of priority among them but in proportion to the respective amounts due, to Funding and the seller according to their respective shares in the trust property, until the Funding share of the trust property is zero.</p> <p>When the Funding share of the trust property is zero, the remaining mortgages trustee available principal receipts (if any) will be allocated to the seller.</p>

## FEES

The table below sets out the principal on-going transaction fees to be paid by the issuer, Funding and the mortgages trustee to transaction parties. Each of these fees is subject to change at any time without your notification or approval, including upon the appointment of any successor service provider or any other successor transaction party pursuant to the applicable transaction document.

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Servicing fee	0.10 per cent. per annum of the Funding share of the trust property	Ahead of all revenue amounts payable to Funding by the mortgages trustee	Each distribution date
Cash management fee	£100,000 per annum	Ahead of all revenue amounts payable by Funding and allocable to the issuer	Each monthly payment date
Issuer cash management fee	£100,000 per annum	Ahead of all interest payments on the notes	Each monthly payment date
Corporate expenses of mortgages trustee	£7,000 per annum	Ahead of all revenue amounts payable to Funding by the mortgages trustee	Each distribution date
Corporate expenses of Funding	£4,000 per annum	Ahead of all revenue amounts payable by Funding and allocable to the issuer	Each monthly payment date
Corporate expenses of issuer	£6,000 per annum	Ahead of all interest payments on the notes	Each monthly payment date
Fee payable by Funding to Funding security trustee, by the issuer to the issuer security trustee and the note trustee and by the issuer to the principal paying agent, the transfer agent, the registrar and the agent bank	An amount per annum agreed in accordance with a fee arrangement letter dated on or about the programme date	In respect of the Funding security trustee, ahead of all revenue amounts payable by Funding and allocable to the issuer, and in respect of the note trustee, the issuer security trustee and the agents, ahead of all interest payments on the notes	Each monthly payment date

Each of the above fees except the servicing fee, the cash management fee and the issuer cash management fee is exclusive of any value added tax ("VAT"), which is currently chargeable at 20%, so that an amount equal to any VAT may be added to the fee. Each of the servicing fee, the cash management fee and the issuer cash management fee is inclusive of any VAT, so that the actual amount of the fee will be the amount as set out above.

Each of the above fees may, on any date of issuance of notes by an issuer, be changed without notice to, or approval by, noteholders. Further, any of the above fees may be changed in the event a successor transaction party is appointed pursuant to the applicable programme document.

## DESCRIPTION OF THE NOTES

<b>Denominations of the notes</b>	The issuer will issue notes in minimum denominations of €100,000 (and integral multiples of €1,000 in excess thereof) or, in respect of any note issued which has a maturity of less than a year, £100,000 (or, in each case, its equivalent in the relevant currencies as at the date of issue of such notes) but, subject thereto, it may issue notes in such denominations as may be agreed between it and the relevant managers, subject to such minimum and maximum denominations as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the issuer or the relevant specified currency. The minimum denomination for a series and class of notes will be the minimum denomination specified for such notes in the applicable final terms.
<b>Currencies</b>	Subject to compliance with all applicable legal and regulatory and central bank requirements, a series and class of notes may be denominated in such currency or currencies as may be agreed between the relevant managers and the issuer and specified for such notes in the applicable final terms.
<b>Maturities</b>	Notes will be issued in such maturities as may be specified for such notes in the applicable final terms, subject to compliance with all applicable legal and/or regulatory and/ or central bank requirements.
<b>Issue price</b>	Each series and class of notes may be issued on a fully paid or partly paid basis and at an issue price which is at par, or at discount from, or premium over, par.
<b>Selling restrictions</b>	For a description of certain restrictions on offers, sales and deliveries of notes and on the distribution of offering material in the United States of America, the United Kingdom and certain other jurisdictions, see " <i>Subscription and Sale</i> " below.
<b>Fixed rate notes</b>	A series and class of notes may bear interest at a fixed rate (" <b>fixed rate notes</b> "), which interest will be payable on the note payment dates for such notes and on redemption, in each case, at the fixed rate specified for such notes in the applicable final terms and will be calculated on the basis of the day count fraction specified for such notes in the applicable final terms (see Condition 4(A) of the terms and conditions of the notes).
<b>Floating Rate Notes</b>	<p>A series and class of notes may bear interest at a floating rate ("<b>floating rate notes</b>") determined:</p> <ul style="list-style-type: none"><li>(a) on the same basis as the floating rate under an interest rate swap transaction in the relevant specified currency governed by an agreement incorporating the ISDA definitions and based upon certain elections made pursuant to the ISDA definitions; or</li><li>(b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service,</li></ul> <p>in each case as specified for such notes in the applicable final terms (see Condition 4(B) of the terms and conditions of the notes).</p> <p>The margin (if any) relating to a series and class of floating rate notes will be the margin specified for such notes in the applicable final terms.</p>

A series and class of floating rate notes may also have a maximum interest rate, a minimum interest rate, certain step-up rates and/or a combination of such rates, in each case, as may be specified for such notes in the applicable final terms.

Interest on a series and class of floating rate notes will be payable on the note payment dates and will be calculated on the basis of the day count fraction, in each case, as specified for such notes in the applicable final terms.

**Pass-through notes**

A series and class of notes may be issued by the issuer with no specified maturity date other than the final maturity date specified for such notes in the applicable final terms ("**pass-through notes**") and will be redeemable in full on such final maturity date. Each series and class of bullet notes and each series and class of controlled amortisation notes will become a series and class of pass-through notes following a pass-through trigger event.

On each loan payment date for the loan tranche related to a series and class of pass-through notes, Funding will be permitted to make payments of amounts equal to the pass-through requirement in respect of such loan tranche to the issuer so that the issuer may, on each applicable note payment date for such series and class of pass-through notes, repay all or part of such notes prior to their final maturity date. Following a pass-through trigger event in relation to a series and class of notes, the issuer will repay such notes, to the extent that funds are available and subject to the conditions for repayment, on monthly payment dates.

**Controlled amortisation notes**

A series and class of notes may be issued by the issuer on terms which allow for the redemption of such notes on the monthly payment dates specified for such purpose in the applicable final terms ("**controlled amortisation dates**"), subject to limits on the redemption amount (as specified for such notes in the applicable final terms) which may be repaid on such notes on each controlled amortisation date ("**controlled amortisation notes**"). The maximum aggregate principal amount which may be repaid by the issuer on any controlled amortisation date for a series and class of controlled amortisation notes is referred to as the "**controlled amortisation amount**" for such controlled amortisation notes.

Funding will seek to accumulate principal amounts for a loan tranche related to a series and class of controlled amortisation notes so that on each applicable loan payment date it will pay such principal amounts to the issuer so that the issuer may make payment of each controlled amortisation amount on its controlled amortisation date. To the extent that there are insufficient funds available on a controlled amortisation date to repay the relevant controlled amortisation amount in respect of a series and class of controlled amortisation notes, then the issuer shall be required to pay the shortfall, to the extent it receives funds therefor, on subsequent note payment dates in respect of such notes.

Following a pass-through trigger event in relation to a series and class of controlled amortisation notes, such notes will become pass-through notes and the issuer will repay such notes to the extent that funds are available and subject to the conditions regarding repayment, on monthly payment dates.

Following the step-up date (if any) in relation to a series and class of controlled amortisation notes, such notes will maintain their

characterisation as controlled amortisation notes however, certain step-up rates (as specified in the applicable final terms) will apply.

#### **Bullet notes**

A series and class of notes may be issued by the issuer on terms which schedule the redemption of such notes on one note payment date (the "**bullet redemption date**") specified for such notes in the applicable final terms ("**bullet notes**").

Funding will seek to accumulate principal amounts for the loan tranche related to a series and class of bullet notes over the cash accumulation period for such loan tranche and will pay such principal amounts to the issuer in a lump sum payment so that the issuer can redeem the bullet notes in full on the bullet redemption date. A cash accumulation period for a loan tranche related to a series and class of bullet notes will be determined according to a formula described under "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security*" and, subject to such formula, will be the period of time estimated to be the number of months prior to the relevant bullet redemption date that is required by Funding to accumulate sufficient principal receipts (derived from its share of the trust property) to repay the principal amount of that loan tranche to the issuer. To the extent that there are insufficient funds available to redeem a series and class of bullet notes on their bullet redemption date, then the issuer shall be required to pay the shortfall, to the extent it receive funds therefor, on subsequent note payment dates in respect of such notes. No assurance can be given that Funding will be able to accumulate sufficient principal amounts during the cash accumulation period for a series and class of bullet notes to enable it to repay the related loan tranche to the issuer so that the issuer can redeem the bullet notes in full on their bullet redemption date. If this happens, holders of affected notes will not receive repayment of principal when expected. Failure of a noteholder to receive full repayment of principal when expected could have a negative effect on the yield to that holder on such notes. See "*Risk factors – The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the BTL loans or repurchases of BTL loans by the seller*".

Following a pass-through trigger event in relation to a series and class of bullet notes, such notes will become pass-through notes and the issuer will repay such notes to the extent that funds are available and subject to the conditions regarding repayment, on monthly payment dates.

Following the step-up date (if any) in relation to a series and class of bullet notes, such notes will maintain their characterisation as bullet notes however, certain step-up rates (as specified in the applicable final terms) will apply.

#### **Money market notes**

The issuer may, from time to time, issue a series and class of notes which are intended to be "eligible securities" for purchase by money market funds under Rule 2a-7 ("**Rule 2a-7**") of the United States Investment Company Act of 1940, as amended ("**money market notes**").

However, the determination as to whether any applicable series and class of notes will qualify as "eligible securities" under Rule 2a-7 will involve investment determinations and interpretive questions that, as with qualification and compliance with other aspects of Rule 2a-7, will be solely the responsibility of each money market fund and its investment adviser. None of the issuer, Funding, the mortgages trustee, Clydesdale Bank, YBHL, the arranger, the managers, the note

trustee, the issuer security trustee, the Funding security trustee, each remarketing agent, each tender agent, each paying agent, the agent bank, the registrar, the transfer agent, each conditional note purchaser or any other party to the programme documents will make any representation as to the suitability of such notes as "eligible securities" for investment by money market funds subject to Rule 2a-7.

The final maturity date of any money market notes will always be less than 397 days from the closing date on which such notes were issued, unless the issuer has entered into remarketing arrangements in relation to such notes. Under such remarketing arrangements, a remarketing agent will agree to seek purchasers of the relevant notes on specified dates throughout the term of such notes and a conditional note purchaser will agree to purchase any such notes on such specified dates if purchasers for such notes have not been found, provided that certain events have not then occurred. Such money market notes will also be subject to the terms of Condition 5(F) of the terms and conditions of the notes.

For more information on the money market notes and the remarketing arrangements applicable thereto, see "*Description of the issuer trust deed and the notes – money market notes*".

Certain risks relating to money market notes are described under "*Risk Factors – Risks relating to the Rule 2a-7 suitability of the money market notes*", "*Risk Factors – Ability of the issuer to procure payment of the money market note mandatory transfer price may affect timely payment on the notes*" and "*Risk Factors – Each money market note mandatory transfer may be dependent upon identification of investors interested in acquiring money market notes*".

**Maturity purchase notes**

The issuer may issue maturity purchase notes which are subject to: (i) the purchase arrangements referred to in Condition 5(G); (ii) the conditional maturity purchase note deed entered into by the issuer with the maturity purchaser specified in the applicable final terms; and (iii) the issuer trust deed.

If the issuer fails to redeem the maturity purchase notes in full on the expected maturity date (or within 3 business days thereof) then, under the purchase arrangements referred to in Condition 5(G) and the conditional maturity purchase note deed, the maturity purchaser agrees to purchase on the transfer date, at the maturity purchase price all, but not some only, of the outstanding maturity purchase notes in respect of which a valid transfer instruction or tender instruction, as the case may be, has been delivered to the relevant clearing system or registrar (as relevant), provided that no note event of default has occurred which is continuing on the transfer date.

Regardless of whether the maturity purchaser purchases any or all of the maturity purchase notes on the transfer date, the maturity purchase notes will remain outstanding until such time as they are redeemed in full or until their final maturity date. Therefore, if the maturity purchaser fails to purchase the maturity purchase notes, the relevant noteholders will remain noteholders with all related rights and their priority, standing and relationship with the issuer (as set out in this base prospectus and the relevant final terms) will not be affected.

See further "*Risk factors - Additional risks related to the maturity purchase notes*" and "*Description of the issuer trust deed and the notes – Maturity purchase notes*".





## RISK FACTORS

This section describes the principal risks associated with an investment in the notes. If you are considering purchasing a series and class of notes to be issued by the issuer, you should carefully read and think about all the information contained in this base prospectus and in the applicable final terms, including the risk factors set out in this section, prior to making any investment decision. In addition, this base prospectus contains forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks described below and elsewhere in this base prospectus. Any of the risks described below, or additional risks not currently known to the issuer or that the issuer currently deems immaterial, could have a significant or material adverse effect on the business, financial condition, operations or prospects of the issuer and could result in a corresponding decline in the value of the notes. As a result, investors could lose all or a substantial part of their investment.

### **The notes may not be a suitable investment for all investors**

Each potential investor in the notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the notes, the merits and risks of investing in the notes and the information contained or incorporated by reference in this base prospectus or any applicable final terms;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the notes and the impact the notes will have on its overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the notes, including notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;
- (d) understand thoroughly the terms of the notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the notes will perform under changing conditions, the resulting effects on the value of the notes and the impact this investment will have on the potential investor's overall investment portfolio.

### **Notes with integral multiples of less than €100,000**

The notes will have a denomination consisting of a minimum authorised denomination of €100,000 (or, where the specified currency is not euro, its equivalent in the specified currency) (the "**minimum authorised denomination**") or, in each case, such higher integral multiples as may be specified in the applicable final terms) plus higher integral multiples of €1,000 or, where the specified currency is not euro, its equivalent in the specified currency). It is possible that the notes may be traded in the clearing systems in amounts in excess of the minimum authorised denomination (or its equivalent in the relevant specified currency) that are not integral multiples of the minimum authorised denomination (or its equivalent in the relevant specified currency). In such a case a noteholder who, as a result of trading such amounts, holds a principal amount which (after deducting integral multiples of the minimum authorised denomination) is less than the minimum authorised denomination in his account with the relevant clearing system at the relevant time may not receive an individual note certificate in respect of such holding (should individual note certificates be printed) and would need to purchase a principal amount of notes such that its holding is at least equal to the minimum authorised denomination.

If individual note certificates are issued, noteholders should be aware that individual note certificates that have a denomination that is not an integral multiple of the minimum specified denomination may be illiquid and difficult to trade.

**You cannot rely on any person other than the issuer to make payments on the notes**

The issuer is the only party responsible for making payments on the notes. The notes will not represent an interest in or obligation of, and will not be insured or guaranteed by any of Clydesdale Bank, YBHL, the arranger, the managers, Funding, the mortgages trustee, the Funding security trustee, the note trustee, the issuer security trustee, any swap provider, any new issuers, or any of their respective affiliates or any other party to the transaction other than the issuer. Furthermore, no person other than the issuer will accept any liability whatsoever to the noteholders in respect of any failure by the issuer to pay any amount due under the notes.

**The issuer has a limited amount of resources available to it to make payments on the notes**

The ability of the issuer to make payments of interest on, and principal of, the notes and to pay its operating and administrative expenses will depend primarily on funds being received by it pursuant to the terms of the global intercompany loan agreement. The payment of interest on, and principal of, each series and class of notes will primarily depend on funds being received on the related loan tranche (and no other loan tranche) pursuant to the terms of the global intercompany loan agreement. In addition, the issuer will rely on the issuer swaps to provide currency and/or interest rate hedging (as appropriate) so as to meet its obligations under the relevant series and classes of notes.

The issuer will not have any other significant sources of funds available to meet its obligations under the notes and/or any other payments ranking in priority to the notes other than (in the case of interest due and payable on the notes (other than the class Z notes) and scheduled principal due in respect of original bullet notes that are class A notes) the amount of funds credited to the issuer reserve fund (as described under "*Credit structure – Issuer reserve fund*"). If the resources described above cannot provide the issuer with sufficient funds to enable it to make required payments on the notes, you may incur a loss of interest and/or principal which would otherwise be due and payable on your notes.

**Funding is not required to make payments on the global intercompany loan if it does not have enough money to do so, which could adversely affect payment on the notes**

Funding's ability to pay amounts payable under loan tranches will depend upon:

- Funding receiving enough funds from the Funding share of the trust property, including its share of the proceeds of revenue receipts and principal receipts on the BTL loans included in the mortgages trust, on or before each loan payment date;
- Funding receiving the required funds from the Funding basis rate swap provider;
- (in the case of interest due in respect of all loan tranches (other than the Z loan tranches) and principal due in respect of original bullet loan tranches that are AAA loan tranches only) the amount of funds credited to the Funding reserve fund (as described under "*Credit structure – Funding reserve fund*") and subject to certain restrictions, the amount of funds credited to the Funding liquidity reserve fund (as described under "*Credit structure – Funding liquidity reserve fund*"); and
- the allocation of funds between the loan tranches made under the global intercompany loan agreement and any loan tranches made under the terms of any other Funding intercompany loan agreement (see "*If Funding enters into other Funding intercompany loans, such other Funding intercompany loans and accompanying notes may be repaid prior to the global intercompany loan and the notes*").

Pursuant to the terms of the mortgages trust deed, the mortgages trustee is obliged to pay to Funding on each distribution date (a) that portion of revenue receipts on the BTL loans which is payable to Funding in accordance with the terms of the mortgages trust deed, and (b) that portion of principal receipts on the BTL loans which is payable to Funding in accordance with the terms of the mortgages trust deed.

On each loan payment date in respect of a loan tranche, however, Funding will only be obliged to pay amounts due to the issuer in respect of such loan tranche pursuant to the terms of the global intercompany loan agreement to the extent that Funding has funds available to it after making payments ranking in priority to such loan tranche (such as payments of certain fees and expenses of Funding and payments of interest on or repayment of any loan tranches of a more senior ranking) and taking into account payments ranking equally with such loan tranche (such as other loan tranches of the same class). If Funding does not pay amounts to the issuer in respect of a loan tranche because it does not have sufficient funds available, those amounts will remain due (but will not be payable) until funds are available to pay those amounts in accordance with the relevant Funding priority of payments. The failure of Funding to pay those amounts to the issuer when due in such circumstances will not constitute an event of default pursuant to the terms of the global intercompany loan agreement until the last occurring final maturity date of any loan tranche that is then outstanding. Following enforcement of the Funding security and disbursement of the proceeds thereof, any remaining shortfall will be extinguished.

If there is a shortfall between the interest and/or principal amounts payable by Funding to the issuer in respect of a loan tranche under the global intercompany loan and the amounts payable by the issuer on the related series and class of notes, then you may not, depending on what other sources of funds are available to the issuer and Funding, receive the full amount of interest and/or principal which would otherwise be due and payable on those notes.

**Enforcement of the issuer security is the only remedy for a default in the obligations of the issuer and the proceeds of enforcement may be insufficient to pay all amounts due on your notes**

The only remedy for recovering amounts due on the notes is through the enforcement of the issuer security by the issuer security trustee in accordance with the issuer deed of charge. The issuer security is only enforceable in certain circumstances and such enforcement may be subject to certain conditions, including a requirement that the issuer security trustee be indemnified, secured and/or prefunded to its satisfaction. The issuer will only have recourse to the assets of Funding if Funding has also defaulted on its obligations under the global intercompany loan agreement and the Funding security trustee (on behalf of the issuer and the other Funding secured creditors) has delivered a Funding enforcement notice to Funding pursuant to the terms of the Funding deed of charge. Noteholders may not directly enforce the obligation of the issuer to repay notes or its right to repayment of the global intercompany loan by Funding. Following the delivery by the note trustee to the issuer of an issuer enforcement notice, the note trustee may, and if directed by the required number of noteholders will, direct the issuer security trustee to enforce the rights of the issuer against Funding. (see "*Security for the issuer's obligations - Enforcement*", "*Security for Funding's obligations - Enforcement*" and "*Cashflows*").

If the issuer security is enforced, the proceeds of enforcement may be insufficient to pay all principal and interest and/or other amounts due on your notes.

**There may be a conflict between the interests of the holders of the various classes of notes, and the interests of other classes of noteholders may prevail over your interests**

The issuer trust deed will provide and the terms and conditions of the notes will provide that, in connection with the exercise of its trusts, authorities, powers and discretions under the issuer trust deed, the note trustee is to have regard to the interests of the noteholders of all the classes of notes of all series. There may be circumstances, however, where the interests of one class of the noteholders of any series conflict with the interests of another class or classes of the noteholders of the same or another series. In general, the issuer trust deed will provide that the note trustee will give priority to the interests of the holders of the most senior class of notes such that:

- the note trustee is to have regard only to the interests of the class A noteholders in the event of a conflict between the interests of the class A noteholders on the one hand and the class B noteholders and/or the class C noteholders and/or the class D noteholders and/or the class E noteholders and/or the class Z noteholders on the other hand;

- (if there are no class A notes outstanding) the note trustee is to have regard only to the interests of the class B noteholders in the event of a conflict between the interests of the class B noteholders on the one hand and the class C noteholders and/or the class D noteholders and/or the class E noteholders and/or the class Z noteholders on the other hand;
- (if there are no class A notes or class B notes outstanding) the note trustee is to have regard only to the interests of the class C noteholders in the event of a conflict between the interests of the class C noteholders on the one hand and the class D noteholders and/or the class E noteholders and/or the class Z noteholders on the other hand; and
- (if there are no class A notes, class B notes or class C notes outstanding) the note trustee is to have regard only to the interests of the class D noteholders in the event of a conflict between the interests of the class D noteholders on the one hand and the class E noteholders and/or the class Z noteholders on the other hand.
- (if there are no class A notes, class B notes, class C notes or class D notes outstanding) the note trustee is to have regard only to the interests of the class E noteholders in the event of a conflict between the interests of the class E noteholders on the one hand and the class Z noteholders on the other hand.

**There may be a conflict between the interests of the holders of each sub-class of the class A notes of any series, the interests of the holders of each sub-class of the class B notes of any series, the interests of the holders of each sub-class of the class C notes of any series, the interests of the holders of each sub-class of the class D notes of any series, the interests of the holders of each sub-class of the class E notes of any series and the interests of the holders of each sub-class of the class Z notes of any series and the interests of the holders of the other sub-classes may prevail over your interests**

There may be circumstances where the interests of a sub-class of the class A noteholders of a series of notes conflict with the interests of another sub-class of the class A noteholders of that series. Similarly, there may be circumstances where the interests of a sub-class of the class B noteholders of a series of notes conflict with the interests of another sub-class of the class B noteholders of that series, the interests of a sub-class of the class C noteholders of a series of notes conflict with the interests of another sub-class of the class C noteholders of that series, the interests of a sub-class of the class D noteholders of a series of notes conflict with the interests of another sub-class of the class D noteholders of that series, the interests of a sub-class of the class E noteholders of a series of notes conflict with the interests of another sub-class of the class E noteholders of that series or the interests of a sub-class of the class Z noteholders of a series of notes conflict with the interests of another sub-class of the class Z noteholders of that series.

The issuer trust deed and the terms and conditions of the notes will provide that where, in the sole opinion of the note trustee, there is such a conflict, then a resolution directing the note trustee to take any action must be passed at separate meetings of the holders of each such sub-class of the relevant class of notes of that series. A resolution may only be passed at a single meeting of the noteholders of each sub-class of the relevant class of notes of that series if the note trustee is, in its absolute discretion, satisfied that there is no conflict between them.

**There may be conflicts between your interests and the interests of any of the other secured creditors**

In certain circumstances, the note trustee, the issuer security trustee or, as applicable, the Funding security trustee can make modifications to the documents without your prior consent. The issuer deed of charge will provide that the issuer security trustee will not, and will not be bound to, take any steps, institute any proceedings, exercise its rights and/or to take any other action under or in connection with any of the transaction documents (including, without limitation, enforcing the issuer security) unless the issuer security trustee is directed to do so by the note trustee or, if there are no notes outstanding, the other issuer secured creditors. Similarly, the Funding deed of charge will provide that the Funding security trustee will not, and will not be bound to, take any steps, institute any proceedings, exercise its rights and/or to take any other action under or in connection with any of the transaction documents (including, without limitation, enforcing the Funding security) unless the Funding security trustee is directed to do so by the issuer security trustee (itself acting on the instructions of the note trustee) or, if there are no notes outstanding, the other Funding secured creditors.

In addition, where a transaction party and/or any of its affiliates act in numerous capacities (including, but not limited to, issuer swap providers and managers in respect of the notes) there may be actual or potential conflicts between (1) the interests of such transaction party and/or any such affiliates in such various capacities and (2) the interests of the noteholders and such transaction party and/or any such affiliates.

**If Funding enters into other Funding intercompany loans, such other Funding intercompany loans and accompanying notes may be repaid prior to the global intercompany loan and the notes**

Subject to satisfaction of certain conditions, Holdings may, in the future, establish additional wholly-owned subsidiary companies that will issue new notes to investors. The proceeds of each such issue of notes may be advanced to Funding under the terms of a Funding intercompany loan agreement (other than the global intercompany loan agreement). Funding may use the proceeds of any Funding intercompany loan to, among other things, pay to the mortgages trustee a contribution (other than a deferred contribution), to refinance all or part of a then existing Funding intercompany loan (including the global intercompany loan) outstanding at that time, to replenish the Funding reserve fund or to make a deposit to the Funding GIC account. If the global intercompany loan (or any part thereof) is refinanced, you could be repaid early.

It is expected that the payment of the amounts (including interest and principal) owed by Funding under any such Funding intercompany loan agreement will be funded from amounts received by Funding from the trust property. You should note that the obligation to make such payments (or part thereof) may rank equally with, or in priority to, payments of interest and principal made by Funding to the issuer in respect of each class of loan tranche under the global intercompany loan agreement, subject to the terms and tranchings of such payments and the dates on which they are required to be made.

The terms of the new notes issued by such other issuer and the related Funding intercompany loan agreement may also result in such new notes and the applicable Funding intercompany loan being repaid prior to the repayment of the notes issued by the issuer and the repayment of the loan tranches pursuant to the terms of the global intercompany loan agreement.

You will not have any right of prior review or consent before Funding enters into any additional Funding intercompany loan agreement or the issue of the corresponding new notes by the related new issuer. Similarly, the terms of the programme documents (including, but not limited to, the mortgage sale agreement, the mortgages trust deed, the Funding deed of charge and the global intercompany loan agreement), the definitions of the trigger events and the seller share event and the criteria for the assignment of new loans to the mortgages trustee may be amended to reflect the new notes and the new Funding intercompany loan agreement. Your consent to these changes will not be required. There can be no assurance that these changes will not affect the cashflow available to pay amounts due on your notes.

Before issuing any notes and making any Funding intercompany loan, however, such other issuer will be required to satisfy a number of conditions, including that the then current ratings of your notes will not be reduced, withdrawn or qualified at the time of the issuance of such notes by such other issuer.

**Potential future role of new beneficiaries in the mortgages trust**

From time to time after the programme date and pursuant to the provisions of the mortgages trust deed, new third parties may raise funds by way of, among other things, selling securities in the capital markets and, subject to the satisfaction of certain conditions, may utilise such funds to make contributions to the mortgages trustee to acquire a beneficial interest in or increase their share in the trust property and become a beneficiary of the mortgages trust. Simultaneously with the acquisition by such new beneficiary of an interest in the trust property, the seller and Funding as beneficiaries of the mortgages trust, would be required to agree to a decrease in their beneficial interest in the trust property.

If a new third party were to become a beneficiary of the mortgages trust, each of the seller, Funding and the new third party would each have a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property would, among other things, be in proportion to their respective shares in the trust property. Pursuant to the terms of the mortgages trust deed (as amended to provide for the new third party becoming a beneficiary of the mortgages trust), on each distribution date following the acquisition by the new third party of such beneficial interest, the mortgages trustee would

be required to distribute interest and principal payments on the BTL loans in the loan portfolio to one, two or three beneficiaries of the mortgages trust.

Neither the seller, Funding nor any issuer (including Lannraig Master Issuer plc) will have any direct or indirect interest in the share of the new third party in the trust property.

In order for a new third party to be able to acquire a beneficial interest in the trust property and become a beneficiary of the mortgages trust, certain amendments would be required to be made to a number of programme documents, including (without limitation):

- the mortgage sale agreement to enable (among other things) the purchase by the new beneficiary of interests in the trust property by paying the purchase price for new loans and their related security sold by the seller from time to time and to give the new beneficiary the benefit of the covenants in the mortgage sale agreement;
- the mortgages trust deed (a) to establish the new third party as a beneficiary of the mortgages trust, (b) to enable the new third party to make contributions to the mortgages trustee and to acquire (or increase) its beneficial interest in the trust property, (c) to regulate the distribution of interest and principal payments on the BTL loans in the loan portfolio to the new third party and the other beneficiaries, and (d) to provide for the resolution of conflicts between the new third party beneficiary and Funding;
- the cash management agreement, so as to regulate the application of monies to the new third party and to its creditors;
- the servicing agreement, to ensure that the new beneficiary receives the benefit of the servicer's duties under that agreement; and
- the issuer master definitions schedule.

You will not have any right of prior review or consent before the acquisition by a new third party of a beneficial interest in the trust property and it becoming a beneficiary of the mortgages trust and the resulting amendments that are required to be made to the programme documents. However, before any of the above may occur, a number of conditions will need to be satisfied, including:

- obtaining a ratings confirmation with respect to the acquisition by the new third party of a beneficial interest in the trust property and it becoming a beneficiary of the mortgages trust;
- providing written certification to the Funding security trustee that no Funding intercompany loan event of default has occurred and which has not been remedied or waived and no Funding intercompany loan event of default will occur as a result of the acquisition by the new third party of a beneficial interest in the trust property and it becoming a beneficiary of the mortgages trust and the amendments that are required to be made to the programme documents; and
- providing written certification to the Funding security trustee that no principal deficiency is recorded at the relevant time on the Funding principal deficiency ledger.

No assurance can be given that were a new third party to become a beneficiary of the mortgages trust, there would be no adverse effect on the cashflows available to pay amounts due on the notes or any other adverse effect on your interests.

**If the global intercompany loan (or any part thereof) is refinanced, your notes could be repaid early**

Funding may refinance some or all of the Funding intercompany loans (including the global intercompany loan) through proceeds received from the issuer under new loan tranche(s) pursuant to the terms of the global intercompany loan agreement or from another issuer pursuant to the terms of a different Funding intercompany loan agreement. The issuer would fund such loan tranches through the issuance of notes. Any other issuer will fund a Funding intercompany loan through the issuance of new notes. For example, an existing loan tranche made pursuant to the terms of the global intercompany loan agreement might be re-financed from the proceeds of a Funding intercompany loan made to Funding by another issuer in order to provide funds to redeem a class of notes after their step-up date or following a change in tax law as permitted under the programme documents. If the proceeds of a refinanced Funding

intercompany loan were used by the issuer to exercise an optional redemption of notes prior to their expected maturity, your notes could be repaid early. This, in turn, could have an adverse effect on the yield on your notes (see Condition 5 (*Redemption, Purchase and Cancellation*) of the terms and conditions of the notes).

**The criteria for the assignment of BTL loans to the mortgages trustee may change over time without your consent**

The criteria for the assignment of BTL loans to the mortgages trustee may be amended in the future without your consent. As a result, the loan portfolio may include types of BTL loans in the future with different characteristics than those currently in the loan portfolio. This may occur, for example, due to the development of new BTL loan products in response to changing market conditions. Under the terms of the mortgage sale agreement any such amendments will require the consent of the parties to the mortgage sale agreement, including the Funding security trustee and obtaining a ratings confirmation.

**As BTL loans are assigned to the mortgages trustee and as BTL loans are in certain circumstances removed from the mortgages trust, the characteristics of the trust property may change from those existing at the programme date, and those changes may adversely affect payments on the notes**

It cannot be guaranteed that the characteristics of any BTL loans assigned to the mortgages trustee on any assignment date will have the same characteristics as the BTL loans already in the loan portfolio as at that date or the BTL loans in any relevant cut-off date loan portfolio (if any) as of the relevant cut-off date. In particular, such new BTL loans may have different payment characteristics from the BTL loans already in the loan portfolio as at the relevant assignment date or in the relevant cut-off date loan portfolio as at the relevant cut-off date. The ultimate effect of this could be to delay or reduce the payments you receive on your notes or to increase the rate of repayment of the notes. However, such new BTL loans will be required to meet the conditions described under "*Conditions to assignment*" (see, however, "*The criteria for the assignment of BTL loans to the mortgages trustee may change over time without your consent*").

In addition, in order to promote the retention of borrowers, the originators may periodically contact borrowers (including borrowers of BTL loans that have been assigned by the seller to the mortgages trustee) in order to encourage such borrowers to review the originators' other mortgage products and to discuss offering that such borrowers alternative mortgage products. The originators also may periodically contact borrowers in the same manner in order to offer to a borrower the opportunity to apply for a further advance. The staff member of the relevant originator who contacts a borrower will not know whether that borrower's existing BTL loan has been sold to the mortgages trustee. However, if the relevant existing BTL loan made to that borrower happens to have been sold to the mortgages trustee and that borrower decides to switch mortgage products or take a further advance, the seller will (save in certain limited circumstances in respect of product switches) be required to repurchase that existing BTL loan or (in the case of a further advance) have the option of repurchasing that existing BTL loan from the mortgages trustee.

Generally, the borrowers that the originators may periodically contact will be those borrowers whose BTL loans are not in arrears and who are otherwise in good standing. To the extent that these borrowers switch to a different mortgage product of the originators or take a further advance and their existing BTL loans are purchased by the seller, the percentage of fully performing BTL loans in the loan portfolio may decrease, which could delay or reduce payments you receive on your notes. However, as described above, the decision as to which borrowers to target for new mortgage products and/or further advances and the decision whether to approve a new mortgage product and/or further advance for a particular borrower will be made without regard to whether a borrower's BTL loan is included in the loan portfolio. As a general matter in relation to the loan portfolio, a new mortgage product and/or further advance may only be approved by the relevant originator upon receipt of the seller's confirmation that it will repurchase the relevant loan and related security in accordance with the terms of the mortgage sale agreement.

**The originators may change the lending criteria relating to BTL loans which are subsequently assigned to the mortgages trustee which could affect the characteristics of the trust property, and which could lead to a delay or a reduction in the payments received on your notes or could increase the rate of repayment of the notes**

Each of the BTL loans that may be assigned by the seller to the mortgages trustee will have been originated in accordance with lending criteria of the relevant originator, applicable at the time of



origination, which lending criteria are the same as, or are substantially similar to, the criteria described later in this base prospectus under "*The BTL loans – Origination of the BTL loans – Lending criteria*". These lending criteria consider a variety of factors such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the property to be mortgaged. In the event of the assignment of any BTL loans and their related security to the mortgages trustee, the seller will warrant to the mortgages trustee, Funding and the Funding security trustee that those BTL loans and related security were originated in accordance with the seller's or YBHL's (as applicable) lending criteria then applicable at the time of their origination. However, the originators retain the right to revise their lending criteria as determined from time to time, and so the lending criteria applicable to any new BTL loan at the time of origination may not be the same as those set out in the section "*The BTL loans – Origination of the BTL loans – Lending criteria*".

If BTL loans that have been originated under revised lending criteria are assigned to the mortgages trustee, the characteristics of the trust property could change. This could lead to a delay or a reduction in the payments received on your notes or it could increase the rate of repayment of the notes.

### **Buy-to-let mortgage loans**

Only BTL loans may be included in the loan portfolio and therefore none of the properties are owner-occupied. It is intended that the properties (save in the case of certain properties held as investments) will be let by the relevant borrower to tenants but there can be no guarantee that each such property will be the subject of an existing tenancy when the BTL loan is assigned by the seller to the mortgages trustee or that the tenancy which is granted will subsist throughout the life of the BTL loan and/or that the rental income achievable from tenancies of the relevant property will be sufficient to provide the borrowers with sufficient income to meet the borrowers' obligations on the BTL loans. As the borrower's ability to make payments in respect of a BTL loan secured on such property is therefore likely to depend on the borrower's ability to lease the property on appropriate terms, this dependency on leasing income increases the likelihood, during difficult market conditions, that the rate of delinquencies and losses on such non-owner occupied properties will be higher than for BTL loans secured by the borrower's primary residence.

Upon enforcement of a BTL loan in the loan portfolio in respect of a property which is the subject of an existing tenancy, the servicer may not be able to obtain vacant possession of that property, in which case the servicer will only be able to sell the property as an investment property with one or more sitting tenants. This may affect (i) the amount that the servicer could realise upon enforcement of the BTL loan and (ii) the speed at which such sale can be achieved. However, other than in the case of Scottish BTL loans, the servicer will have the ability to appoint a receiver of rent to collect any rents payable in respect of such property and apply them in payment of any interest and arrears accruing under that BTL loan. If the timing and payment of the BTL loans is adversely affected as described above, the ability of funding to make payments under the global intercompany loan and, consequently, the ability of the issuer to make payments under the notes, could be reduced or delayed.

### **Repurchases of BTL loans by the seller may have the same effect as prepayments on the BTL loans**

In the event of the seller purchasing BTL loans subject to product switches or further advances from the mortgages trustee or the repurchase by the seller from the mortgages trustee of BTL loans for breaches of representations and warranties, the payment received by the mortgages trustee will have the same effect as a prepayment of such BTL loan or BTL loans. The yield to maturity of the notes may be affected by the repurchase of loans subject to product switches or further advances. Because these factors are not within the control of the issuer or the control of Funding or the mortgages trustee, no assurances can be given as to the level of resulting prepayments that the loan portfolio may experience. See "*The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the BTL loans or repurchases of BTL loans by the seller*".

As the decision by the seller whether to purchase a BTL loan subject to a product switch or a further advance is not within the control of the issuer, Funding or the mortgages trustee, no assurance can be given as to the level of effective prepayments that the loan portfolio may experience as a result.

### **If property values decline payments on the notes could be adversely affected**

The security granted by Funding in respect of its obligations under the global intercompany loan agreement, which is the principal source of funding for your notes, consists, among other things, of

Funding's interest in the mortgages trust. Since the value of the loan portfolio held by the mortgages trustee may increase or decrease, the value of that security may decrease and will decrease if there is a general decline in property values.

Since 2007 the rate of house price inflation has fallen and since mid 2008 house prices have overall declined, in each case, as a consequence of housing demand being constrained by a combination of subdued earnings growth, greater pressure on household finances, higher bank mortgage lending rates and the continuing global market volatility that began in the summer of 2007. Whilst house prices stabilized to some extent towards the end of 2009 and the beginning of 2010, they began to decline again towards the end of 2010 and beginning of 2011. Should house prices decline further, borrowers may have insufficient resources to pay amounts in respect of their loans as and when they fall due and may have insufficient equity to refinance their loans. This could lead to higher delinquency rates and losses.

If the residential property market in the United Kingdom continues to experience an overall decline in property values, borrowers may have insufficient equity to refinance their BTL loans with lenders other than the originators or may be unable to sell the mortgaged property at a price sufficient to repay the amounts outstanding under the BTL loan. This could lead to higher delinquency rates and losses. The value of the security created by the BTL loans could be significantly reduced and, ultimately, may result in losses to you if the security is required to be enforced.

No assurance can be given that the value of a mortgaged property in the loan portfolio will remain at the same level as on the date of origination of the related BTL loan or the date on which such BTL loan is assigned to the mortgages trustee.

**The timing and amount of payments on the BTL loans could be affected by geographic concentration of the BTL loans**

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, a concentration of the BTL loans in such a region may be expected to exacerbate all of the risks relating to the BTL loans described in this section. It is not possible to predict when or where such regional economic declines may occur or to what extent or for how long such conditions may continue.

Each geographic region within the United Kingdom relies on different types of industries. Any downturn in a particular industry may adversely affect the regional employment levels and consequently the repayment ability of the borrowers in a region that relies most heavily on that industry. Any natural disasters in a particular region may reduce the value of affected mortgaged properties. This may result in a loss being incurred upon sale of the mortgaged property. In addition, employment rates will generally differ across regions. These circumstances could affect receipts on the BTL loans and ultimately result in losses on the notes. For an overview of the geographical distribution of the BTL loans, see "*Geographical distribution of the mortgaged properties*" in the final terms.

**The timing and amount of payments on the BTL loans could be affected by various factors which may adversely affect payments on the notes**

The BTL loans are affected by credit, liquidity and interest rate risks.

Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and therefore the timing and ultimate payment of interest and repayment of principal. These factors include changes in the national or international economic climate, prevailing mortgage interest rates, regional economic or housing conditions, homeowner mobility, changes in tax laws, inflation, the availability of financing, yields on alternative investments, political developments and government policies.

The rate of prepayments on BTL loans may be increased due to borrowers refinancing their BTL loans and sales of mortgaged properties (either voluntarily by borrowers or as a result of enforcement action taken), as well as the receipt of proceeds from buildings insurance and life assurance policies. The rate of prepayment of BTL loans may also be influenced by the presence or absence of early repayment charges.

Other factors in borrowers' personal or financial circumstances may reduce the ability of borrowers to repay BTL loans. 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 BTL loans. In addition, the ability of a borrower to sell a property given as security for a BTL loan at a price sufficient to repay the amounts outstanding under the BTL loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values and the property market in general at the time.

In particular, during 2008 and continuing in 2009, the UK property market began a period of correction, as a consequence of housing demand being constrained by a combination of economic uncertainty, subdued earnings growth, greater pressure on household finances, rising unemployment, a decline in the availability of mortgage finance and the continued effect of global market volatility that began in the summer of 2007. House prices stabilised towards the end of 2009 and the beginning of 2010 but began to decline again towards the end of 2010 and beginning of 2011. Should house prices decline further, borrowers may have insufficient resources to pay amounts in respect of their loans as and when they fall due and may have insufficient equity to refinance their loans with lenders other than the originators. This could lead to higher delinquency rates and losses.

If a borrower fails to repay its BTL loan and the related property is repossessed, the likelihood of there being a net loss on disposition of the property is adversely affected by a higher loan-to-value ratio. In addition, the ability of a borrower to sell a property given as security for a BTL loan at a price sufficient to repay the amounts outstanding under the BTL 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 and, ultimately, may materially adversely affect the ability of the issuer to make payments on the notes. The relevant final terms will provide information on the distribution of the loan-to-value ratios at origination of the loans sold to the mortgages trustee in connection with a particular issuance of notes.

The terms and conditions of the BTL loans (other than the Scottish BTL loans) provide that, in order to enforce a power of sale in respect of a property, the relevant mortgagee must first obtain a possession order, which 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. However, where the borrower consents to the sale of the property with the current tenant still in occupation, a possession order may not need to be sought. If obtaining possession of properties in such circumstances is lengthy or costly, the issuer's ability to make payments on your notes may be reduced. For more information on the enforcement of Scottish BTL loans and their related security see "*The BTL loans – Scottish BTL loans*".

The loan tranches are the principal source of income for the issuer for repayment of the notes. The principal source of income for repayment by Funding of the loan tranches is its interest in the loan portfolio held on trust by the mortgages trustee for the benefit of Funding and the seller. If the timing and payment of the BTL loans in the mortgages trust is adversely affected by any of the risks described above, the payments on your notes could be reduced or delayed. See "*The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the BTL loans or repurchases of BTL loans by the seller*".

**The originators have adopted procedures relating to investigations and searches for remortgages which could affect the characteristics of the trust property and which may adversely affect payments on the notes**

The originators do not require a solicitor, licensed conveyancer or (in Scotland) qualified conveyancer to conduct a full investigation of the title to a property in all cases. Where the borrower is remortgaging there will, in certain circumstances, be a limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor or conveyancer conducting a full investigation of the title to a property. Properties which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the properties not being accepted as security for a BTL loan had such matters been revealed, though to mitigate against this risk (in relation to applicable BTL loans originated between April 2004 and February 2009 only) search indemnity insurance may have been obtained in respect of such properties. The introduction of BTL loans secured by such properties into the trust property could result in a change of the characteristics of the trust property. This could lead to a delay or a reduction in the payments received on the notes.

### **The inclusion of flexible BTL loans may affect the rate of repayment and prepayment of the BTL loans**

The loan portfolio contains flexible BTL loans. Flexible BTL loans provide the borrower with a range of options that gives that borrower greater flexibility in the timing and amount of payments made under the BTL loan. Subject to the terms and conditions of the BTL loans (which may require in some cases notification to the seller and in other cases the consent of the seller), under a flexible BTL loan a borrower may (among other things) "overpay" or prepay principal on any day or make a re-draw in specified circumstances using applicable options set out in the relevant agreement. For a detailed summary of the characteristics of the flexible BTL loans, see "*The BTL loans – Characteristics of the BTL loans – Flexible BTL loans*". In addition, certain of the flexible BTL loan products of the originators allow the borrower to make overpayments or repay the entire current balance under the flexible BTL loan at any time without incurring an early repayment charge. See "*The BTL loans – Characteristics of the BTL loans – Early repayment charges*".

The inclusion of offset BTL loans, which are another type of flexible BTL loan, in the mortgages trust may also affect the yield to maturity of and the timing of payments on the notes. Application of the terms of an offset BTL loan, may reduce the principal amount outstanding on such offset BTL loan. As a result, less of a related borrower's contractual payment required to be made on a weekly, fortnightly or monthly payment date (the "**scheduled payment**") (which the borrower is nevertheless obligated to continue making in full) will be required to pay interest, and proportionately more of that scheduled payment will be allocated as an overpayment of principal. This reallocation may lead to amortisation of the related BTL loan more quickly than would otherwise be the case. For a description of the offset BTL loans, see "*The BTL loans – Characteristics of the BTL loans – BTL loan products offered by the originators*".

To the extent that borrowers under flexible BTL loans consistently prepay principal or to the extent that offset BTL loans amortise more quickly than otherwise expected, the timing of payments on your notes may be adversely affected.

### **The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the BTL loans or repurchases of BTL loans by the seller**

The yield to maturity of the notes of each class will depend mostly on (a) the amount and timing of the repayment of principal on the BTL loans, and (b) the price paid by the noteholders of each class of notes. The yield to maturity of the notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the BTL loans. The rate of prepayment of BTL loans is influenced by a wide variety of factors, including as summarised above under " - *The timing and amount of payments on the BTL loans could be affected by various factors which may adversely affect payments on the notes*" and " - *The inclusion of flexible BTL loans may affect the rate of repayment and prepayment of the BTL loans*".

Variation in the rate and timing of prepayments of principal on the BTL loans may affect each class of notes differently depending upon amounts already repaid by Funding to the issuer pursuant to the terms of the global intercompany loan agreement and whether a trigger event has occurred or the security granted by the issuer under the issuer deed of charge has been enforced. As a general matter, if prepayments on the BTL loans occur less frequently than anticipated, then the amortisation of the notes may take much longer than is presently anticipated and the actual yields on your notes may be lower than you anticipate. If the aggregate rates of prepayments and scheduled repayments fell to levels much lower than the historical CPR levels in respect of the mortgages trust (or the United Kingdom mortgage market in general), note maturities would likely be extended. Alternatively, it is unlikely that the average lives of the notes would be reduced unless CPRs rose to levels much higher than the historical CPR levels in respect of the mortgages trust (or the United Kingdom mortgage market in general) and the seller ceased to maintain the required amount of BTL loans in the mortgages trust. Prepayment rates in respect of the BTL loans have declined recently in line with industry performance. If lower prepayment rates continue, this could leave the issuer with insufficient proceeds to repay notes on the relevant scheduled maturity dates.

No assurance can be given that Funding will receive sufficient funds during the cash accumulation period prior to the bullet redemption date for a bullet note or prior to any controlled amortisation date for a controlled amortisation loan tranche, in each case to enable Funding to repay these loan tranches to the issuer in time for the issuer to redeem the corresponding series and classes of notes on their bullet

redemption date or controlled redemption dates, respectively. The extent to which sufficient funds are received by Funding during a cash accumulation period prior to the bullet redemption date for a bullet note or prior to any controlled amortisation date for a controlled amortisation note will depend on whether the actual principal prepayment rate of the loans is the same as the assumed principal prepayment rate.

If Funding does not have sufficient funds to pay the full amount scheduled to be repaid on a bullet loan tranche or controlled amortisation loan tranche and therefore the issuer cannot redeem the corresponding series and classes of notes on their bullet redemption date or controlled amortisation dates, respectively, then Funding will be required to pay the issuer only the amount it has actually received in respect of such loan tranches. Accordingly, the issuer will only be obliged to pay the amount of funds received from Funding in respect of such loan tranches to holders of the related series and classes of notes. Any shortfall on such loan tranches and the related notes will be deferred to and paid on subsequent loan payment dates or, as applicable, note payment dates when Funding has money available to pay such shortfall on the loan tranches to the issuer and the issuer, in turn, has funds to pay the amount to be repaid on the related series and classes of notes. If this happens, holders of affected notes will not receive repayment of principal when expected, which may have an adverse effect on the yield to maturity of those notes.

In addition, during the cash accumulation period for the bullet loan tranches, no payments of principal will be permitted to be made on other loan tranches unless certain conditions are met, including that the quarterly CPR of the BTL loans exceed 15 per cent., as described under "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security – Rules for application of Funding available principal receipts*".

#### **Continuing increases in prevailing market interest rates may adversely affect the performance and market value of the notes**

Increases in the Bank of England base rate and/or mortgage interest rates may result in borrowers with a BTL loan subject to a variable rate of interest or with a BTL loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, being exposed to increased monthly payments as and when the related mortgage interest rate adjusts upward (or, in the case of a BTL 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 BTL 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 these 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 BTL loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave borrowers with insufficient equity in their homes to permit them to refinance. These events, alone or in combination, may contribute to higher delinquency rates and losses.

#### **Risks related to the maturity purchase notes**

The purchase arrangements for the maturity purchase notes provide that in respect of the transfer date, any of the outstanding maturity purchase notes may be purchased by the maturity purchaser at the maturity purchase price in accordance with Condition 5(G) and the relevant conditional maturity purchase note deed.

The maturity purchaser is not obliged to purchase maturity purchase notes if a note event of default has occurred which is continuing on the transfer date. Moreover, the purchase price payable by the maturity purchaser in respect of the maturity purchase notes on the transfer date is subject to reduction by the amount of any principal deficiency losses. Therefore, the purchase arrangements are not intended to provide credit support for the assets of the mortgages trust or assets backing the maturity purchase notes and should not be viewed as a guarantee that investors in the maturity purchase notes will receive the full outstanding principal amount of such notes on the transfer date. See "*Description of the issuer trust deed and the notes – Maturity purchase notes*".

Investors should consider carefully the risk posed if (a) a note event of default has occurred which is continuing on the transfer date or (b) the maturity purchaser defaults in its obligations to pay the maturity purchase price for the maturity purchase notes on the relevant transfer date. In such situations a noteholder may be unable to sell its maturity purchase notes on the relevant transfer date or at any other time (or, if it is able to sell its maturity purchase notes, the price received from a third party purchaser may be less than the purchase price set forth in the conditional maturity purchase note deed). In addition, maturity purchase notes may be subject on any step-up date relating to such maturity purchase notes (which may occur on or after the expected maturity date) to a decrease in the margin which would have an adverse effect on the yield of such maturity purchase notes.

Investors should note that they will be reliant on the financial condition of the maturity purchaser as of the transfer date to the extent the maturity purchaser is obliged to purchase the maturity purchase notes. Investors therefore will need to satisfy themselves independently of the ability of the maturity purchaser to comply with its obligations under the purchase arrangements described under "*Description of the issuer trust deed and the notes – Maturity purchase notes*".

The purchase arrangements relating to the maturity purchase notes depend on the facilities of Euroclear and Clearstream, Luxembourg, DTC and the registrar, as applicable. If definitive notes are issued in any circumstances described in this base prospectus, or if the relevant clearing system ceases to offer the relevant mechanisms to enable the purchase of the relevant maturity purchase notes by the maturity purchaser as contemplated in Condition 5(G) and the relevant conditional maturity purchase note deed or if such mechanisms are disrupted, then the purchase arrangements established for the maturity purchase notes may no longer be able to be implemented and/or may be delayed as described in "*Description of the notes - Maturity purchase notes*". Although the parties to the conditional maturity purchase note deed have agreed that in such circumstances they will make reasonable efforts to enter into alternative purchase arrangements, there can be no assurance that they will be able to do so, in which case the maturity purchaser may not be required to purchase the maturity purchase notes.

The ratings assigned by the rating agencies to any maturity purchase notes do not address the mandatory purchase arrangements relating to such maturity purchase notes as described in "*Description of the issuer trust deed and the notes – Maturity purchase notes*" or the likelihood of the maturity purchaser not being required to purchase the maturity purchase notes under the maturity purchase commitment.

Reference to a change in the margin, in respect of the maturity purchase notes on any step-up date, may refer to either a positive or a negative change in such margin.

**There may be adverse consequences for notes as a result of the introduction or implementation of measures aimed at providing relief for home owners and tenants**

On 3 December 2008, the UK government released a preliminary announcement on the Homeowner Mortgage Support Scheme (the "**HMSS**"). Further details on the HMSS were published on 10 December 2008. The final scheme documentation was published on 21 April 2009 at which time, the seller announced its intention to participate in the HMSS. The terms of the HMSS provide that, subject to certain conditions, eligible mortgage borrowers experiencing a temporary loss of income will be allowed to defer up to 70 per cent. on interest payments for up to two years, with a percentage of the deferred interest payments being guaranteed by the UK government in certain circumstances should the borrower default. The participation by the seller in the HMSS may have an adverse effect on the collection of interest on the BTL loans in the loan portfolio, the timing of enforcement of the related mortgages and accordingly on the financial condition of the mortgages trustee, Funding and the issuer. The HMSS closed to new applicants on 21 April 2011.

For mortgage possession cases, a new protocol in England and Wales came into force on 19 November 2008 (the "**Pre-Action Protocol**"), setting out the steps that judges will expect any lender to take before starting a claim for possession. 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 may be subject to the wishes of the relevant borrower, and may not apply in cases of fraud.

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force on 1 October 2010 and gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent)

as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order. See further "*Risk Factors – Home owner and tenant protection*".

The Pre-Action Protocol and the Mortgage Repossession (Protection of Tenants etc) Act 2010 may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the loans may result in lower recoveries and may adversely affect the ability of the issuer to repay the notes.

There can be no assurance that any delay in starting and/or completing repossession actions by the mortgages trustee would not result in the amounts recovered being less than if the mortgages trustee 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).

### **Current market volatility and recent market developments**

The global financial system has been experiencing difficulties since approximately mid-2007. Despite measures taken by the UK and United States governments and the European Central Bank and other central banks to stabilise the financial markets, the volatility and disruption of the capital and credit markets have continued. Together with the significant declines in the property markets in the United Kingdom, the United States, Spain and other countries, these events over the past four years have contributed to significant write-downs of asset values by financial institutions, including government-sponsored entities and major retail, commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be nationalised and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, stopped their funding to borrowers, including other financial institutions.

This has affected, and may continue to affect, the rate at which the originators originate BTL loans. If the rate at which BTL loans are originated declines significantly, then the risk of a non-asset trigger event occurring increases. If a non-asset trigger event occurs, this may cause certain series and classes (or sub-classes) of notes to be repaid more rapidly than expected and other series and classes (or sub-classes) of notes to be repaid more slowly than expected (with the result that such notes may not be paid in full by their final maturity date). See also, "*The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes*".

There can be no assurances that the recent lack of credit and lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity will not continue or worsen.

### **No new BTL loans may be sold to the mortgages trustee if the step-up date in respect of any notes has occurred and the issuer has not exercised its option to redeem such notes within three months**

No sale of new BTL loans may occur if, at the proposed sale date, the step-up date in respect of any series and class of notes has occurred and the issuer has not exercised its option to redeem those notes within three months of such step-up date. If the minimum trust size is not maintained, then this could result in the occurrence of a non-asset trigger event. See "*Assignment of the BTL loans and related security – Conditions to assignment*" for further details of the conditions new BTL loans are required to meet.

### **The occurrence of an asset trigger event or the issuer security or Funding security becoming enforceable may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If an asset trigger event has occurred or the note trustee has delivered an issuer enforcement notice to the issuer or the Funding security trustee has delivered a Funding enforcement notice to Funding, the mortgages trustee will distribute principal receipts on the BTL loans to Funding and the seller proportionally based on their percentage shares of the trust property. Funding will, on each monthly payment date following the earlier to occur of an asset trigger event, the delivery by the note trustee of an issuer enforcement notice to the issuer and the delivery by the Funding security trustee of a Funding enforcement notice to Funding, apply those principal receipts received by it from the mortgages trustee, after making the requisite payments to the Funding reserve fund and the Funding liquidity reserve fund (if any), to repay:

- *first*, the AAA loan tranches outstanding under the Funding intercompany loan agreements until each of those AAA loan tranches is fully repaid;
- *then*, the AA loan tranches outstanding under the Funding intercompany loan agreements until each of those AA loan tranches is fully repaid;
- *then*, the A loan tranches outstanding under the Funding intercompany loan agreements until each of those A loan tranches is fully repaid;
- *then*, the BBB loan tranches outstanding under the Funding intercompany loan agreements until each of those BBB loan tranches is fully repaid;
- *then*, the BB loan tranches outstanding under the Funding intercompany loan agreements until each of those BB loan tranches is fully repaid; and
- *then*, the Z loan tranches outstanding under the Funding intercompany loan agreements until each of those Z loan tranches is fully repaid.

The above priority of payments may cause certain series and classes of notes to be repaid more rapidly than expected and other series and classes of notes to be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

**The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If a non-asset trigger event has occurred and until the earlier to occur of an asset-trigger event, the delivery by the note trustee of an issuer enforcement notice to the issuer and the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the mortgages trustee will distribute all principal receipts to Funding until the Funding share percentage of the trust property is zero and will thereafter apply all principal receipts to the seller. Funding will, on each monthly payment date following the occurrence of a non-asset trigger event, apply these principal receipts received by it from the mortgages trustee, after making the requisite payments to the Funding reserve fund and the Funding liquidity reserve fund (if any), to repay:

- *firstly*, the AAA loan tranches outstanding under the Funding intercompany loan agreements in order of final maturity date, beginning with the earliest final maturity date until each of these AAA loan tranches is fully repaid;
- *then*, the AA loan tranches outstanding under the Funding intercompany loan agreements until each of those AA loan tranches is fully repaid;
- *then*, the A loan tranches outstanding under the Funding intercompany loan agreements until each of those A loan tranches is fully repaid;
- *then*, the BBB loan tranches outstanding under the Funding intercompany loan agreements until each of those BBB loan tranches is fully repaid;
- *then*, the BB loan tranches outstanding under the Funding intercompany loan agreements until each of those BB loan tranches is fully repaid; and
- *then*, the Z loan tranches outstanding under the Funding intercompany loan agreements until each of those Z loan tranches is fully repaid.

The above priority of payments may cause certain series and classes of notes to be repaid more rapidly than expected and other series and classes of notes to be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.



**The occurrence of a pass-through trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**

A "pass-through trigger event" is any of the following events: (a) a trigger event; (b) the delivery by the note trustee of an issuer enforcement notice to the issuer; or (c) the delivery by the Funding security trustee of a Funding enforcement notice to Funding.

Following the occurrence of a pass-through trigger event:

- each series and class of notes will become a series and class of pass-through notes and each loan tranche will become a pass-through loan tranche (to the extent not already constituted as a series and class of pass-through notes or a pass-through loan tranche);
- if not already so calculated, interest on each loan tranche will be calculated on a monthly basis and will be due and payable by Funding to the issuer on each monthly payment date and interest on each series and class of notes will also be calculated on a monthly basis and will be due and payable by the issuer to you on each monthly payment date; and
- principal repayments in respect of each loan tranche (as to which see "*The occurrence of an asset trigger event or enforcement of the issuer security or the Funding security may accelerate the repayment of certain notes and/or delay the repayment of other notes*" and "*The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/ or delay the repayment of other notes*") will be made by Funding on each monthly payment date and the issuer will, also on each monthly payment date, apply the proceeds of such principal repayments, which are available for payment, in repayment of the notes in accordance with the applicable issuer priority of payments but without regard to the scheduled amounts due in respect of the bullet notes and the controlled amortisation notes and the dates on which such amounts would otherwise have been due.

This may cause certain series and classes of notes to be repaid more rapidly than expected and other series and classes of notes to be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

**Competition in the UK mortgage loan industry could increase the risk of the occurrence of a trigger event**

The mortgage loan industry in the United Kingdom is highly competitive. This competitive environment, together with the recent downturn in the United Kingdom economy, may affect the rate at which mortgage loans (including BTL loans) are originated by the originators and may also affect the level of attrition of the existing borrowers of the originators. If the rate at which BTL loans are originated by the originators declines significantly or if existing borrowers refinance their BTL loans with lenders other than the originators then the risk of a trigger event occurring increases, which could result in an early redemption of your notes or a delay in the repayment of your notes.

**If the account bank to the mortgages trustee, the account bank to Funding or the issuer account bank ceases to satisfy certain criteria, then the mortgages trustee bank accounts, the Funding bank accounts and the issuer bank accounts may have to be transferred to another account bank under terms that may not be as favourable as those offered by the current account banks**

The account bank to the mortgages trustee, the account bank to Funding and the issuer account bank are required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee bank accounts, the Funding bank accounts and the issuer bank accounts, respectively. If any of the account bank to the mortgages trustee, the account bank to Funding or the issuer account bank ceases to satisfy these criteria, then the relevant accounts may need to be transferred to another entity which does satisfy these criteria. In these circumstances, the new account bank may not offer a bank account on terms as favourable as those provided by the account bank to the mortgages trustee, the account bank to Funding or the issuer account bank.

The criteria referred to above as of the date of this base prospectus include certain minimum rating requirements. For a summary of these requirements see "*Triggers table*". These criteria are subject to change by the rating agencies.

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

The ratings assigned to each series and class of notes address the likelihood of full and timely payment to you of all payments of interest on each note payment date under those classes of notes. The ratings also address the likelihood of ultimate repayment of principal on the final maturity date of each series and class of notes. The expected ratings for each series and class of notes offered under this base prospectus will be the ratings specified for such notes in the applicable final terms. Any rating agency may lower, withdraw, qualify or suspend its rating of a series and class of notes for any reason, including as a result of changes in, or unavailability of, information or a revision of its relevant methodology or if, in the sole judgment of the rating agency, the credit quality of such notes has declined or is in question or circumstances so warrant. If any rating assigned to a series and class of notes is subsequently suspended, lowered, withdrawn or qualified, the market value of the notes may be reduced and, in the case of money market notes, such money market notes may no longer be eligible for investment by money market funds.

A change to the ratings assigned to each class of notes will not affect the designated ratings assigned to each relevant loan tranche under the global intercompany loan agreement.

The issuer is not obliged on or following a revision by a rating agency of its rating methodology to take steps to amend any of the programme documents in order to maintain the then current rating by that rating agency of a series and class of notes. However, the note trustee, the issuer security trustee and the Funding security trustee may agree to amendments (if so proposed) without the consent of noteholders. See "*– There may be conflicts between your interests and the interests of any of the other secured creditors*" and "*– The note trustee may agree to modifications to the programme documents without noteholders' prior consent, which may adversely affect noteholders' interests*".

**The issuance of unsolicited ratings on your notes could adversely affect the market value of your notes and/or liquidity of your notes**

Other credit rating agencies that have not been engaged to rate the notes by the issuer may issue unsolicited credit ratings on the notes at any time. Any unsolicited ratings in respect of the notes may differ from the ratings expected to be assigned by Fitch and Moody's and may not be reflected in any final terms. Issuance of an unsolicited rating which is lower than the ratings assigned by Fitch or Moody's in respect of the notes may adversely affect the market value and/or the liquidity of the notes.

**Ratings confirmations**

The terms of certain of the transaction documents shall require that certain actions proposed to be taken by the mortgages trustee, the Funding security trustee, the issuer security trustee, the note trustee, Funding, the issuer and certain other parties to the transaction documents may not proceed unless a ratings confirmation is obtained, which requires receipt of (i) written confirmation from each rating agency that the relevant amendment, action, determination or appointment will not result in the reduction, qualification, suspension or withdrawal of the then current ratings assigned to any outstanding notes rated by that rating agency; or (ii) a certification in writing by an authorised signatory of the issuer to the issuer security trustee and the note trustee stating that the relevant amendment, action, determination or appointment has been notified to the rating agencies and, in the issuer's opinion, would not cause the then current ratings assigned to any outstanding notes to be reduced, qualified, suspended or withdrawn by any rating agency and, where a rating agency was prepared to consult with the issuer, such opinion is based on such consultation with the relevant rating agency (a "**ratings confirmation**"); provided however that it is understood that the rating agencies shall be under no obligation to provide a rating agency confirmation.

A written ratings confirmation by a rating agency (which would satisfy the requirement of a ratings confirmation from that rating agency) may or may not be given at the sole discretion of that 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 written ratings confirmation in the time available or at all, and the rating agency should not be responsible for the consequences thereof.

Certain rating agencies have indicated that, as a matter of policy, they will no longer provide written rating confirmations.

A ratings confirmation from the rating agencies, 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 provided by a rating agency represents only a restatement of the opinions given by that rating agency as at the closing date and cannot be construed as advice for the benefit of any parties to the transaction.

Any ratings confirmation delivered by the issuer does not constitute a ratings confirmation from and, is not binding on, the rating agencies.

A ratings confirmation does not confirm that such action (i) is permitted by the terms of the programme documents or (ii) is in the best interests of, or prejudicial to, you. While each of the Funding secured creditors and the issuer secured creditors (including the noteholders) are entitled to have regard to a ratings confirmation, the above does not impose or extend any actual or contingent liability on the rating agencies to the Funding secured creditors or the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding security trustee, the issuer security trustee, the note trustee or any other parties to the transaction documents or create any legal relationship between the rating agencies and the Funding secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding security trustee, the issuer security trustee, the note trustee or any other parties to the transaction documents whether by way of contract or otherwise.

In addition, the terms of the issuer trust deed provide that, in determining whether or not the exercise of any power, right, trust, authority, duty or discretion under or in relation to the issuer trust deed or any of the other issuer transaction documents is materially prejudicial to the interests of the noteholders, the note trustee, acting in its sole discretion may (but shall not be obliged to) have regard to such ratings confirmation.

#### **Changes to rating methodology and rating criteria may adversely affect the then current ratings of the notes**

At any time any rating agency may revise its relevant rating methodology or revise its current ratings criteria with the result that, among other things, any rating assigned to the notes may be lowered and/or in order to comply with any such revised criteria or rating methodology, amendments may need to be made to the programme documents. Any amendments to the programme documents to comply with a rating agency's revised rating methodology or ratings criteria would either have to be agreed by: (a) the note trustee exercising its discretion in accordance with the terms of the issuer trust deed (see "*The note trustee may agree to modifications to the programme documents without noteholders' prior consent, which may adversely affect noteholders' interests*" below); or (b) an extraordinary resolution of the noteholders. In this regard, noteholders should note the provisions of Condition 11 (*Meetings of noteholders, modifications and waiver*).

For the avoidance of doubt, the issuer will not be obliged, following a change in rating methodology by any rating agency, to, *inter alia*, amend any of the programme documents to maintain the then current ratings of the notes.

#### **Subordination of other note classes may not protect you from all risk of loss**

The payment of interest due on any note payment date in respect of the class B notes, the class C notes, the class D, the class E notes and the class Z notes of any series will be subordinated to the payment of interest due on such note payment date in respect of the class A notes of all series. The payment of interest due on any note payment date in respect of the class C notes, the class D notes, the class E notes and the class Z notes of any series will be subordinated to the payment of interest due on such note payment date in respect of the B notes of all series. The payment of interest due on any note payment date in respect of the class D notes, the class E notes and the class Z notes of any series will be subordinated to the payment of interest due on such note payment date in respect of the class C notes of all series. The payment of interest due on any note payment date in respect of the class E notes and the class Z notes of any series will be subordinated to the payment of interest due on such note payment date in respect of the class D notes of all series. The payment of interest due on any note payment date in respect of the class Z notes of any series will be subordinated to the payment of interest due on such note payment date in respect of the class E notes of all series.

Prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, the payment of interest due on any note payment date in respect of the class Z notes of any series will also be subordinated to the replenishment of the issuer reserve fund up to the issuer reserve required amount.

The repayment of principal due on any note payment date in respect of the class B notes, the class C notes, the class D, the class E notes and the class Z notes of any series will be subordinated to the repayment of principal due on such note payment date in respect of the class A notes of all series. The repayment of principal due on any note payment date in respect of the class C notes, the class D notes, the class E notes and the class Z notes of any series will be subordinated to the repayment of principal due on such note payment date in respect of the B notes of all series. The repayment of principal due on any note payment date in respect of the class D notes, the class E notes and the class Z notes of any series will be subordinated to the repayment of principal due on such note payment date in respect of the class C notes of all series. The repayment of principal due on any note payment date in respect of the class E notes and the class Z notes of any series will be subordinated to the repayment of principal due on such note payment date in respect of the class D notes of all series. The repayment of principal due on any note payment date in respect of the class Z notes of any series will be subordinated to the repayment of principal due on such note payment date in respect of the class E notes of all series.

You should be aware that not all classes of notes will be scheduled to receive payments of interest and repayments of principal on the same note payment dates. The note payment dates for the payment of interest and principal in respect of a series and class of notes will be the dates specified for such notes in the applicable final terms. A class of notes of a particular series may have note payment dates in respect of interest and/or principal that are different from other notes of the same class (but of different series) or of the same series (but of a different class or sub-class). Despite the principal priority of payments described above, provided that no pass-through trigger event will have occurred and subject to the satisfaction of the repayment tests, lower ranking classes of notes may nevertheless be repaid principal before higher ranking classes of notes and a class of notes of a particular series may be repaid principal before other notes of the same class (but of different series) or of the same series (but of a different class or sub-class). Payments of principal are expected to be made to each class of notes in amounts up to the amounts set forth under "*Cashflows – Distribution of issuer available principal receipts prior to enforcement of the issuer security*".

Furthermore, if the issuer exercises an option to redeem a series and class of notes in any of the circumstances set out in Condition 5(D) (Optional redemption in full) under "*Terms and conditions of the notes*", then those series and classes of notes so redeemed will be repaid before other series and classes of notes which are not so redeemed, irrespective of the ranking or final maturity date of those notes.

There is no assurance that these subordination rules will protect the class A noteholders from all risks of loss, the class B noteholders from all risk of loss, the class C noteholders from all risk of loss, the class D noteholders from all risk of loss or the class Z noteholders from all risk of loss. If the losses borne by the class Z notes, the class E notes, the class D notes, the class C notes and the class B notes are in an aggregate amount equal to the aggregate principal amount outstanding of the class Z notes, the class E notes, the class D notes, the class C notes and the class B notes, then losses on the BTL loans will thereafter be borne by the class A notes at which point there will be an asset trigger event. Similarly, if the losses borne by the class Z notes, the E notes, the class D notes and the class C notes are in an aggregate amount equal to the aggregate principal amount outstanding of the class Z notes, the E notes, the class D notes and the class C notes, then losses on the BTL loans will thereafter be borne by the class B notes. Similarly, if the losses borne by the class Z notes, the E notes and the class D notes are in an aggregate amount equal to the aggregate principal amount outstanding of the class Z notes, the class E notes and the class D notes, then losses on the BTL loans will thereafter be borne by the class C notes. Similarly, if the losses allocated to the class Z notes and the class E notes are in an aggregate amount equal to the aggregate principal amount outstanding of the class Z notes and the class E notes, then losses on the BTL loans will thereafter be borne by the class D notes. Finally, if the losses allocated to the class Z notes are in an aggregate amount equal to the aggregate principal amount outstanding of the class Z notes, then losses on the BTL loans will thereafter be borne by the class E notes.

**Payments of class B notes, class C notes, class D notes, class E notes and class Z notes may be delayed or reduced in certain circumstances**

If on any note payment date on which a repayment of principal is due on the class B notes, the class C notes, the class D notes, the class E notes or the class Z notes of any series at a time when, and if the

repayment was made, the principal amount outstanding of the remaining subordinate classes of notes (of all series) then outstanding is not sufficient to provide the level of credit enhancement required to support the ratings on the more senior classes of notes (of all series) then outstanding and the issuer is unable to issue additional class B notes, class C notes, class D notes, class E notes or class Z notes, as applicable, or obtain acceptable alternative forms of credit enhancement, such subordinated class of notes (and the related loan tranches) will not be entitled to receive payments of principal until all notes outstanding of a more senior class have their required level of subordination. See "*Cashflows – Distribution of Funding available principal receipts prior to enforcement of the Funding security – Rules for application of Funding available principal receipts*".

On any note payment date on which a payment of principal is due on the class B notes, the class C notes, the class D notes, the class E notes or the class Z notes of any series, the obligation of the issuer to make such principal payments (and the obligation of Funding to make principal payments on the related loan tranches) will be subject to the satisfaction of the issuer arrears test and the issuer reserve requirement to the extent that the class A notes of any series are outstanding on that date. See "*Cashflows – Distribution of Funding available principal receipts prior to enforcement of the Funding security – Rules for application of Funding available principal receipts*".

The failure to repay principal in respect of the class B notes, the class C notes, the class D notes, the class E notes or the class Z notes (and the related loan tranches) in such circumstances will not constitute a note event of default or an event of default in respect of the loan tranches.

#### **The required subordination for a class of notes may be changed**

The issuer will be permitted to change the required subordinated amount for any class of notes of any series, or the method of calculating the required subordinated amount for such class, at any time without the consent of any noteholders if certain conditions are met, including obtaining a ratings confirmation in respect thereof.

#### **In certain circumstances some of the conditions for issuance of notes may be waived**

If the issuer obtains a ratings confirmation, then some of the other conditions to issuance of notes (e.g. the absence of a note event of default in respect of a series and/or class of notes) may be waived. For a description of the conditions to issuance and the waiver of such conditions, see "*Issuance of notes*".

#### **The note trustee may agree to modifications to the programme documents without noteholders' prior consent, which may adversely affect noteholders' interests**

Pursuant to the provisions of the issuer trust deed and the notes, the note trustee may agree, without the consent of the noteholders, to any modification to, or to the waiver or authorisation of any breach or proposed breach of, the terms and conditions of any series and class of notes or any of the programme documents, except for a basic terms modification (as defined in "*Terms and conditions of the notes*") which, in the opinion of the note trustee (i) is not materially prejudicial to the interests of the noteholders of such series and class of notes or any other series and class of notes, or (ii) is of a formal, minor or technical nature or is to correct a manifest error or is necessary to comply with mandatory provisions of law, or (iii) is expressly provided for in the programme documents. The note trustee, in determining whether the exercise of its discretion will not be materially prejudicial to the interests of the relevant noteholders may, but shall not be obliged to, take account of any ratings confirmation with respect to the exercise of such discretion.

#### **Risks relating to the Rule 2a-7 suitability of the money market notes**

The issuer may, from time to time, issue a series and class of notes which are intended to be "eligible securities" if so designated in the final terms for purchase by money market funds under Rule 2a-7 ("**Rule 2a-7**") of the United States Investment Company Act of 1940, as amended (the "**Investment Company Act**") ("**money market notes**").

The money market notes that may be issued from time to time are intended to be "eligible securities" for purchase by money market funds under Rule 2a-7 of the Investment Company Act. However, none of the issuer, Funding, the mortgages trustee, Clydesdale Bank, the arranger, the managers, the note trustee, the issuer security trustee, the Funding security trustee, each remarketing agent, each tender agent, each paying agent, the agent bank, the registrar, the transfer agent, each conditional note purchaser or any other

party to the programme documents will make any representation as to the suitability of any money market notes for investment by money market funds subject to Rule 2a-7 under the Investment Company Act and any determination as to such qualification and compliance with other aspects of Rule 2a-7 is solely the responsibility of each money market fund and its investment adviser.

In particular, you should note that the money market note mandatory transfer will be likely to be deemed to be a "conditional demand feature" (as such item is defined in Rule 2a-7). One of the conditions of determination by the board of directors of the relevant money market fund of the eligibility of a money market note for investment by such money market fund will be the determination that, where such note is issued with a final maturity date that is more than 397 days from the closing date on which such notes were issued, there is minimal risk that circumstances would occur that would result in such money market note not being able to be transferred on a particular money market note mandatory transfer date. No representation is made and no assurance can be given in this regard.

Among other things, no assurance can be given that any such board of directors will be able to satisfy the pre-condition for Rule 2a-7 eligibility of such money market note that it is able to monitor readily the conditions limiting the availability of the money market note mandatory transfer, as there is no affirmative obligation pursuant to the terms of the programme documents that any such information be made available. Non-compliance with Condition 5(G) (*Money Market Note Mandatory Transfer Arrangements*) of the terms and conditions of the notes by reason of any failure on the part of any remarketing agent or any conditional note purchaser to perform their respective obligations under the relevant programme documents will not constitute a note event of default. See Condition 5 (*Redemption, Purchase and Cancellation*) and Condition 9 (*Events of Default*) of the terms and conditions of the notes and "*United States legal investment considerations*" below. No representation is made and no assurance can be given in this regard.

**Ability of the issuer to procure payment of the money market note mandatory transfer price may affect timely payment on the money market notes**

The ability of the issuer to procure payment of the relevant money market note mandatory transfer price for a series and class of money market notes will be dependent upon the applicable remarketing agent either:

- (a) agreeing terms for the sale of such notes to investors on or prior to the applicable money market note mandatory transfer date for such notes and procuring payment of the money market note mandatory transfer price for such notes from those investors; or
- (b) exercising the issuer's rights under the applicable conditional note purchase agreement to require the applicable conditional note purchaser to acquire some or all of such notes.

Under the terms of the remarketing agreement for a series and class of money market notes, subject to receipt of the information regarding the amount to be the principal amount outstanding of such notes on the next following money market note mandatory transfer date for such notes (after giving effect to the payment of any note principal payments (or any part thereof) that will be made on such date in respect of such notes), and notice from the issuer that no note event of default is then outstanding, the applicable remarketing agent will give notice to the applicable conditional note purchaser of the amount required to pay for such notes three business days prior to the applicable money market note mandatory transfer date.

After the occurrence of an automatic remarketing termination event in relation to a series and class of money market notes, such notes will no longer be subject to any mandatory transfer under Condition 5(G) (*Money Market Note Mandatory Transfer Arrangements*) of the terms and conditions of the notes (see "*Terms and conditions of the notes*").

**Each money market note mandatory transfer may be dependent upon identification of investors interested in acquiring money market notes**

There can be no assurance that the remarketing agent for a series and class of money market notes will be able to identify investors interested in acquiring such notes on each money market note mandatory transfer date for such notes. Each money market note mandatory transfer may therefore be dependent upon the ability of the applicable conditional note purchaser to pay the money market note mandatory transfer price for such notes and acquire the relevant unplaced money market notes.

The obligation of the remarketing agent for a series and class of money market notes to act as the agent of the issuer in remarketing such notes on each money market note mandatory transfer date for such notes will terminate either upon the occurrence of an automatic remarketing termination event in relation to such notes or may be terminated at the discretion of the remarketing agent upon the occurrence of an optional remarketing termination event in relation to such notes (for a description of such events, see "*Description of the issuer trust deed and the notes – Money market notes – Remarketing agreements*"). Whilst there will be no remarketing of a series and class of money market notes upon the occurrence of an optional remarketing termination event in relation to such notes where the option to terminate has been exercised by the applicable remarketing agent, the applicable conditional note purchaser will be required, in the absence of an automatic remarketing termination event in relation to such notes, to purchase on the next succeeding money market note mandatory transfer date for such notes that would otherwise have been remarketed. Upon the occurrence of an automatic remarketing termination event in relation to a series and class of money market notes the issuer will not be obliged to procure any subsequent purchase of such notes, the applicable remarketing agent will not be obliged to remarket such notes and the applicable conditional note purchaser will not be obliged to purchase any of such notes.

If the conditional note purchaser for a series and class of money market notes defaults upon its obligation to pay the amounts otherwise due under the applicable conditional note purchase agreement on a money market note mandatory transfer date for such notes, the issuer may not be able to procure the purchase of all or any of the such notes on such date. The issuer will not be liable for such failure to the extent such failure is a result of the failure of the applicable remarketing agent or the applicable conditional note purchaser to perform their respective obligations under the applicable remarketing agreement or the applicable conditional note purchase agreement. Accordingly, in such circumstances, the failure to pay the money market note mandatory transfer price and complete the purchase of such notes on any money market note mandatory transfer date will not constitute a note event of default.

To the extent that there are principal amounts outstanding on a series and class of money market notes on any money market note mandatory transfer date for such notes, the payment of the money market note mandatory transfer price will be dependent upon the applicable remarketing agent, as agent of the issuer, agreeing terms for the sale of such notes to third party purchasers and arranging for the transfer of the proceeds on or prior to the relevant money market note mandatory transfer date and/or (on any money market note mandatory transfer date) the exercise of the issuer's rights under the applicable conditional note purchase agreement, if appropriate, to require the applicable conditional note purchaser to acquire some or all of such notes.

#### **Issuance of additional notes may affect the timing and amounts of payments to you**

The issuer is permitted to issue notes at any time without notice to existing noteholders and without their consent, and such notes may be issued with different terms from the then outstanding notes. For a description of the conditions that must be met before the issuer can issue notes, see "*Issuance of notes*".

The issuance of notes by the issuer could adversely affect the timing and amount of payments on the then outstanding notes. For example, if notes of the same class as your notes issued after your notes have a higher interest rate than your notes, this could result in a reduction in the available funds used to pay interest on your notes. Also, when such notes are issued, the voting rights of your notes will be diluted.

#### **Absence of secondary market; lack of liquidity**

As at the date of this base prospectus, the secondary market for mortgage-backed securities is experiencing disruptions resulting from reduced investor demand for such securities. This has had a material adverse impact on the market value of mortgage-backed securities and resulted in the secondary market for mortgage-backed securities experiencing very limited liquidity.

The market for mortgage-backed securities may also be affected by any restructuring of sovereign debt by countries in the Eurozone. As at the date of this base prospectus, it is unclear what the outcome of any such restructuring will be. This uncertainty may have implications for the liquidity of the notes in the secondary market.

Limited liquidity in the secondary market may continue to 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.

To the extent that a secondary market exists or develops, it may not continue for the life of the notes or it may not provide noteholders with liquidity of investment with the result that a noteholder may not be able to find a buyer to buy its notes readily or at prices that will enable the noteholder to realise a desired yield. Consequently, whilst these market conditions persist, an investor in the notes may not be able to sell or acquire credit protection on its notes readily and market values of the notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to an investor. It is not known for how long these market conditions will continue or whether they will worsen.

Neither the issuer, the arrangers nor the relevant managers are or will be obliged to make a market for a series of notes issued by the issuer.

### **You may be subject to exchange rate and interest rate risks**

Repayments of principal and payments of interest on a series and class of notes may be made in a currency other than sterling but all loan tranches will be denominated in sterling and all repayments of principal and payments of interest made by Funding to the issuer in respect of the loan tranches will be made in sterling.

In addition, the interest due and payable by Funding to the issuer for each interest period on any loan tranche will be calculated pursuant to (a) a margin under or over LIBOR for three-month sterling deposits (or, in certain cases, a margin under or over such other sterling LIBOR rate) as may be specified for such loan tranche in the applicable loan tranche supplement), and (b) following the earlier to occur of the step-up date in relation to such loan tranche and a pass-through trigger event, a margin under or over LIBOR for one-month sterling deposits, however, interest due and payable on the related series and class of notes may be calculated pursuant to a floating rate (other than any of the sterling LIBOR rates specified above) or a fixed rate (as specified for such notes in the applicable final terms).

In such case, to hedge its currency exchange rate exposure and/or interest rate exposure in respect of such notes, on the closing date for the related series and class of notes, the issuer will, where required, enter into an appropriate currency and/or interest rate swap transaction with an issuer swap provider. The final terms for the related series and class of notes will provide details of the issuer swap provider that has entered into the issuer swap agreement with respect to such notes (see "*The swap agreements – The issuer swaps*").

An issuer swap provider will be obliged to make payments to the issuer under an issuer swap agreement only as long as the issuer complies with its obligations under such issuer swap agreement to make payments to such issuer swap provider. If such issuer swap provider is not obliged to make payments of, or if it defaults in its obligations to make payments of, amounts equal to the full amount scheduled to be paid to the issuer on the dates for payment specified under an issuer swap agreement or such issuer swap agreement is otherwise terminated, the issuer will be exposed to changes in the exchange rates between sterling and the currency in which such notes are denominated and to changes in the relevant interest rates. Unless a replacement swap transaction is entered into, the issuer may have insufficient funds to make payments due on the applicable series and class of notes.

If the issuer receives a swap termination payment from an issuer swap provider, then the issuer will be required to use those funds towards meeting its costs in entering into any applicable hedging transactions to mitigate its exposure to currency and/or interest rate risks until a new issuer swap agreement is entered into and/or to acquire a replacement issuer swap. You will not receive extra amounts (over and above interest and principal payable on the notes) as a result of the issuer receiving a swap termination payment.

In addition, some of the BTL loans carry variable rates of interest, some of the BTL loans pay interest at a fixed rate or rates of interest and some of the BTL loans pay interest at a rate which tracks the Bank of England base rate. However, these interest rates on the BTL loans (which will fund the interest payable by Funding to the issuer for each interest period on the loan tranches) will not necessarily match the rates of interest payable on the loan tranches (which will be calculated pursuant to a margin under or over three-month sterling LIBOR or, in certain cases, such other sterling LIBOR rate as may be specified for such loan tranche in the applicable loan tranche supplement (or, for each interest period that commences



following the earlier to occur of the step-up date in relation to such loan tranche or a pass-through trigger event, a margin under or over one-month sterling LIBOR) and will be payable in monthly instalments).

To hedge its exposure against the possible variance between the foregoing interest rates, Funding will enter into the Funding basis rate swap agreement with the Funding basis rate swap provider on or about the programme date (see "*The swap agreements – The Funding basis rate swaps*").

If the Funding basis rate swap provider fails to make payments under the Funding basis rate swap agreement or if the Funding basis rate agreement otherwise terminates, Funding will be exposed to the variance between the rates of interest payable on the BTL loans and the various rate(s) of interest payable on the loan tranches. Unless a replacement swap is entered into, Funding may have insufficient funds to make payments due on the loan tranches, which may affect the funds the issuer will have available to make payments due on the notes of any class and any series.

#### **Swap termination payments may adversely affect the funds available to make payments on the notes**

If any of the issuer swap agreements terminate, the issuer may be obliged to pay a swap termination payment to the relevant issuer swap provider. If the Funding basis rate swap agreement terminates, Funding may be obliged to make a swap termination payment to the Funding basis rate swap provider. The amount of the applicable swap termination payment will be based on, *inter alia*, the cost of entering into a replacement swap.

Pursuant to the terms of the global intercompany loan agreement, Funding will be required to pay to the issuer the amount equal to any swap termination payment due to be paid by the issuer to the relevant issuer swap provider under an issuer swap agreement. Funding will also be obliged to pay the issuer any extra amounts (beyond that which is paid to the issuer by the relevant issuer swap provider) which the issuer may be required to pay to enter into a replacement swap.

No assurance can be given that Funding will have the funds available to make any swap termination payment under the Funding basis rate swap agreement or to make any payment to the issuer or that the issuer will have sufficient funds available to make any termination payment under any of the issuer swap agreements or to make subsequent payments to you in respect of the relevant series and class of notes. In addition, no assurance can be given that Funding or the issuer, as applicable, will be able to enter into a replacement swap or, if one is entered into, that the credit rating of the replacement swap provider (notwithstanding the terms of the programme documents) will be sufficiently high to prevent a reduction, qualification or withdrawal of the then current ratings of the notes by the rating agencies.

Except where termination of an issuer swap agreement occurs as a result of an issuer swap provider default, the obligation of the issuer to make any swap termination payment will rank equally with payments due on the applicable series and class of notes. Any additional amounts required to be paid by the issuer following termination of the relevant issuer swap agreement (including any extra costs incurred (for example, from entering into other hedging transactions) if the issuer cannot immediately enter into a replacement swap), will also rank equally with payments due on the notes.

Except where termination of the Funding basis rate swap agreement occurs as a result of a funding basis rate swap provider default, any swap termination payment due by Funding will rank in priority to payments due on the loan tranches. Any additional amounts required to be paid by Funding following termination of the Funding basis rate swap agreement (including any extra costs incurred (for example, from entering into other hedging transactions) if Funding cannot immediately enter into a replacement swap), will also rank in priority to payments due on the loan tranches under the global intercompany agreement.

If Funding is obliged to make a swap termination payment to the Funding basis rate swap provider or to pay any other additional amount as a result of the termination of the Funding basis rate swap agreement, this may affect the funds which Funding has to make payments due on the loan tranches under the global intercompany loan agreement and therefore may affect the funds which the issuer has available to make payments on the notes of any class and any series. In addition, if the issuer is obliged to make a swap termination payment to the relevant issuer swap provider or to pay any other additional amount as a result of the termination of an issuer swap agreement, this may affect the funds which the issuer has available to make payments on the notes of any class and any series.

**The issuer and Funding will both rely on third parties and you may be adversely affected if they fail to perform their obligations**

Each of the issuer and Funding will be party to contracts with a number of other third parties that have agreed to perform services in relation to the programme.

Pursuant to the servicing agreement, the cash management agreement, the bank account agreement, the Funding basis rate swap agreement and the corporate services agreement to which Funding is a party, the servicer, the cash manager, the account bank to Funding, the Funding basis rate swap provider and the corporate services provider to Funding, as applicable, have agreed to provide Funding with administration services, cash management services and account bank services, certain hedges against interest rate fluctuations and certain corporate services.

Pursuant to the issuer cash management agreement, the issuer bank account agreement, the issuer paying agent and agent bank agreement, the issuer swap agreements and the issuer corporate services agreement, the issuer cash manager, the issuer account bank, the paying agents and the agent bank, the issuer swap providers and the issuer corporate services provider, as applicable, will agree to provide the issuer with cash management, payment and calculation services in relation to the notes and account bank services, certain hedges against interest and currency rate fluctuations and certain corporate services.

You may be adversely affected if such third parties or any of their successors fail to perform their obligations under the respective agreements to which they are a party. In addition, you may be adversely affected if the appointment of a third party is terminated, and no replacement can be found.

**Excess revenue receipts available to Funding may not be sufficient to replenish principal that has been used to pay interest due on loan tranches, which may result in your notes not being repaid in full**

If, on any loan payment date, revenue receipts available to Funding will be insufficient to enable it to pay interest on the loan tranches to the issuer and its other expenses ranking in priority to interest due on loan tranches, then (other than in the case of a shortfall in revenue receipts available to pay interest on the Z loan tranches) it will be permitted to use principal receipts received by it from the mortgages trustee to make up that revenue shortfall.

As described in more detail under "*Credit structure - Use of Funding available principal receipts to pay Funding income deficiency*", if Funding uses principal receipts to repay interest on the loan tranches to the issuer and its other expenses ranking in priority to interest due on the loan tranches, there will be less principal available to repay the Z loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches, the AA loan tranches and the AAA loan tranches at which point an asset trigger event will occur. In such event, there will be a corresponding reduction in principal available to repay the class Z notes, then the class E notes, then the class D notes, then the class C notes, then the class B notes and finally the class A notes, at which point a note event of default will occur.

As described in more detail under "*Credit structure - Use of Funding available principal receipts to pay Funding income deficiency*", Funding will be obliged to keep a ledger that records, among other things, any principal applied to pay interest and senior expenses. Funding will initially use principal receipts that would have been applied to repay the Z loan tranches to pay interest on the loan tranches (other than the Z loan tranches) to the issuer and its other expenses ranking in priority to interest due on loan tranches. When the amount recorded on the Z principal deficiency sub-ledger is equal to the principal amount outstanding of the Z loan tranches, then Funding will use principal receipts that would have been applied to repay the BB loan tranches to pay those amounts. When the amount recorded on the BB principal deficiency sub-ledger is equal to the principal amount outstanding of the BB loan tranches, then Funding will use principal receipts that would have been applied to repay the BBB loan tranches to pay those amounts. When the amount recorded on the BBB principal deficiency sub-ledger exceeds the principal amount outstanding on the BBB loan tranches, Funding will use principal receipts that would have been applied to repay the A loan tranches to pay those amounts. When the amount recorded on the A principal deficiency sub-ledger exceeds the principal amount outstanding on the A loan tranches, Funding will use principal receipts that would have been applied to repay the AA loan tranches to pay those amounts. When the amount recorded on the AA principal deficiency sub-ledger exceeds the principal amount outstanding on the AA loan tranches, Funding will use principal receipts that would have been applied to repay the AAA loan tranches to pay those amounts.

If Funding uses principal to repay interest and senior expenses in this manner, there will be less principal available to repay the Z loan tranches, then the BB loan tranches, then the BBB loan tranches, then the A loan tranches, then the AA loan tranches and finally the AAA loan tranches, at which point an asset trigger event will occur. In such event, there will be a corresponding reduction in principal available to repay the class Z notes, then the class E notes, then the class D notes, then the class C notes, then the class B notes and finally the class A notes, at which point a note event of default may occur.

During the term of the transaction, however, it is expected that these principal deficiencies will be recouped from subsequent excess Funding available revenue receipts. Funding available revenue receipts will be applied first to cover any principal deficiency in respect of the AAA loan tranches, then the AA loan tranches, then the A loan tranches, then the BBB loan tranches, then the BB loan tranches, and finally the Z loan tranches. However, if subsequent excess Funding available revenue receipts are insufficient to recoup those principal deficiencies, this will affect the funds which the issuer has available to make payments on the notes of any class or series and as a consequence, one or more of the following may occur:

- the interest and other net income of the issuer may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the Z loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches and the AA loan tranches;
- there may be insufficient funds to repay the principal due and payable on any of the Z loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches, the AA loan tranches and the AAA loan tranches prior to their final repayment dates unless the other net income of Funding is sufficient, after making other prior ranking payments, to reduce any principal deficiency in respect of the Z loan tranches, the BB loan tranches, the BBB loan tranches, the A loan tranches, the AA loan tranches and the AAA loan tranches;
- if the amount of principal deficiencies exceeds the principal amount outstanding of any of the loan tranches (and the principal deficiencies cannot be covered by the other income of Funding), then the issuer may not receive the full principal amount of any or all of the loan tranches and, accordingly, you may not receive the full principal amount of the class Z notes, the class E notes, the class D notes, the class C notes, the class B notes and the class A notes, as the case may be; and/or
- the issuer may be unable to pay, in full or at all, interest due on the class Z notes, the class E notes, the class D notes, the class C notes, the class B notes and the class A notes, as the case may be.

Consequently, you may receive later than anticipated, or you may not receive in full, repayment of the principal amount outstanding on your notes.

For more information on principal deficiencies, see "*Credit structure – Funding principal deficiency ledger*".

#### **The seller share of the trust property will not provide credit enhancement for the notes**

Subject to certain exceptions as described under "*The mortgages trust – Adjustments to trust property*" and "*The mortgages trust – Losses*", any losses from BTL loans included in the trust property will be allocated to Funding and the seller on each distribution date in proportion to the then current Funding share percentage and the then current seller share percentage of the trust property.

The seller share of the trust property will not provide credit enhancement for the Funding share of the trust property. Losses on the BTL loans in the trust property will generally be allocated proportionately among the seller and Funding depending on their respective percentage shares (or, in certain circumstances, their weighted average percentage shares) of the trust property.

#### **The issuer will only have recourse to the seller if there is a breach of warranty by the seller, and otherwise the seller's assets will not be available to the issuer as a source of funds to make payments on the notes**

After the delivery by the Funding security trustee of a Funding enforcement notice to Funding (as described under "*Security for Funding's obligations*"), the Funding security trustee may sell Funding's

rights as a beneficiary under the mortgages trust. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the global intercompany loan agreement.

The issuer will not, and the mortgages trustee, Funding and the Funding security trustee will not, undertake any investigations, searches or other actions on any BTL loan or its related security and the issuer and each of them will rely instead on the warranties given in the mortgage sale agreement by the seller.

If any of the warranties made by the seller in relation to a BTL loan is untrue on the date on which such BTL loan is assigned to the mortgages trustee and such breach could have a material adverse effect on such BTL loan and/or its related security then, in the first instance, the seller will be required to remedy the error (if capable of remedy) within 28 days of the seller becoming aware of the same or of receipt by it of a notice from the mortgages trustee, Funding or the Funding security trustee.

If the error is not remedied by the seller or waived within such 28 day period or if the error is not capable of remedy, then the seller (at the direction of Funding) will be required to repurchase from the mortgages trustee (i) the relevant BTL loan and its related security and (ii) any other BTL loans in the relevant mortgage account and their related security that are in the trust property, in each case at their current balance as of the date of completion of such repurchase. There can be no assurance that the seller will have the financial resources to repurchase the BTL loan or BTL loans and their related security. However, if the seller does not repurchase those BTL loans and their related security when required, then the seller share of the trust property will be deemed to be reduced by an amount equal to the current balance of those BTL loans.

Other than as described here, none of the mortgages trustee, Funding, you, or the issuer will have any recourse to the assets of the seller in relation to a breach of warranty under the mortgage sale agreement.

The issuer will only have recourse to the seller if there is a breach of warranty by the seller, and otherwise the seller's assets will not be available to the issuer as a source of funds to make payments on the notes

Neither the mortgages trustee, Funding, you, nor the issuer will have any recourse to the assets of YBHL in relation to a breach of warranty under the mortgage sale agreement.

**The issuer's ability to pay interest on and/or redeem the notes on the interest payment dates, scheduled redemption dates or final maturity dates may be affected by a high rate of default on the BTL loans**

The amounts required to pay interest on and/or redeem the notes are generated substantially from payments of interest and principal pursuant to the BTL loans. Where defaults in payment of these occur, there is a risk that the payments made under the remaining BTL loans (where no default has occurred) may not be sufficient in order to pay interest on and/or redeem the notes on the interest payment dates or scheduled redemption dates, or at all.

The default by a borrower under a BTL loan in payment of interest and/or principal gives rise to the lender's rights to enforce its security (for example by selling the property) in order to repay the debt secured. There are, however, several requirements which would need to be complied with before proceeds could be realised from such security and be applied in or towards repayment of the relative BTL loan, including obtaining possession of the property (see further "*Risk Factors - The timing and amount of payments on the BTL loans could be affected by various factors which may adversely affect payments on the notes*") and a requirement to market the property for a reasonable period in order to ensure a proper price is obtained.

The combined effect of the above is that there may be several months between the date of any default occurring under any BTL loan and the time when the proceeds of the sale of the security for such BTL loan are available to repay such BTL loan. During this period there may be no payments made under the relevant BTL loan (thus increasing the amount of the arrears) and there may also be costs and expenses (for example maintenance costs, insurance premiums, and/or the costs of providing services and/or enforcing the security) relating to the property which would need to be discharged. There can be no assurance, at the end of such process, that such realisation proceeds would be sufficient to discharge

payments due in respect of the relevant BTL loan. The issuer's ability to make payments on the notes may therefore be reduced.

**There can be no assurance that a borrower will repay principal at the end of the term on an interest-only BTL loan (with or without a capital repayment vehicle)**

Each BTL loan that may be assignable to the mortgages trustee will have been advanced on one of the following bases:

- repayment basis, with principal and interest paid on a weekly, fortnightly or monthly basis through to the maturity date for that BTL loan (a "**repayment BTL loan**"); or
- interest-only basis with interest paid on a weekly, fortnightly or monthly basis through to the maturity date for that BTL loan on which date the entire principal amount of the BTL loan is due (with or without a capital repayment vehicle) (an "**interest-only BTL loan**").

Neither the interest-only BTL loans nor the interest-only portion of any combination BTL loan includes scheduled amortisation of principal. Instead the principal must be repaid by the borrower in a lump sum at maturity of the BTL loan.

For interest-only BTL loans with a capital repayment vehicle or a combination loan with a capital repayment vehicle the borrower is recommended to put in place an investment plan or other repayment mechanism forecast to provide sufficient funds to repay the principal due at the end of the term.

The ability of a borrower to repay the principal on an interest-only BTL loan or the final payment of principal on a combination BTL loan at maturity depends on such borrower's ability to refinance the property or to obtain sufficient funds from an investment plan or another source, such as ISAs, pension policies, personal equity plans or endowment policies. The ability of the Borrower to refinance the property will be affected by a number of factors, including the value of the property, the Borrower's equity in the property, the financial condition of the Borrower, tax laws and general economic conditions at the time. There can be no assurance that there will be sufficient funds from any investment plan to repay the principal or (in the case of a combination loan) the part of the principal that it is designed to cover.

The originators do not (and in certain circumstances cannot) take security over investment plans. Consequently, in the case of a borrower in poor financial condition, the investment plan will be an asset available to meet the claims of other creditors. The originators also recommend that the borrower takes out term life assurance cover in relation to the BTL loan, although the originators again do not take security over such policies.

In the case of interest-only BTL loans, there can be no assurance that the borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the BTL loan and a loss occurs on the BTL loan after enforcing the related security, then this may affect payments on the notes if that loss cannot be cured by the application of excess issuer available revenue receipts.

**There may be risks associated with the fact that the mortgages trustee has no legal title to the BTL loans and their related security which may adversely affect payments on the notes**

Each assignment by the seller to the mortgages trustee of the benefit of English and Welsh BTL loans and their related security (and each assignment by YBHL to the seller of the benefit of English and Welsh BTL loans and their related security to be assigned by the seller to the mortgages trustee) will take effect, in equity only. Each sale by the seller to the mortgages trustee of Scottish BTL loans and their related security (and each sale by YBHL to the seller of Scottish BTL loans and their related security to be sold by the seller to the mortgages trustee) will be given effect by a declaration of trust by the seller (or, in the case of any Scottish BTL loans originated by YBHL, by YBHL with the consent of the seller) by which the beneficial interest in such Scottish BTL loans and their related security will be transferred to the mortgages trustee. In each case this means that legal title to the BTL loans and their related security assigned to the mortgages trustee will remain with the relevant originator, but the mortgages trustee will have all the other rights and benefits relating to ownership of each BTL loan and its related security (which rights and benefits are subject to the trust in favour of the beneficiaries). The mortgages trustee will have the right to demand the seller to give it legal title to the BTL loans and the related security in the circumstances described under "*Assignment of the BTL loans and related security – Transfer of legal title*

to the mortgages trustee" and until then the mortgages trustee will not apply to the Land Registry or the Land Charges Registry to seek to protect its equitable interest in the English and Welsh mortgages, and cannot in any event apply to Registers of Scotland to register or record its beneficial interest in the Scottish mortgages. For more information on the Scottish BTL loans and their related security, see "*The BTL loans – Scottish BTL loans*" and "*Material legal aspects of the BTL loans and the related security – Scottish BTL loans*". In addition, except in the limited circumstances set out in "*Assignment of the BTL loans and related security – Transfer of legal title to the mortgages trustee*", the originators will not give notice of the assignment of the BTL loans and related security to any borrower.

At any time during which the mortgages trustee does not hold the legal title to the BTL loans and the related security or has not notified the borrowers of its interest in the BTL loans and the related security, there are risks, as follows:

- *firstly*, if the seller or YBHL, as applicable, wrongly sold to another person a BTL loan and that BTL loan has already been assigned to the mortgages trustee, and that person acted in good faith and did not have notice of the interests of the mortgages trustee or the beneficiaries in the BTL loan and that person notified the borrower of that sale to it of the BTL loan and its related security or registered its interest in that mortgage, then that person might obtain good title to the BTL loan, free from the interests of the mortgages trustee and the beneficiaries. If this occurred then the title of the mortgages trustee to the affected BTL loan and its related security would be subordinated to the title of that person and the mortgages trustee would not be entitled to payments by a borrower in respect of such a BTL loan. This may affect the ability of the issuer to repay the notes;
- *secondly*, the rights of the mortgages trustee and the beneficiaries may be subject to the rights of the borrowers against the seller or YBHL, as applicable, such as rights of set-off (and certain analogous rights in Scotland) (see in particular "*– There are risks in relation to flexible BTL loans which may adversely affect the funds available to pay the notes*") which occur in relation to transactions or deposits made between certain borrowers and the relevant originator and the rights of borrowers to repay their BTL loans directly to the relevant originator. If these rights were to be exercised, the mortgages trustee may receive less money than anticipated from the BTL loans, which may affect the ability of the issuer to repay the notes; and
- *finally*, the mortgages trustee would not be able to enforce any borrower's obligations under a BTL loan or mortgage itself but would have to join the seller and, in relation to the BTL loans originated by YBHL, YBHL, as a party to any legal proceedings.

However, once notice has been given to a borrower of the transfer of the related BTL loan and its related security to the mortgages trustee, any independent set-off rights which that borrower has against the seller or YBHL will crystallise; 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 BTL loan) will not be affected by that notice.

Additionally, if a borrower exercises any set-off rights (or any analogous rights in Scotland), then an amount equal to the amount set-off will firstly reduce the total amount of the seller share of the trust property only. For more information on the risks of transaction set-off, see "*– There are risks in relation to flexible BTL loans which may adversely affect the funds available to pay the notes*".

**There are risks in relation to flexible BTL loans which may adversely affect the funds available to pay the notes**

As described under "*– There may be risks associated with the fact that the mortgages trustee has no legal title to the BTL loans and their related security which may adversely affect payments on the notes*", the seller will make an equitable assignment of the relevant BTL loans and related security to the mortgages trustee (or, in the case of Scottish BTL loans and related security, will procure that the beneficial interest in the relevant Scottish BTL loans is transferred to the mortgages trustee pursuant to a Scottish declaration of trust), with legal title being retained by the seller or, in relation to the BTL loans originated by YBHL which are assigned to the mortgages trustee, YBHL). Therefore, the rights of the mortgages trustee may be subject to the direct rights of the borrowers against the seller or YBHL, as applicable, including rights of set-off existing prior to notification to the borrowers of the assignment of the BTL

loans and related security. Such set-off rights (including analogous rights in Scotland) may arise if the relevant originator fails to advance a cash re-draw to a borrower under a flexible BTL loan when the borrower is entitled to such cash re-draw

If an originator fails to advance a cash re-draw in accordance with a BTL loan, then the relevant borrower may argue that he is entitled to set-off any damages claim (or to exercise the analogous rights in Scotland) arising from the originator's breach of contract against the claim of the originator (and, as equitable assignee of or holder of the beneficial interest in the BTL loans and the mortgages, the mortgages trustee) for payment of principal and/or interest under the flexible BTL loan as and when it becomes due. Such set-off claims will constitute transaction set-off as described in the immediately preceding risk factor.

The amount of the claim in respect of a cash re-draw will, in many cases, be the cost to the borrower of finding an alternative source of funds. The borrower may obtain a BTL loan elsewhere in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the borrower is unable to obtain an alternative BTL loan, he or she may have a claim in respect of other losses arising from the originator's breach of contract where there are special circumstances communicated by the borrower to the originator at the time the borrower entered into the mortgage or which otherwise were reasonably foreseeable.

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

The exercise of set-off rights by borrowers would reduce the incoming cash flow to the mortgages trustee during such exercise. However, the amounts set-off will be applied firstly to reduce the seller share of the trust property only.

Further, there may be circumstances in which:

- a borrower may seek to argue that certain cash re-draws, flexible loan reserve advances and further advances are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 (the "CCA");
- a borrower may seek to argue that a loan is unenforceable under the UK Financial Services and Markets Act 2000 ("FSMA") or that there has been a breach of an FSA rule, and claim damages in respect thereof (see "*Failure to comply with the regulatory mortgage regime in the United Kingdom under the FSMA and other regulatory changes may render regulated mortgage contracts or other secured credit agreements unenforceable against the borrower and may ultimately adversely affect the ability of the issuer to make payments on your notes when due*" below); or
- certain cash re-draws, flexible loan reserve advances and further advances may rank behind security created by a borrower after the date upon which the borrower entered into its mortgage with the relevant originator.

The minimum seller share has been sized in an amount expected to cover these risks, although there is no assurance that it will. If the minimum seller share is not sufficient in this respect then there is a risk that you may not receive all amounts due on the notes or that payments may not be made when due.

If the seller fails to maintain specified short term and long term ratings set by the rating agencies (as to which, see "*The mortgages trust – The minimum seller share*"), the size of the minimum seller share will increase by specified amounts (depending on the extent of the failure) up to a maximum of 100 per cent. of the average cleared credit balance of all applicable accounts linked to offset BTL loans in respect of each applicable calendar month. The failure by the seller to maintain the required ratings may therefore increase the likelihood of the occurrence of a non-asset trigger event.

**If the servicer is removed, there is no guarantee that a substitute servicer would be found, which could delay collection of payments on the BTL loans and ultimately could adversely affect payments on the notes**

The seller will be appointed by the mortgages trustee and the beneficiaries as servicer to service the BTL loans. If the servicer breaches the terms of the servicing agreement, then the mortgages trustee or Funding (in each case, with the prior written consent of the Funding security trustee) or the Funding security trustee will be entitled to terminate the appointment of the servicer and Funding will be entitled to appoint a substitute servicer.

There can be no assurance that a substitute servicer would be found who would be willing and able to service the BTL loans on the terms of the servicing agreement. In particular, there can be no assurance that a substitute servicer would be willing to accept an appointment in consideration of the servicing fee, which will be calculated as, among other things, a fixed percentage of the Funding share of the trust property. If a substitute servicer were required at a time when the current principal balance of the BTL loans in the loan portfolio was relatively low, the amount of the servicing fee so calculated might be insufficient to obtain a substitute servicer. The servicing agreement will provide that the mortgages trustee and a potential substitute servicer (other than the seller) may agree a different servicing fee, which could be higher than the current fee. In addition, as described under "*Failure to comply with the regulatory mortgage regime in the United Kingdom under the FSMA and other regulatory changes may render regulated mortgage contracts or other secured credit agreements unenforceable against the borrower and may ultimately adversely affect the ability of the issuer to make payments on your notes when due*", any substitute servicer will be required to be authorised under the FSMA in order to administer BTL loans that constitute regulated mortgage contracts. The ability of a substitute servicer fully to perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the BTL loans and hence the ability of the issuer to make payments when due on the notes.

You should note that the servicer will have no obligation itself to advance payments that borrowers fail to make in a timely fashion.

**The mortgages trustee may not receive the benefit of claims made on the buildings insurance which could adversely affect payments on the notes**

The current practice of the originators in relation to buildings insurance is described under "*The BTL loans – Buildings insurance policies*". No assurance can be given that the mortgages trustee is entitled to or will receive the benefit of any claims made under any applicable insurance contracts or that the amount paid by an insurer in the case of a successful claim will be sufficient to reinstate the affected property. This could reduce the share of the principal receipts received by Funding according to the Funding share and could adversely affect the ability of the issuer to make payments on the notes. You should note that buildings insurance is normally renewed annually. As the originators do not verify if buildings insurance has been taken out by a borrower, the seller cannot be certain that a borrower has taken out or maintained building insurance or that any such cover would be sufficient to cover any loss. Amounts paid under the buildings insurance are generally utilised to fund the reinstatement of the property and, only on very rare occasions, are paid to the relevant originator to reduce the amount of the BTL loan(s). In the latter circumstance, all insurance cover will be removed but no assurance can be given that this will be the case.

**Failure to comply with the regulatory mortgage regime**

The Financial Services and Markets Act 2000 ("FSMA") regulates financial services in the United Kingdom. The FSMA states that no person may carry on a regulated activity in the United Kingdom, or purport to do so, unless he is an authorised person or an exempt person. Regulation of residential mortgage business by the FSA came into force on 31 October 2004 (the date known as N(m) "**N(m)**").

The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**Regulated Activities Order**") provides that after N(m) the following four activities will be regulated activities under the FSMA: (a) entering into as lender, (b) in certain circumstances administering, (c) arranging, and (d) advising on a regulated mortgage contract. Agreeing to carry on any of these activities will also be a regulated activity.



A contract is a "**regulated mortgage contract**" for the purposes of the Regulated Activities Order if it is originated after N(m), or if originated prior to N(m) but varied after N(m) such that a new contract is entered into, and at the time it is entered into, (i) the contract is one under which the lender provides credit to an individual or to trustees, (ii) the contract provides for the repayment obligation of the borrower to be secured by a first legal mortgage or charge (or, in Scotland, first ranking standard security) on land (other than timeshare accommodation) in the United Kingdom and (iii) 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. Based on this definition, BTL loans, where the relevant property is not to be used, and is not 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 the beneficiary of the trust or by a related person, should not be regulated mortgage contracts for these purposes. The loan portfolio does not contain any regulated mortgage contracts.

### **Proposed changes to United Kingdom mortgage regulation**

In November 2009, the UK Government launched a consultation on mortgage regulation, which sets out proposals to extend the scope of FSA regulation to include buy-to-let mortgages among certain other proposed changes to the mortgage regulatory framework. The consultation followed the announcements on mortgage regulation made in the July 2009 "Reforming financial markets" consultation paper, which set out the Government's proposals for reform of the financial system.

A follow-up paper, "Mortgage regulation: summary of responses", was published by the Treasury in March 2010. On 26 January 2011, the Treasury announced revised proposals on the sale of mortgage books which suggested that it had decided not to proceed with the regulation of buy-to-let mortgages, as originally outlined in the November 2009 consultation. However, until the Statutory Instruments introducing the Treasury's proposals are published, a degree of uncertainty is likely to remain regarding the regulation of buy-to-let mortgages. The Statutory Instruments are expected to be published during the course of 2011.

### **Consumer Credit Act**

Certain mortgage loans may be regulated credit agreements within the meaning of the Consumer Credit Act 1974 ("**CCA**"). Regulated credit agreements secured on land are unenforceable without a court order. Non-compliance with certain provisions of the CCA may render a regulated credit agreement totally unenforceable.

However, in general, "buy-to-let" properties relating to credit agreements entered into on or after 31 October 2008 are typically treated as being exempt from the CCA. This is due to the enactment of the Legislative Reform (Consumer Credit) Order 2008 ("**LRO**") that came into force on 31 October 2008. Article 3 of the LRO inserted a new section 16C into the CCA, which exempts investment properties (i.e. buy-to-let properties) from CCA regulation. This exemption applies to properties for which at the time the agreement is entered into any sums due under it are secured by a land mortgage and where less than 40 per cent. of the land is used, or is intended to be used, as or in connection with a dwelling by the borrower or a person connected to the borrower (including beneficiaries of a trust). BTL loans relating to credit agreements entered into on or after 31 October 2008 which satisfy the conditions set out under CCA section 16(C) are likely to be treated as CCA-exempt but there is a risk if such conditions are not satisfied that such BTL loans will be treated as regulated credit agreements under the CCA, in which case, the changes to the CCA in relation to a BTL loan in the loan portfolio may adversely affect the ability of the issuer to make payments in full on the notes when due.

### **Consumer Credit Legislation**

Royal Assent was given on 30 March 2006 to the Consumer Credit Act 2006 (the "**CCA 2006**"), which amended parts of the CCA. The CCA 2006 contains a number of provisions which may affect the BTL loans. In particular the CCA 2006 contains a power for a court to alter the terms of a credit agreement where it considers that the relationship between the creditor and the debtor arising out of the agreement is "unfair" because of one or more of the following:

- (a) any of the terms of the agreement or of any related agreement;

- (b) the way in which the creditor exercised or enforced any of his rights under the agreement or any related agreement; and
- (c) any other thing done (or not done) by, or on behalf of, the creditor (either before or after the making of the agreement or any related agreement).

In this context "credit agreement" includes all agreements which would otherwise be exempt under Section 16 of the CCA (other than regulated mortgage contracts under the terms of the FSMA regime). The provisions have the scope to be applied with full retrospective effect. An order made by the court where a creditor-debtor relationship is found to be "unfair" may, among other things, order a creditor to repay sums already paid by the debtor, reduce the amount of future payments or otherwise alter the terms of the credit or related agreement. The sections relating to the "unfair relationship test" came into force on 6 April 2007. Credit agreements entered into after 6 April 2007 will be subject to the unfair relationship test. Credit agreements which were entered into prior to 6 April 2007 and which will continue in force after 6 April 2008 were subject to the extortionate credit bargain test until 6 April 2007. Thereafter, such credit agreements became subject to the unfair relationship test. Credit agreements which were in force prior to 6 April 2007 and which expired prior to 6 April 2008 continued to be subject to the extortionate credit bargain test.

### **EU proposal for a directive on credit agreements relating to residential property may adversely affect the loans and payments on the notes as and when implemented**

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers. The proposal does not appear to distinguish the status of buy-to-let loans made to individual borrowers from residential mortgages. The proposed directive applies to: (a) credit agreements secured by a mortgage or comparable security commonly used in a Member State on residential immovable property, or secured by a right relating to residential immovable property; (b) credit agreements the purpose of which is to purchase or retain rights in land or in an existing or proposed residential building; and (c) credit agreements the purpose of which is to renovate residential immovable property and which are outside the Consumer Credit Directive (Directive 2008/48/EC). The proposed directive does not apply to credit agreements to be repaid from the sale proceeds of an immovable property, or to certain credit granted by an employer to its employees.

The proposed directive requires (among other things): standard information in advertising; standard pre-contractual information; adequate explanations to the borrower on the proposed credit agreement and any ancillary service; calculation of the annual percentage rate of charge in accordance with a prescribed formula; assessment of creditworthiness of the borrower; and a right of the borrower to make early repayment of the credit agreement. The proposed directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

Until the proposed directive is considered and adopted by the European Parliament and the Council, and implemented into UK law, it is not possible to tell what effect the directive and the implementation of the directive into UK law would have on the seller, the mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the notes when due.

### **Regulations in the United Kingdom could lead to some terms of the agreements relating to the BTL loans being unenforceable, which may adversely affect payments on your notes**

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1994 applied to all of the BTL loans that were entered into between 1 July, 1995 and 30 September, 1999. These regulations were revoked and replaced by the Unfair Terms in Consumer Contracts Regulations 1999 ("UTCCR") on 1 October, 1999, which apply to all the BTL loans as of that date. The UTCCR generally provide that:

- a borrower may challenge a term in an agreement on the basis that it is an "unfair" term within the regulations and therefore not binding on the borrower (although the agreement itself continues to bind the parties if it is capable of continuing in existence without the unfair term); and
- the OFT and any "qualifying body" (as defined in the regulations, such as the FSA) may seek to prevent a business from relying on unfair terms.

The division of responsibilities between the OFT and the FSA for enforcing the UTCCR is set out in concordats made between them, most recently in November 2009. Generally, the FSA is responsible for enforcement of the UTCCR in relation to regulated mortgage contracts and the OFT is responsible for enforcement of the UTCCR in relation to other mortgage contracts.

Under the UTCCR a term will not be assessed for fairness on grounds generally relating to the definition of the main subject matter of the contract or the adequacy of the price or remuneration under the contract. A term could, however, be assessed for fairness on any other relevant ground, such as the right of the lender to vary the interest rate. For example, if a term permitting a lender to vary the interest rate is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that she or he has paid it, will be able, as against the lender or the mortgages trustee, to claim repayment of the extra interest amounts paid or to set-off the amount of such claim against the amount owing by the borrower under the BTL loan. Any such non-recovery, claim or set-off ultimately may adversely affect the ability of the issuer to make payments on the notes such that the payments on your notes could be reduced or delayed.

On 24 February, 2000, the OFT issued a guidance note on what the OFT considered to be fair and unfair terms for interest variation in BTL loan contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be regarded as unfair under the UTCCR unless the lender (i) notifies the borrower in writing at least 30 days before the rate change and (ii) permits the borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The guidance note has been withdrawn from the OFT website, but may constitute a factor which the OFT and FSA may take into account when considering interest variation terms in standard form agreements.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, with specific reference to the fairness of variation clauses. The statement is addressed to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. Although that statement is not, of itself, enforceable against the firm, the FSA will have regard to it in exercising its powers under the UTCCR. The statement provides, amongst other things, the FSA's views on the factors to be considered when assessing the fairness of variation clauses, particularly where such variation clauses are applied to contracts with locked-in borrowers. These factors include whether there is some connection between interest rates which apply to locked-in borrowers and those which apply to non-locked in borrowers and whether the borrower must be given advance notice of the change. Additionally, the FSA states that firms may consider drafting contracts so as to permit variations to be made only when any lock-in clause has not been exercised.

It should be noted that in January 2007, the FSA also issued a Statement of Good Practice on mortgage exit administration fees ("MEAF"), which sets out how the FSA believes that lenders should draft MEAFs and MEAF variation terms and how to apply them fairly in practice. 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 applicable, firms should consider applying its principles to other charges. In August 2007, the FSA's Unfair Contract Terms Regulatory Guide came in to force. The guide is designed to explain the FSA's policy on how it will use its powers under the 1999 Regulations.

The FSA's MCoB requires that, for regulated mortgage contracts: (i) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears and (ii) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance.

In the context of the OFT's investigation into credit card default charges, the OFT on 5 April, 2006 announced that the principles the OFT considers should be applied in assessing the fairness of credit card default charges should (or are likely to) apply to analogous default charges in other agreements, including those for mortgages.

The OFT has stated that where credit card default charges are set at more than £12, the OFT will presume that they are unfair, and it is likely to challenge the charge unless there are limited, exceptional business factors in play. A default charge should only be used to recover certain limited administrative costs.

These may include postage, stationery and staff costs, and also a proportionate share of the costs of maintaining premises and IT systems necessary to deal with defaults.

It is not certain what effect the OFT's statement will have on residential mortgage lending. However, in the event that these principles are applied to the BTL loans, it is possible that the arrears charges arising under a BTL loan may be considered unfair to the extent that they have the effect of raising more in revenue than is reasonably expected to be necessary to recover the administrative costs incurred as a result of a borrower default.

The guidance issued by the FSA and OFT has changed over time and it is possible that it may change in the future. 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 or may be made to borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of such loans. No assurance can be given that changes in the UTCCR or any changes to guidance on interest variation terms, in the future would not have a material adverse effect on the seller, the servicer, the issuer, the mortgages trustee, Funding and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the notes when due.

#### **UK implementation of the Unfair Commercial Practices Directive 2005 may have a material adverse effect on the loans and accordingly on the ability of the issuing entity to make payments to the holders of the notes**

On 11 May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) regarding unfair business-to-consumer commercial practices (the "**Unfair Practices Directive**"). Generally, this Directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this Directive permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as BTL loans.

The Unfair Practices Directive provides that enforcement bodies may take administrative action or legal proceedings against a commercial practice on the basis that it is "*unfair*" within this Directive. The Unfair Practices Directive is intended to protect only collective interests of consumers, and so is not intended to give any claim, defence or right to set-off to an individual consumer.

The Unfair Practices Directive has been implemented in the UK through the Consumer Protection from Unfair Trading Regulations (the "**CPUTR**"), which came into force on 26 May 2008. In addition, the FSA has taken the Unfair Practices Directive into account in reviewing its relevant rules, such as MCOB and the OFT addresses commercial practices in administering licences under the CCA. For example, as of 25 June 2010 the FSA's MCOB (formerly these were matters of non-binding guidance) prevents the lender from: (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 conversion to interest-only for a period, or a product switch, and (b) automatically capitalising a payment shortfall. The CPUTR prohibits certain practices which are deemed "*unfair*" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in unrecoverable losses on amounts to which such agreements apply. The Unfair Practices Directive provides a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

No assurance can be given that the United Kingdom's implementation of the Unfair Practices Directive, including full harmonisation in the fields to which it applies, will not have a material adverse effect on the loans and accordingly on the liability of the issuer to make payments to the holders of the notes.

#### **Home Owner and Tenant Protection**

Home Owner and Debtor Protection (Scotland) Act 2010 (the **Home Owner and Debtor Protection Act**), came into effect on 30 September 2010 and contains provisions imposing additional requirements

on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property in Scotland. The Home Owner and Debtor Protection Act amends the provisions of the Conveyancing and Feudal Reform (Scotland) Act 1970 and Mortgage Rights (Scotland) Act 2001 which permitted a heritable creditor to proceed to sell the secured property where the notice period specified in a calling up notice or notice of default served in respect of the relevant standard security had expired without challenge (or where a challenge had been made, for example, under the Mortgage Rights (Scotland) Act 2001, but not upheld). Under the Home Owner and Debtor Protection Act the heritable creditor requires a court order to exercise its power of sale, unless the borrower has surrendered the property voluntarily. The practical effect of the Home Owner and Debtor Protection Act is that the ability of the relevant originator as heritable creditor in respect of any Scottish mortgage to exercise its power of sale may be restricted and this may affect the issuer's ability to make payments to the noteholders.

The Mortgage Repossession (Protection of Tenants etc) Act 2010 came into force on 1 October 2010. The Act gives courts in England and Wales the same power to postpone and suspend repossession for up to two months on application by an unauthorised tenant (i.e. a tenant in possession without the lender's consent) as generally exists on application by an authorised tenant. The lender has to serve notice at the property before enforcing a possession order.

These Acts 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 may adversely affect the ability of the issuer to repay the notes.

**Decisions of the Ombudsman could lead to some terms of the loans being varied, which may adversely affect payments on your notes**

Under the FSMA, the Financial Ombudsman Service (the "**Ombudsman**") is required to make decisions on (among other things) complaints relating to the terms in agreements under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account (among other things) law and guidance. Complaints brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman. The Ombudsman may make a money award to a borrower, which may adversely affect the value at which BTL loans could be realised and accordingly the ability of the issuer to make payments in full when due on the notes.

**Potential effects on 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 originators' particular sector in the market or specifically in relation to the originators. Any such action or developments, in particular, but not limited to, the cost of compliance, may have a material adverse effect on the originators, the mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full when due on the notes.

**The mortgages trustee's entitlement to be indemnified for liabilities undertaken during the enforcement process may adversely affect the funds available to Funding to pay amounts due under the global intercompany loan, which may in turn adversely affect the funds available to pay the notes**

In order to enforce a power of sale in respect of a mortgaged property, the terms and conditions of the BTL loans (other than the Scottish BTL loans) provide that the relevant mortgagee must first obtain a possession order, which 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. However, where the borrower consents to the sale of the property with the current tenant still in occupation, a possession order may not need to be sought. The mortgages trustee is entitled to be indemnified to its satisfaction against personal liabilities which it could incur if it were to become a mortgagee in possession before it is obliged to seek possession, provided that it is always understood that the Funding security trustee is never obliged to enter into possession of the mortgaged property. For more information on the enforcement of Scottish mortgages, see "*Material legal aspects of the BTL loans and the related security – Scottish BTL loans*".

## **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**EU Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State or certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria may instead apply a rate of withholding system in relation to such payments, deducting tax at 35% from 1st July 2011. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-European Union countries to the exchange of information relating to such payments.

A number of non-European Union countries and certain dependent and associated territories 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.

If a payment were to be made or collected through a Member State which has opted for a withholding system, or through another country that has adopted similar measures, and an amount of, or in respect of, tax were to be withheld from that payment, neither the issuer nor any paying agent nor any other person would be obliged to pay additional amounts with respect to any notes as a result of the imposition of such withholding tax. However, the issuer will endeavour to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive (if there is any such Member State).

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

For additional disclosure in relation to Jersey, see "*Material Jersey tax considerations*" below.

## **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 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). Each of the issuer and Funding expects to be taxed in accordance with the TSC Regulations.

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.

Investors should note, however, that the TSC Regulations are in short form and that, when considering the scope and operation of the TSC Regulations, advisers are expected to rely to a significant extent upon guidance from the UK tax authorities.

Prospective noteholders should note that if the issuer and Funding were not taxed under the regime provided for by TSC Regulations, then their profits or losses for tax purposes might be different from their cash position. Any unforeseen taxable profits in Funding could have an adverse affect on its ability to make payments to the issuer under the global intercompany loan agreement and, equally, any unforeseen taxable profits in the issuer could have an adverse affect on its ability to make payments to noteholders.

**Withholding tax payable by Funding or the issuer may adversely affect the ability of the issuer to make payments on the notes**

In the event any withholding or deduction for or on account of taxes is imposed on or is otherwise applicable to payments of interest on or repayments of principal of the notes or the loan tranches, Funding will not be obliged to gross-up or otherwise compensate the issuer for the lesser amount the issuer will receive and the issuer will not be obliged to gross-up or otherwise compensate you for the lesser amounts you will receive, in each case, as a result of such withholding or deduction. The issuer may, in certain circumstances, redeem the notes (as described in Condition 5(E) of the notes).

**Recently enacted US legislation may impose a 30% withholding tax on the issuer and on payments to noteholders in respect of the notes.**

The Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act ("FATCA") generally impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to certain non-US financial institutions (including entities such as the issuer) that do not enter into and comply with an agreement with the US Internal Revenue Service ("IRS") to provide certain information about the holders of its debt or equity (other than debt or equity interests that are regularly traded on an established securities market). The new withholding regime will be phased in beginning in 2014.

The IRS has not yet provided comprehensive guidance regarding FATCA and no assurance can be provided that the issuer will enter into such an agreement with the IRS. If the issuer determines that it must comply with FATCA in order to receive certain payments free of US withholding tax, noteholders may be required to provide certain information. If a noteholder does not provide the required information, or in the case of a noteholder that is non-US financial institution, does not enter into such an agreement with the IRS, a portion of the payments made in respect of the notes may be subject to 30% withholding.

Prospective investors should consult their advisors about the application of FATCA.

**If the United Kingdom joins the European Monetary Union prior to the maturity of the notes, no assurance can be given that this would not adversely affect payments on your notes**

It is possible that prior to the maturity of the notes the United Kingdom may become a participating member state in the European economic and monetary union and the euro may become the lawful currency of the United Kingdom (although the UK on government has recently ruled out preparing for joining the euro for the duration of its coalition agreement as published in full on 20 May 2010). In that event, (a) all amounts payable in respect of any notes denominated in sterling will become payable in euro; (b) applicable provisions of law may allow or require the issuer to re-denominate such notes into euro and take additional measures in respect of such notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in sterling used to determine the rates of interest on such notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a borrower's ability to repay its loan as well as adversely affect investors. It cannot be said with certainty what effect, if any, adoption of the euro by the United Kingdom will have on investors in the notes.

**Your interests may be adversely affected by a change of law and/or of regulatory, accounting or administrative practices**

The structure of the issue of the notes and the ratings which are to be assigned to them are based on English law, Scottish law, Jersey law, US federal tax law and New York law, regulation, accounting and administrative practice in effect as at the date of this base prospectus and having due regard to the expected tax treatment of all relevant entities under UK tax law and HM Revenue and Customs published practice (including the guidance published by HM Revenue and Customs in the Corporate Finance Manual on securitisations) in force or applied in the United Kingdom at the date of this base prospectus. No assurance can be given as to the impact of any possible change to English law, Scottish law, Jersey law, US federal tax law or New York law, regulation, accounting or administrative practice or UK tax law, or the interpretation or administration thereof, or to the published practice of HM Revenue and Customs as applied in the United Kingdom after the date of this base prospectus, nor can any assurance

be given as to whether any such change could adversely affect the ability of the issuer to make payments in respect of the notes.

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

Unless and until the note certificates representing the notes in global form (the "**global note certificates**") are exchanged for note certificates representing notes in definitive form ("**individual note certificates**" and, together with the global note certificates, the "**note certificates**"), which will only occur under a limited set of circumstances, your beneficial ownership of the notes will only be registered in book-entry form with DTC, Euroclear or Clearstream, Luxembourg. This means that person acquiring notes will not be the legal owners or holders of such notes but will have rights in their capacity as participants in accordance with the rules and procedures of the either DTC, Euroclear, or Clearstream, Luxembourg (as the case may be) and, in the case of indirect participants, their agreements with direct participants (such rights, "**book-entry interests**"). After payment to the common depository or, as applicable, common safekeeper (or, in either case, the nominee in whose name the relevant notes are registered) and the custodian, the issuer will have no responsibility or liability for the payment of interest, principal or other amounts to DTC, Euroclear, Clearstream, Luxembourg, the custodian, the common depository or, as applicable, the common safekeeper or to holders of book-entry interests. Either a nominee of the common depository or, as applicable, common safekeeper for Euroclear and Clearstream, Luxembourg or Cede & Co. as nominee of DTC will be the registered holder and legal owner of such notes for so long as such notes are represented by a global note certificates. Accordingly, each person owning a book-entry interest must rely on the relevant procedures of the common depository or, as applicable, the common safekeeper, the custodian, Euroclear, Clearstream, Luxembourg and DTC and, if such person is an indirect participant in such entities, on the procedures of the direct participant through which such person holds its interest, to exercise any rights of noteholders under the issuer trust deed.

So long as the notes are in global form, payments of principal and interest on, and other amounts due in respect of, the notes will be made to the nominee of the common depository or, as applicable, common safekeeper for Euroclear and Clearstream, Luxembourg and to Cede & Co as nominee of DTC. Upon receipt of any payment, Euroclear, Clearstream, Luxembourg and DTC will promptly credit direct participants' accounts with payments in amounts proportionate to their respective ownership of book-entry interests, as shown on their records. The issuer expects that payments by direct participants or indirect 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 direct participants or indirect participants. None of the issuer, the note trustee, the custodian, 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 holders of individual note certificates, holders of the book-entry interests will not have direct rights under the issuer trust deed to act upon solicitations of 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, Clearstream, Luxembourg or DTC (as the case may be) and, if applicable, direct 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 a note event of default, holders of book-entry interests will be restricted to acting through the Euroclear, Clearstream, Luxembourg, DTC or the Custodian (as the case may be) unless and until individual note certificates are issued. There can be no assurance that the procedures to be implemented by Euroclear, Clearstream, Luxembourg, DTC and the custodian under such circumstances will be adequate to ensure the timely exercise of remedies under the issuer trust deed.

In addition, the lack of physical notes could, among other things:

- result in payment delays on the notes because the issuer will be sending distributions on the notes to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) instead of directly to you;
- make it difficult for you to pledge or otherwise grant security over the notes if physical notes are required by the party demanding the pledge or other security; and



- hinder your ability to resell the notes because some investors may be unwilling or unable to buy notes that are not in physical form.

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

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

**English law security and insolvency considerations**

Under the issuer deed of charge, the issuer will create the issuer security in respect of certain of its obligations, including its obligations under the notes (as to which, see "*Security for the issuer's obligations*"). Similarly, under the Funding deed of charge, Funding will create the Funding security in respect of certain of its obligations, including its obligations under the global intercompany loan agreement (as to which, see "*Security for Funding's obligations*"). In certain circumstances, including the occurrence of certain insolvency events in respect of the issuer or Funding, as applicable, the ability to realise the issuer security or the Funding security, as applicable, may be delayed and/or the value of the relevant security impaired. While the transaction structure is designed to minimise the likelihood of the insolvency events occurring in respect of the issuer or Funding, there can be no assurance that the issuer or Funding 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).

**Recent English insolvency and U.S. bankruptcy court rulings may restrain parties from making or receiving payments in accordance with the order of priority agreed between them**

The validity of contractual provisions, such as those contemplated in the programme documents relating to the priority of payments, that subordinate certain payment rights of a party upon its insolvency, has been challenged in the English and U.S. courts in the context of the insolvency of a secured creditor (in that case a swap counterparty). In the English proceedings, it was argued that the provisions in question breached the "anti-deprivation rule" which prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that a provision subordinating a secured creditor to noteholders upon that secured creditor's insolvency, effectively deprives that secured creditors' own creditors. *The Supreme Court of the United Kingdom in Belmont Park Investments PTY Limited (Respondent) v BNY Corporate Trustee Services Limited and Lehman Brothers Special Financing Inc* [2011] UKSC 38 unanimously upheld the decision of the Court of Appeal in dismissing this argument and upholding the validity of provisions similar to those contemplated in this transaction, stating that, provided that such provisions form part of a commercial transaction entered into in good faith which does not have, as its predominant purpose or one of its main purposes, the deprivation of the property of one of the parties on bankruptcy, 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 motion for summary judgment to the effect that the relevant provisions did infringe U.S. bankruptcy law. Judge Peck ruled that the provisions offended the so-called "ipso facto" rule under US bankruptcy law, the effect of which is broadly similar to the anti-deprivation rule under English law. In doing so, Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgment of the English Courts". In New York, whilst leave to appeal was granted, the case was settled before an appeal was heard. Therefore concerns still remain that the position in the U.S. will diverge from that in England which, in the case of an unfavourable decision in New York, may adversely affect noteholders' ability to make recoveries under the notes. There remains the issue whether in respect of foreign insolvency proceedings relating to a creditor located in a foreign jurisdiction, an English court will exercise its discretion to recognise the effects of the foreign insolvency proceedings, whether under the Cross Border Insolvency Regulations 2006 or any similar common law principles. Given the decision of Judge Peck in the U.S. Bankruptcy Court for the Southern District of New York, this is likely to be an area of continued judicial focus in respect of multi-jurisdictional insolvencies.

**Provisions of the Insolvency Act 1986 could delay enforcement of your rights in the event of the insolvency of the issuer or the insolvency of Funding**

The Insolvency Act 2000 amended the Insolvency Act 1986 to provide that certain "small" companies (which are defined by reference to certain tests relating to a company's balance sheet, turnover and number of employees) will be able to seek protection from their creditors for a period of up to 28 days with the option for creditors to extend the moratorium for a further two months. The position as to whether or not a company is a "small" company may change from period to period and consequently no assurance can be given that the issuer or Funding will, at any given time, be determined to be a "small" company. The Secretary of State for Business, Enterprise and Regulatory Reform may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of noteholders.

However, the Insolvency Act 1986 Schedule A1 provides for an exception to the "small" companies moratorium provisions if the company is party to an arrangement which is or forms part of a capital market arrangement under which (i) a party has incurred, or when the arrangement was entered into was expected to incur, a debt of at least £10 million under the arrangement and (ii) the arrangement involves the issue of a capital market investment. It is believed that the issuer will fall within this exception and that the moratorium provisions will not apply to the issuer. However, it is assumed that the exception will not cover Funding and there is therefore a risk that it may be the subject of a "small" companies moratorium under the Insolvency Act 1986. It should be borne in mind that the moratorium merely delays the enforcement of security whilst the moratorium is in effect (a maximum of three months), it does not void or in any way negate the security itself.

### **Liquidation expenses**

On 6 April 2008, a provision in the Insolvency Act 1986 came into force which effectively reversed by statute the House of Lords' decision in the case of *Leyland Daf* in 2004. Accordingly, it is now the case that the costs and expenses of a liquidation (including certain tax charges) 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 approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to provisions set out in the Insolvency Rules 1986. In general, the reversal of the *Leyland Daf* case applies in respect of all liquidations commenced on or after 6 April 2008. As a result of the changes described above, upon the enforcement of the floating charge security to be granted by the issuer and/or Funding, respectively, floating charge realisations which would otherwise be available to satisfy the claims of secured creditors under the issuer deed of charge or the Funding deed of charge, as the case may be, will be reduced by at least a significant proportion of any liquidation expenses. There can be no assurance that the noteholders will not be adversely affected by such a reduction in floating charge realisations.

### **Fixed charges may take effect under English law as floating charges**

Pursuant to the terms of the issuer deed of charge, the issuer will purport to grant fixed charges over, amongst other things, its rights and benefits in the issuer bank accounts and all authorised investments purchased from time to time. Pursuant to the terms of the Funding deed of charge, Funding will purport to grant fixed charges over its interests in the mortgages trust and its rights and benefits in the Funding bank accounts and all authorised investments purchased from time to time.

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 or Funding may take effect under English law as floating charges only, if, for example, it is determined that the issuer security trustee or, as the case may be, the Funding security trustee does not exert sufficient control over the charged property for the security to be said to constitute fixed charges. If the charges take effect as floating charges instead of fixed charges, then, ordinarily as a matter of law, certain claims would have priority over the claims of the issuer security trustee or, as the case may be, the Funding security trustee in respect of the floating charge assets.

### **Ring-fencing of certain floating charge realisations**

To the extent that any of the assets of the issuer or Funding are subject only to a floating charge (including any fixed charge recharacterised by the courts as a floating charge), in certain circumstances under the provisions of section 176A of the Insolvency Act 1986, certain floating charge realisations up to a statutory maximum, currently £600,000 per entity which would otherwise be available to satisfy the claims of secured creditors may be used to satisfy claims of unsecured creditors. While certain of the

covenants given by the issuer and Funding in the transaction documents are intended to ensure it has no significant creditors other than the issuer secured creditors or Funding secured creditors under the issuer deed of charge and Funding deed of charge respectively, it will be a matter of fact as to whether the issuer or Funding has any other such creditors at any time. There can be no assurance that the noteholders will not be adversely affected by such a reduction in floating charge realisations upon the enforcement of the issuer security or Funding security.

#### **Implementation of and/or changes to the Basel II risk-weighted asset framework may result in changes to the risk-weighting of the notes**

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

It should also be noted that the Basel Committee has approved significant changes to the Basel II Framework (such changes being commonly referred to as "**Basel III**"), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding and liquidity (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and the European Commission's corresponding proposals comprising a draft regulation and a draft directive to implement the changes (through amendments to the Capital Requirements Directive known as "**CRD IV**") were published on 20 July 2011. The Commission intends that the proposed regulation and directive come into force on 1 January 2013, with full implementation by 1 January 2019. The changes approved by the Basel Committee may have an impact on incentives to hold the notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the notes.

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

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a large number of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the notes are responsible for analysing their own regulatory position and none of the issuer, the arranger, the managers or the seller makes any representation to any prospective investor or purchaser of the notes regarding the regulatory capital treatment of their investment in the notes on the relevant closing date or at any time in the future.

In particular, investors should be aware of Article 122a of the Capital Requirements Directive (and any implementing rules in relation to a relevant jurisdiction) which applies, in general, to newly issued asset-backed securities after 31 December 2010, and to asset-backed securities issued on or before that date from the beginning of 2015 to the extent that new underlying exposures are added or substituted after 31 December 2014. Article 122a restricts an EU regulated credit institution and consolidated group affiliates thereof (each, an "**Affected Investor**") from investing in asset-backed securities unless the originator, sponsor or original lender in respect of the securitisation has explicitly disclosed to the Affected Investor that it will retain, on an ongoing basis, a net economic interest of not less than 5 per cent. in that securitisation as contemplated by Article 122a. Article 122a also requires an Affected Investor to be able

to demonstrate that it has undertaken certain due diligence in respect of the notes it has acquired and the underlying exposures and that procedures have been established for such due diligence to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122a may result in the imposition of a penal capital charge with respect to the investment made in the securitisation by the relevant Affected Investor.

As the seller may, from time to time (including after 31 December 2014), sell BTL loans and their related security to the mortgages trustee pursuant to the terms of the mortgage sale agreement, Article 122a may apply in respect of the notes from 1 January 2015. Investors should, therefore, make themselves aware of the requirements of Article 122a, where applicable to them, in addition to any other regulatory requirements applicable to them with respect to their investment in the notes. There remains considerable uncertainty with respect to Article 122a and it is not clear what is required to demonstrate compliance to national regulators. It should be noted that EEA states may implement Article 122a (and related provisions) differently. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non-compliance with Article 122a and any implementing rules in a relevant jurisdiction should seek guidance from their regulator. Similar requirements to those set out in Article 122a are expected to be implemented for other EU regulated investors (such as investment firms, insurance and reinsurance undertakings, UCITS funds and certain hedge fund managers) in the future.

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

### **UK Banking Act 2009**

The Banking Act 2009 (the "**Banking Act**"), which came into effect on 21 February 2009, includes (amongst other things) provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society (such as the seller, the basis rate swap provider, the account bank, etc).

In particular, in respect of UK banks, such tools include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and two new special insolvency procedures which may be commenced by UK authorities (i.e. bank insolvency and bank administration). In addition, under The Investment Bank Special Administration Regulations 2011 (the "**2011 Regulations**") three additional special administration regimes are available if the failing bank is also an "investment bank" (as defined in the Banking Act). It is possible that the extended tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made or in such a manner to supersede any such application.

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

Where part only of the property, rights and liabilities of a UK bank are transferred, the interests of pre-transfer creditors of the UK bank whose liabilities are not transferred can effectively be subordinated to the primary objective of the special bank administration (the supply to the purchaser of such services and facilities as are required to enable it to operate effectively) or the primary objective of the bank insolvency procedure (to work with the Financial Services Compensation Scheme (the "FSCS") so as to ensure that as soon as reasonably practicable each eligible depositor (a) has the relevant account transferred to another financial institution, or (b) receives payment from the FSCS).

If an instrument or order were to be made under the Banking Act in respect of a relevant entity, such instrument or order may (amongst other things) affect the ability of such 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 (such as the mortgages trust) 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) are required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the transaction documents in respect of the relevant entity, including termination and acceleration events and (in the case of the seller) trigger events in respect of perfection of legal title to the loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the issuer to meet its obligations in respect of the notes.

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

However, an order may not be made for the transfer of some, but not all, of the property rights and liabilities between a particular person and a UK bank which are or form part of a capital market arrangement to which the UK bank is party. In addition, a partial property transfer may not transfer the property or rights against which a liability is secured unless that liability is also transferred (and vice versa). These safeguards are subject to the satisfaction of certain conditions and no assurance can be given that they will be applicable in any particular case.

The Banking Act imposes an obligation on the UK bank and each group company to continue to provide services and facilities to any purchaser to enable the purchaser to operate the business transferred effectively. The UK authorities also have power in any instrument or order to cancel or modify a contract or arrangement between the UK bank and a group company.

At present, the Authorities have not made an instrument or order under the Banking Act in respect of the relevant entities referred to above and there has been no indication that the Authorities will make any such instrument or order, but there can be no assurance that this will not change and/or that you will not be adversely affected by any such instrument or order if made. Also, in 2011 the European Commission consulted on "Technical Details of a Possible EU Framework for Bank Recovery and Resolution". If that proposal is implemented it could affect the ability of the various parties to satisfy their obligations under the transaction documents.

**Clydesdale Bank's businesses is subject to substantial regulation, and regulatory and governmental oversight. Adverse regulatory developments or changes in government policy could have a significant material adverse effect on Clydesdale Bank 's operating results, financial conditions and prospects**

Clydesdale Bank conducts its business subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies, voluntary codes of practice and interpretations in the UK and the other markets where it operates. This is particularly the case in the current market environment, which is witnessing increased levels of government and regulatory intervention in the banking sector, which Clydesdale Bank expects to continue for the foreseeable future. Future changes in regulation, fiscal or other policies are unpredictable and beyond the control of Clydesdale Bank and could materially adversely affect Clydesdale Bank's business.

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

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- general changes in government or regulatory policy, or changes in regulatory regimes that may significantly influence investor decisions in particular markets in which Clydesdale Bank operates, may change the structure of those markets and the products offered or may increase the costs of doing business in those markets;
- changes to prudential regulatory rules relating to capital adequacy and liquidity frameworks;

- external bodies applying or interpreting standards or laws differently to those applied by Clydesdale Bank historically;
- changes in competition and pricing environments;
- further developments in requirements relating to financial reporting, corporate governance, conduct of business and employee compensation;
- expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; and
- other unfavourable political, military or diplomatic developments producing social instability or legal uncertainty which, in turn, may affect demand for Clydesdale Bank's products and services.

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

The Competition Commission, the FSA and the OFT have recently carried out, or are currently conducting, a number of industry wide inquiries. Also in the UK and overseas Clydesdale Bank potentially is subject to legal and regulatory proceedings, challenges and investigations (which may include class action lawsuits) and other complaints (including to the Ombudsman). The outcome of any inquiry, investigation, proceeding or complaint is inherently uncertain.

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

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

Clydesdale Bank is exposed to many forms of legal and regulatory risk, which may arise in a number of ways. Primarily:

- certain aspects of Clydesdale Bank's business may be determined by the authorities, the Ombudsman or the courts as not being conducted in accordance with applicable laws or regulations, or, in the case of the Ombudsman, with what is fair and reasonable in the Ombudsman's opinion;
- the possibility of alleged mis-selling of financial products or the mishandling of complaints related to the sale of such products by or attributed to a member of Clydesdale Bank, resulting in disciplinary action or requirements to amend sales processes, withdraw products, or provide restitution to affected customers; all of which may require additional provisions;
- contractual obligations may either not be enforceable as intended or may be enforced against Clydesdale Bank in an adverse way;
- the Clydesdale Bank holds accounts for a number of customers who might be or are subject to interest from various regulators and authorities including the Serious Fraud Office, those in the U.S. and others. Clydesdale Bank is not aware of any current investigation into the Clydesdale Bank as a result of any such enquiries but cannot exclude the possibility of the Clydesdale Bank's conduct being reviewed as part of any such investigations;
- the intellectual property of Clydesdale Bank (such as trade names) may not be adequately protected; and

- Clydesdale Bank may be liable for damages to third parties harmed by the conduct of its business.

Failure to manage these risks adequately could impact Clydesdale Bank adversely, both financially and reputationally, through an adverse impact on the Clydesdale Bank's brands.

#### **Pensions Act 2004**

Under the Pensions Act 2004 a person that is 'connected with' or an 'associate' of an employer under an occupational pension scheme can be subject to either a contribution notice or a financial support direction. The issuer may be treated as connected to one or more employers under an occupational pension scheme which is within the NAB group.

A contribution notice could be served on the issuer if it was party to an act, or a deliberate failure to act: (a) which has caused a material detriment to the pension scheme (whether or not intentionally); or (b) the main purpose or one of the main purposes of which was either (i) to prevent the recovery of the whole or any part of a debt which was, or might become, due from the employer under Section 75 of the Pensions Act 1995 or (ii) otherwise than in good faith, to prevent such a debt becoming due, to compromise or otherwise settle such a debt, or to reduce the amount of such a debt which would otherwise become due.

A financial support direction could be served on the issuer where the employer is either a service company or insufficiently resourced. An employer is insufficiently resourced if the value of its resources is less than 50 per cent. of the pension scheme's deficit calculated on an annuity buy-out basis and there is a connected or associated person whose resources at least cover that difference. A financial support direction can only be served where the Pensions Regulator considers it is reasonable to do so, having regard to a number of factors.

It should be noted that, following the decision of the High Court in a case concerning various companies in the Nortel and Lehman Brothers groups (*In the matter of Nortel GMBH and others* [2010] EWHC 3010 (CH)), a liability arising from a financial support direction (or a related contribution notice) will be an expense of the administration or liquidation (as the case may be) if the financial support direction or contribution notice is issued after the company goes into administration or liquidation. As a result, if the Pensions Regulator did issue a financial support direction or contribution notice against the issuer then, depending on when such a direction or notice was issued (and whether the issuer was in liquidation or administration at that time), any corresponding liability incurred by the issuer may be an expense of the administration or liquidation. As a result, such a claim would be payable in priority to the claims of the relevant issuer secured creditors, including the noteholders. The matter is, however, not yet settled as permission has been granted for the Nortel case to be appealed, although it is not yet known when the appeal will be heard.

If a contribution notice or financial support direction were to be served on the issuer this could adversely affect the interests of the noteholders.

#### **Risks related to alternative characterisation of the Rule 144A notes as an equity interest in the issuer for US federal income tax purposes**

The issuer is incorporated as a public limited company under the laws of England and Wales. It is a special purpose company and will be mostly passive. See "*The issuer*". Under current US federal income tax law, the issuer is treated as an association that is taxable as a corporation for US federal income tax purposes. The characterisation of the Rule 144A notes as debt or equity for US federal income tax purposes depends on many factors, including the form of such notes, the terms of such notes and the debt-to-equity ratio of the issuer. Because the issuer may not have substantial equity, there is a risk that the United States Internal Revenue Service ("**IRS**") could assert that the lowest subordinated class of notes (other than the class Z notes) or any other class of notes should be treated as an equity interest in the issuer (and, potentially as an interest in a passive foreign investment company ("**PFIC**") or a controlled foreign corporation ("**CFC**")) rather than as debt for US federal income tax purposes. A Rule 144A note that is treated as an equity interest in a PFIC or CFC rather than a debt instrument for US federal income tax purposes would have certain timing and character consequences to a United States holder and could require certain elections and disclosures that would need to be made shortly after acquisition to mitigate potentially adverse US tax consequences. The issuer does not intend to provide the necessary information required in order to make those elections. See "*Material United States tax consequences* –

*Characterisation of the Rule 144A notes*". As more fully discussed in "*Material United States tax consequences – Alternative characterisation of the Rule 144A notes*", the issuer intends to treat the Rule 144A notes as debt of the issuer for all purposes, including for US federal income tax purposes.



## THE ISSUER

### Introduction

The issuer was incorporated in England and Wales as a public company limited by shares under the Companies Act 2006 on 29 November 2010 with registered number 7454283. 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 +44(0)207 398 6300. The issuer's authorised share capital on incorporation comprised, and as at the date of this base prospectus comprises, 50,000 ordinary shares of £1 each. The issuer's issued share capital as at the date of this base prospectus comprises 50,000 ordinary shares of £1 each (of which 1 ordinary share is fully paid up and the remaining 49,999 issued ordinary shares are paid up as to 25 pence), all of which are beneficially owned by Holdings (see "*Holdings*").

The issuer has been established as a special purpose vehicle for the purpose of issuing asset backed securities. The issuer has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the issuer.

The principal objects of the issuer are set out in its articles of association and permit the issuer, among other things, to lend money and give credit, secured or unsecured, to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

The issuer's activities principally comprise the issue of notes, the making of loan tranches to Funding pursuant to the terms of the global intercompany loan agreement, the entering into of all documents relating to such issue and such loan tranches and the exercise of related rights and powers and other activities referred to in this base prospectus or reasonably incidental to those activities.

Since its incorporation, the issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Act 2006 and receiving the ordinary share capital subscription referred to above, the authorisation and entry into of documentation relating to the programme, the authorisation and issuance of notes and the entry into of documentation relating to such issuance and the other matters contemplated in this base prospectus and other matters which are incidental or ancillary to those activities. The issuer has no employees.

Other than the issuer reserve fund, there is no intention to accumulate surplus cash in the issuer except in the circumstances set out under "*Security for the issuer's obligations*".

### Directors and secretary

The directors of the issuer and their respective business addresses and principal activities or business occupations as at the date of this base prospectus are:

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Director
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Director
Steven Philip Martin	30 St. Vincent Place Glasgow G1 2HL	Banker

The company secretary of the issuer as at the date of this base prospectus is SFM Corporate Services Limited. The directors of SFM Corporate Services Limited and their principal activities or business occupations as at the date of this base prospectus are:

<u>Name</u>	<u>Business Address</u>	<u>Principal Activities</u>
Jonathan Keighley	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited

James Macdonald	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Robert Barry	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Comopany secretary. Director, SFM Directors Limited and SFM Directors (No.2) Limited
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
J-P Nowacki	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Vinoy Nursiah	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Jocelyn Coad	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Debra Parsall	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited
Michael Drew	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited

In accordance with the corporate services agreement, the seller and the corporate services provider each provide directors and other corporate services for the issuer in consideration for the payment of an annual fee to the corporate services provider.

The directors of the SFM Directors Limited and SFM Directors (No.2) Limited and their principal activities or business occupations as at the date of this base prospectus are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Jonathan Keighley	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
James Macdonald	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Robert Barry	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Comopany secretary. Director, SFM Directors Limited and SFM Directors (No.2) Limited

Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
J-P Nowacki	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Vinoy Nursiah	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Jocelyn Coad	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Debra Parsall	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited
Michael Drew	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited

#### Capitalisation and Financial Statements

Each financial period of the issuer will end on 30 September of each year. The current financial period of the issuer will end on 30 September, 2011. The auditors of the issuer are Ernst & Young, 1 More Place, London SE1 2AF. As at the date of this base prospectus, no statutory or non-statutory accounts within the meaning of the Companies Act 2006 have been prepared by the issuer and, prior to the date of this base prospectus, the issuer has not traded.

The issuer does not intend to provide post-issuance transaction reporting within the meaning of Annex VIII, rule 4.1 of Commission Regulation (EC) No. 809/2004.

The following table shows the unaudited capitalisation of the issuer as at 27 September 2011:

	<b>As at 27 September 2011</b>
	<b>(£)</b>
<b>Share Capital</b>	
Total authorised share capital (ordinary shares of £1 each).....	50,000
Total issued and paid up share capital (50,000 ordinary shares of £1 each, 1 fully paid up and 49,999 partly paid up to 25%).....	12,500.75

## FUNDING

### Introduction

Funding was incorporated in England and Wales as a private limited company under the Companies Act 2006 on 23 June 2011 with registered number 7681029. The registered office of Funding is at 35 Great St. Helen's, London EC3A 6AP. The telephone number of Funding's registered office is +44(0)207 398 6300. Funding's authorised share capital on incorporation comprised, and as at the date of this base prospectus comprises, 1,000 shares of £1 each. Funding's issued share capital, as at the date of this base prospectus, comprises 1 ordinary share of £1, which is fully paid as to nominal value. The issued share capital is beneficially owned by Holdings.

Funding is a special purpose company. Funding has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Funding.

The principal objects of Funding are set out in its articles of association and permit Funding, among other things, to lend money and give credit, secured or unsecured, to borrow or raise money and to grant security over its property for the performance of its obligations or the payment of money.

Funding's activities principally comprise the borrowing of loan tranches from the issuers pursuant to the terms of the Funding intercompany loan agreements, the making of contributions to the mortgages trust pursuant to the terms of the mortgages trust deed, the entering into of all documents relating to such loan tranches and contributions and the exercise of related rights and powers and other activities referred to in this base prospectus or reasonably incidental to those activities.

Since its incorporation, Funding has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Act 2006 and receiving the ordinary share capital subscription referred to above, the establishment of the issuer, the authorization and entry into of documentation relating to the programme and relating to the issuance of notes by the issuer and the other matters contemplated in this base prospectus, making application for a standard license under the Consumer Credit Act 1974, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to those activities. Funding has no employees.

### Directors and secretary

The directors of Funding and their respective business addresses and principal activities or business occupations are:

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Director
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Director
Steven Philip Martin	30 St. Vincent Place Glasgow G1 2HL	Banker

The directors and company secretary of Funding have no potential conflicts of interest between their duties to Funding and their private interests and/or other duties.

The company secretary of Funding as at the date of this base prospectus is SFM Corporate Services Limited. The directors of SFM Corporate Services Limited and their principal activities or business occupations as at the date of this base prospectus are:

<b>Name</b>	<b>Business Address</b>	<b>Principal Activities</b>
Jonathan Keighley	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited

James Macdonald	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Robert Barry	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Comopany secretary. Director, SFM Directors Limited and SFM Directors (No.2) Limited
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
J-P Nowacki	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Vinoy Nursiah	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Jocelyn Coad	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Debra Parsall	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited
Michael Drew	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited

The directors of the SFM Directors Limited and SFM Directors (No.2) Limited and their principal activities or business occupations as at the date of this base prospectus are:

<b>Name</b>	<b>Business Address</b>	<b>Business Occupation</b>
Jonathan Keighley	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
James Macdonald	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Robert Barry	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Helena Whitaker	35 Great St. Helen's London EC3A 6AP	Comopany secretary. Director, SFM Directors Limited and SFM Directors (No.2) Limited
Claudia Wallace	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited

J-P Nowacki	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Vinoy Nursiah	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Jocelyn Coad	35 Great St. Helen's London EC3A 6AP	Director, SFM Directors Limited and SFM Directors (No.2) Limited
Debra Parsall	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited
Michael Drew	35 Great St. Helen's London EC3A 6AP	Company secretary, SFM Directors Limited and SFM Directors (No.2) Limited

In accordance with the corporate services agreement, the seller and the corporate services provider each provide directors and other corporate services for Funding in consideration for the payment of an annual fee to the corporate services provider. As at the date of this base prospectus, no statutory or non-statutory accounts within the meaning of the Companies Act 2006 have been prepared by Funding.

#### **Capitalisation and Financial Statements**

Each financial period of Funding will end on 30 September of each year. The current financial period of Funding will end on 30 September, 2011. The auditors of Funding are Ernst & Young, 1 More Place, London SE1 2AF. As at the date of this base prospectus, no statutory or non-statutory accounts within the meaning of the Companies Act 2006 have been prepared by Funding.

The following table shows the unaudited capitalisation of Funding as at 27 September 2011:

	<b>As at 27 September 2011</b>
	(£)
<b>Share Capital</b>	
Total authorised share capital (ordinary shares of £1 each).....	1,000
Total issued and paid up share capital (1 ordinary shares of £1, fully paid up) .....	1
Total share premium .....	12,498.50

## HOLDINGS

Holdings was incorporated as a private limited company in England and Wales on 4 April 2011 with registered number 7590511. The registered office of Holdings is at 35 Great St. Helen's, London EC3P 6AP.

Holdings' authorised share capital on incorporation comprised, and as at the date of this base prospectus comprises, 1,000 shares of £1 each. Holdings' issued share capital, as at the date of this base prospectus, comprises 1 ordinary share of £1, which is fully paid as to nominal value. The issued share capital is held by the Share Trustee under the terms of a discretionary trust for exclusively charitable purposes. Holdings is organised as a special purpose company.

The seller does not own directly or indirectly any of the share capital of Holdings.

The principal objects of Holdings as set out in its articles of association are, among other things, to acquire and hold, by way of investments or otherwise and to deal in or exploit in such manner as may from time to time be considered expedient, all or any of the shares, stocks, debenture stocks, debentures or other interests of or in any company. Holdings is the sole owner of the issuer and Funding. Holdings does not take an active role in the management of any of the participants in the programme.

Since its incorporation, Holdings has not engaged in any material activities other than those incidental to its registration as a private company under the Companies Act 2006 and subscribing or otherwise acquiring the issued share capital of the issuer and Funding, the authorisation and entry into of documentation relating to the programme and the other matters contemplated in this base prospectus and other matters which are incidental or ancillary to those activities. Holdings has no employees.

## THE MORTGAGES TRUSTEE

The mortgages trustee was incorporated as a private limited company in Jersey, Channel Islands on 1 September 2011 with registered number 108918. The registered office of the mortgages trustee is at 47 Esplanade, St Helier, Jersey JE1 0BD. The mortgages trustee's authorised share capital on incorporation comprised, and as at the date of this base prospectus comprises, two shares of £1 each. The mortgages trustee's issued share capital, as at the date of this base prospectus, comprises two ordinary shares of £1 each, both of which are fully paid and beneficially held by Structured Finance Management Offshore Limited under the terms of a discretionary trust for exclusively charitable purposes.

The mortgages trustee is a special purpose company. The mortgages trustee has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the mortgages trustee.

Since its incorporation, the mortgages trustee has not engaged in any material activities other than those incidental to its registration as a private company under the Companies (Jersey) Law 1991, as amended, and receiving the ordinary capital subscription referred to above, the authorisation and entry into of documentation relating to the programme and relating to the issuance of notes by the issuer and the other matters contemplated in this base prospectus, registering as a data controller under the Data Protection (Jersey) Law 2005, making application for consent under the Control of Borrowing (Jersey) Order 1958 (the "**consent**") in respect of the issue of trust interests (which consent has been granted by the Jersey Financial Services Commission) and other matters which are incidental or ancillary to those activities. In granting the consent the Jersey Financial Services Commission is protected by the Control of Borrowing (Jersey) Law 1947, as amended, against liability arising from the discharge of its functions under that law. The mortgages trustee has no employees.



## CLYDESDALE BANK AND YBHL

### Introduction

Clydesdale Bank was established in 1838, was registered as a public limited company on 11 January 1982 and changed to its current name, Clydesdale Bank PLC, on 16 December, 2005.

In 1987 Clydesdale Bank became a member of the National Australia Bank Group (the "**NAB group**") and in December 2004 all property and liabilities of Yorkshire Bank PLC transferred to Clydesdale Bank. Clydesdale Bank continues to use the "**Yorkshire Bank**" brand as a trading name.

Clydesdale Bank is registered with the Registrar of Companies in Scotland under registration number SC001111. The registered office of Clydesdale Bank is 30 St. Vincent Place, Glasgow G1 2HL, Scotland. Its telephone number is 0141 248 7070.

Clydesdale Bank is authorised and regulated by the FSA.

Clydesdale Bank, under its Clydesdale and Yorkshire Bank brands, offers access to a comprehensive range of banking and other related services through approximately 339 branches. It also offers integrated business and private banking services to small-medium sized and mid-corporate business customers. One of Clydesdale Bank's core businesses is the provision of residential mortgages funded in the retail and wholesale markets.

As at March 2011, Clydesdale Bank and its subsidiaries had total assets of approximately £42.9 billion and had approximately 5,600 staff. At the date of this base prospectus, Clydesdale Bank has a long-term rating of "A+" by Standard & Poor's, "A1" (on review for possible downgrade) by Moody's and "AA-" by Fitch and a short-term rating of "A-1" by Standard & Poor's, "P-1" by Moody's and "F1+" by Fitch.

The ultimate parent company of Clydesdale Bank is National Australia Bank Limited (see "*National Australia Bank Limited*" below). Clydesdale Bank is a wholly owned subsidiary of National Australia Group Europe Limited, which is a private limited company incorporated in England and Wales. National Australia Group Europe Limited is a wholly owned subsidiary of National Equities Limited (a company incorporated in Australia). National Equities Limited is a wholly owned subsidiary of National Australia Bank Limited.

### Yorkshire Bank Home Loans Limited ("YBHL")

YBHL was incorporated in England and Wales as a private limited company on 12 October, 1984. Its registered office is 20 Merrion Way, Leeds LS2 8NZ, England.

YBHL is authorised and regulated by the FSA.

YBHL's core business is the provision of residential mortgages, funded in the retail market.

YBHL is a wholly owned subsidiary of Clydesdale Bank.

### Mortgage business of the originators

As of 31 March 2011, UK residential BTL loans advanced to customers by Clydesdale Bank and YBHL totalled approximately £13.1 billion.

Clydesdale Bank and YBHL originate BTL loans with a variety of characteristics, which are discussed under "*The BTL loans – Characteristics of the BTL loans*". Such BTL loans are originated in accordance with the lending criteria described later in this base prospectus. Clydesdale Bank, in its capacity as servicer, will perform the day-to-day servicing of the BTL loans in accordance with the terms of the servicing agreement. See "*The servicer and the servicing agreement*".

### National Australia Bank Limited

National Australia Bank Limited is a limited liability company incorporated under the laws of Australia. Its registered office is at Level 4, 800 Bourke Street, Docklands, VIC 3008.

The NAB group is an international financial services group and provides a comprehensive integrated range of financial products and services.

The principal activities of the NAB group are banking services, credit and access card facilities, leasing, housing and general finance, international banking, investment banking, wealth management, funds management, life insurance and custodian, trustee and nominee services.

Prudential regulation of the Australian financial services industry is undertaken by the Australian Prudential Regulation Authority. National Australia Bank Limited is regulated by the Australian Prudential Regulation Authority as an authorised deposit-taking institution under the Banking Act 1959 (Cth). National Australia Bank Limited is also licensed to undertake certain financial services business by the Australian Securities & Investments Commission under the Corporations Act 2001 (Cth) (Australian Financial Services License 230686).

## USE OF PROCEEDS

An amount equal to the gross proceeds of the issuance of each class of notes of a series will (following, where applicable, the conversion into sterling of the proceeds of any class of notes of such series issued in a currency other than sterling, pursuant to the terms of the relevant issuer swap agreement) be used by the issuer to advance to Funding a loan tranche pursuant to the terms of the global intercompany loan agreement. Funding will apply the proceeds of each loan tranche to:

- pay an initial contribution to the mortgages trustee to increase its beneficial interest in the trust property pursuant to the mortgages trust deed. Upon receipt of any such contribution from Funding, the mortgages trustee will pay these funds:
  - (a) to the seller, as an initial purchase price for BTL loans and other trust property to be assigned, from time to time, by the seller to the mortgages trustee;
  - (b) to the seller, as a special distribution (which will have the effect of reducing the seller share of the trust property); or
  - (c) after a new third party has become a beneficiary of the mortgages trust, to the new third party as a special distribution (which will have the effect of reducing the share of the trust property of the new third party);
- fund or replenish the Funding reserve fund and/or to make a deposit into the Funding GIC account;
- make a payment back to the issuer to refinance an existing loan tranche; or
- make a payment to another issuer to refinance an existing intercompany loan made by such issuer to Funding,

as may be specified for such series of notes in the applicable final terms.

## **THE FUNDING SECURITY TRUSTEE, NOTE TRUSTEE AND THE ISSUER SECURITY TRUSTEE**

Citibank, N.A., London Branch will act under the programme in its separate capacities as Funding security trustee and issuer security trustee. Citicorp Trustee Company Limited will act under the programme as note trustee.

The issuer trust deed will set out the terms under which the note trustee is appointed, the indemnification of the note trustee, the payment it receives and the extent of the note trustee's authority to act beyond its statutory powers under English law. Pursuant to the issuer trust deed, the note trustee will also be required to take certain actions as described in "*Description of the issuer trust deed and the notes*" and the terms and conditions of the notes.

The issuer deed of charge will set out the terms under which the issuer security trustee is appointed, the indemnification of the issuer security trustee and the payment it receives and the extent of the issuer security trustee's authority to act beyond its statutory powers. Pursuant to the issuer deed of charge, the issuer security trustee will be required to take certain actions as described in "*Security for the issuer's obligations*" and the terms and conditions of the notes.

The Funding deed of charge will set out the terms under which the Funding security trustee is appointed, the indemnification of the Funding security trustee and the payment it receives and the extent of the Funding security trustee's authority to act beyond its statutory powers. Pursuant to the Funding deed of charge, the Funding security trustee will be required to take certain actions as described in "*Security for Funding's obligations*".

Certain limitations on liability of the note trustee are described in "*Description of the issuer trust deed and the notes*" and the terms and conditions of the notes. Certain limitations on the liability of the issuer security trustee are described in "*Security for the issuer's obligations*" and the terms and conditions of the notes. Certain limitations on the liability of the Funding security trustee are described in "*Security for Funding's obligations*".

**AFFILIATIONS AND CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF  
TRANSACTION PARTIES**

Clydesdale Bank is one of the originators of the BTL loans. Clydesdale Bank is the only seller of BTL loans to the mortgages trustee and is the servicer of all of the BTL loans. Clydesdale Bank also provides the services of cash manager, issuer cash manager, account bank to the mortgages trustee and to Funding, issuer account bank, Funding basis rate swap provider and start-up loan provider.

Except as described in the preceding paragraph, there are no other affiliations or relationships or related transactions involving the transaction parties under the programme.

## ISSUANCE OF NOTES

The notes will be issued pursuant to the issuer trust deed. The following summary and the information set out in "*Description of the issuer trust deed*" and "*The notes*" summarise the material terms of the notes, the issuer trust deed and, in relation to the issuance tests, the programme agreement. These summaries do not purport to be complete and are subject to the provisions of the issuer trust deed, the terms and conditions of the notes and the provisions of the programme agreement.

### General

The notes will be issued in series. Each series will be comprised of one or more class A notes, class B notes, class C notes, class D notes, class E notes and class Z notes. A class designation determines the relative seniority for receipt of cash flows. The notes of a particular class in different series (and the notes of differing sub-classes of the same class and series) will not necessarily have all the same terms. Differences may include principal amount, interest rates, interest rate calculations, currency, dates, final maturity dates and ratings. Each series and class of notes will be secured over the same property as the notes offered by this base prospectus together with the final terms. Noteholders holding certain notes may have the benefit of remarketing and conditional purchase arrangements or similar arrangements. The terms of each series of notes will set forth in the applicable final terms. Existing noteholders will be informed of further issues via the regulatory news service ("**RNS**") on the London Stock Exchange website.

### Issuance

The issuer may issue new series and classes of notes and advance new loan tranches to Funding from time to time without obtaining the consent of existing noteholders. As a general matter, the issuer may only issue a new series and class of notes if sufficient subordination is provided for that new series and class of notes by one or more subordinate classes of notes and/or the issuer reserve fund and the Funding reserve fund. The required subordinated percentage, which is used to calculate the required subordination for each class of notes other than the class Z notes will be set forth in the final terms for each series of that class of notes as well as the target reserve required amount and the programme reserve required percentage. The programme agreement will set out the conditions and tests (including the required levels of subordination) necessary to issue a series and class of notes (the "**issuance tests**"). The issuance tests are set out below.

#### *For all classes of notes*

On the closing date of any series of notes, the conditions and tests necessary to issue such series (and all classes of notes thereunder) are as follows:

- there is no debit balance on the Funding principal deficiency ledger (in respect of any loan tranche) excluding any debit balance caused by a debit balance on the Z principal deficiency sub-ledger;
- no note event of default has occurred and is continuing (and has not been waived) or will occur as a consequence of the issue of such notes;
- no issuer enforcement notice has been delivered to the issuer by the note trustee;
- no Funding enforcement notice has been delivered to Funding by the Funding security trustee;
- the issuer reserve fund and the Funding reserve fund are (in aggregate) fully funded up to the programme reserve required amount (or if the issuer reserve fund or the Funding reserve fund are not so fully funded, no payments have been made from the issuer reserve fund or the Funding reserve fund, as applicable);
- each of the applicable programme issuance documents has been executed by the relevant parties to those documents;
- the issuer shall have delivered a solvency certificate to the note trustee and the issuer security trustee in form and substance satisfactory to the note trustee; and

- obtaining a ratings confirmation in respect thereof.

***For the class A notes of any series***

In addition to the tests and conditions set out in " – *For all classes of notes*", it will be a condition to the issuance of class A notes forming part of a series that, on the closing date of such series and after giving effect to the issuance of the notes of that series, the class A available subordinated amount must be equal to or greater than the class A required subordinated amount.

- The "**class A required subordinated amount**" is calculated, on any date, as the product of:

$$A \times B$$

where:

A = the class A required subordinated percentage, as specified in the final terms applicable to the most recent issuance of notes incorporating class A notes; and

B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the Funding cash accumulation ledger and the Funding principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

- The "**class A available subordinated amount**" is calculated, on any date, as:
  - (a) the sum of (i) the aggregate of the principal amounts outstanding of the class B notes of all series, the class C notes of all series, the class D notes of all series, the class E notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), and (ii) the aggregate amount of the Funding reserve fund and the issuer reserve fund on such date;

less

(b) the amounts standing to the credit of the Funding principal ledger available on such date for the payment of principal on AA loan tranches, A loan tranches, BBB loan tranches, BB loan tranches and Z loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

***For the class B notes of any series***

In addition to the tests and conditions set out in " – *For all classes of notes*", it will be a condition to the issuance of class B notes forming part of a series that, on the closing date of such series and after giving effect to the issuance of the notes of that series, the class B available subordinated amount must be equal to or greater than the class B required subordinated amount.

- The "**class B required subordinated amount**" is calculated, on any date, as the product of:

$$A \times B$$

where:

A = the class B required subordinated percentage, as specified in the final terms applicable to the most recent issuance of notes incorporating class B notes; and

B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the Funding cash accumulation ledger and the Funding principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

- The "**class B available subordinated amount**" is calculated, on any date, as:
  - (a) the sum of (i) the aggregate of the principal amounts outstanding of the class C notes of all series, the class D notes of all series, the class E notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), and (ii) the aggregate amount of the Funding reserve fund and the issuer reserve fund on such date;
  - less
  - (b) the amounts standing to the credit of the Funding principal ledger available on such date for the payment of principal on A loan tranches, BBB loan tranches, BB loan tranches and Z loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

***For the class C notes of any series***

In addition to the tests and conditions set out in "***For all classes of notes***", it will be a condition to the issuance of class C notes forming part of a series that, on the closing date of such series and after giving effect to the issuance of the notes of that series, the class C available subordinated amount must be equal to or greater than the class C required subordinated amount.

- The "**class C required subordinated amount**" is calculated, on any date, as the product of:

$$A \times B$$

where:

- A = the class C required subordinated percentage, as specified in the final terms applicable to the most recent issuance of notes incorporating class C notes; and
  - B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the Funding cash accumulation ledger and the Funding principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).
- The "**class C available subordinated amount**" is calculated, on any date, as:
    - (a) the sum of (i) the aggregate of the principal amounts outstanding of the class D notes of all series, the class E notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), and (ii) the aggregate amount of the Funding reserve fund and the issuer reserve fund on such date;
    - less
    - (b) the amounts standing to the credit of the Funding principal ledger available on such date for the payment of principal on BBB loan tranches, BB loan tranches and Z loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

***For the class D notes of any series***

In addition to the tests and conditions set out in "***For all classes of notes***", it will be a condition to the issuance of class D notes forming part of a series that, on the closing date of such series and after giving effect to the issuance of the notes of that series, the class D available subordinated amount must be equal to or greater than the class D required subordinated amount.



- The "**class D required subordinated amount**" is calculated, on any date, as the product of:

$$A \times B$$

where:

- A = the class D required subordinated percentage, as specified in the final terms applicable to the most recent issuance of notes incorporating class D notes; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the Funding cash accumulation ledger and the Funding principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

- The "**class D available subordinated amount**" is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class E notes of all series and the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), and (ii) the aggregate amount of the Funding reserve fund and the issuer reserve fund on such date;

less

- (b) the amounts standing to the credit of the Funding principal ledger available on such date for the payment of principal on BB loan tranches and Z loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

***For the class E notes of any series***

In addition to the tests and conditions set out in "*For all Classes of Notes*", it will be a condition to the issuance of class E notes forming part of a series that, on the closing date of such series and after giving effect to the issuance of the notes of that series, the class E Available subordinated amount must be equal to or greater than the class E required subordinated amount.

- The "**class E required subordinated amount**" is calculated, on any date, as the product of:

$$A \times B$$

where:

- A = the class E required subordinated percentage, as specified in the final terms applicable to the most recent issuance of notes incorporating class E notes; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the funding cash accumulation ledger and the funding principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

- The "**class E available subordinated amount**" is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class Z notes of all series (after giving effect to repayments of principal to be made on the notes on such date), and (ii) the aggregate amount of the funding reserve fund and the issuer reserve fund on such date;

less

- (b) the amounts standing to the credit of the funding principal ledger available on such date for the payment of principal on Z loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date)..

***For the class Z notes of any series***

There is no required subordination amount for the class Z notes.

In relation to the above, the amounts available on any date for the payment of principal on any loan tranche shall be calculated in accordance with the Funding pre-enforcement principal priority of payments (as set out in "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security – Definition of Funding available principal receipts*") and shall be calculated without reference to the rules for the application of Funding available principal receipts (as set out in "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security – Rules for application of Funding available principal receipts*").

The issuer may change the required subordinated amount for any class of notes or the method of computing the required subordinated amount, at any time without the consent of any noteholders so long as it has:

- obtained a ratings confirmation in respect thereof; and
- an opinion of counsel that for US federal income tax purposes (i) the change will not adversely affect the tax characterisation as debt of any outstanding series and class of notes that were characterised as debt at the time of their issuance and (ii) such change will not cause or constitute an event in which gain or loss would be recognised by any holder of such notes.

In addition, if the issuer obtains a ratings confirmation, then some of the other conditions to issuance described above may be waived by the note trustee. For example, the note trustee may, in accordance with and subject to the provisions of the issuer trust deed, without the consent of the noteholders, but only if and so far as in its opinion the interests of the noteholders of any series and class of notes shall not be materially prejudiced thereby, determine that any note event of default in respect of a series and class of notes (the absence of which constitutes a condition to issuance of notes) shall not be treated as such.

## THE BTL LOANS

### Summary of loan portfolio

The final terms for each series of notes will contain tables summarising information in relation to the then cut-off date loan portfolio as at a date prior to the date of such final terms. The tables will contain information in relation to various criteria as at the cut-off date specified in the applicable final terms. The tables will indicate, among other things, composition by type of property, seasoning, period to maturity, geographical distribution, indexed loan-to-value ratios, outstanding current balance, BTL loan products and repayment terms as well as other information that may be described from time to time.

The final terms for each series of notes will also contain tables summarising certain characteristics of the United Kingdom mortgage market. The tables will provide historical information on, among other things, repossession rates, arrears and house price to earnings ratios as well as other information that may be described from time to time.

### Introduction

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

In describing the characteristics of the BTL loans, references in this base prospectus to:

- **"cut-off date loan portfolio"** means, as of any cut-off date, the BTL loans in the loan portfolio, their related security, accrued interest and other amounts derived from such BTL loans (taking account of, among other things, amortisation of BTL loans in the loan portfolio and the addition and/or removal of any BTL loans to or from the loan portfolio since the programme date) combined with any BTL loans, their related security, accrued interest and other amounts derived from such BTL loans that the seller, as of any cut-off date, anticipates assigning to the mortgages trustee; and
- **"loan portfolio"** means, as of any date of determination, the BTL loans, their related security, accrued interest and other amounts derived from such BTL loans assigned to the mortgages trustee on or prior to such date of determination (taking account of, among other things, amortisation of BTL loans in that portfolio and the addition and/or removal of any BTL loans to or from that portfolio since the programme date).

In addition to BTL loans included in a cut-off date loan portfolio from which the seller expects to assign to the mortgages trustee on the applicable assignment date, the seller may, in certain circumstances, assign to the mortgages trustee on the applicable assignment date other BTL loans and their related security, as may be described in the applicable final terms, that do not form part of such cut-off date loan portfolio. These BTL loans will not be included in the tables of information relating to the cut-off date loan portfolio as set out in the applicable final terms.

The seller will select BTL loans to be assigned to the mortgages trustee using an internally developed system containing defined data on each of the BTL loans in the overall portfolio of BTL loans of the originators that is available for selection. This system allows the setting of exclusion criteria corresponding to relevant representations and warranties that the seller makes in the mortgage sale agreement in relation to the BTL loans. Once the exclusion criteria have been determined, the system identifies all BTL loans owned by the originators that are consistent with the exclusion criteria. Thereafter, BTL loans are selected at random until the target balance for the BTL loans to be assigned has been reached or the BTL loan selection has been exhausted. After a pool of BTL loans is selected in this way, the identified BTL loans are monitored to ensure that they continue to comply with the relevant criteria as of the assignment date. Prior to each assignment date, the seller will exclude from the BTL loans to be assigned to the mortgages trustee all BTL loans which are fully redeemed or which the seller believes would be required to be repurchased for breach of warranty if assigned to the mortgages trustee pursuant to the mortgage sale agreement. In addition, prior to each assignment date, repayments and prepayments may have occurred in relation to BTL loans which are expected to be assigned to the mortgages trustee. Hence the aggregate current principal balance of the BTL loans in the loan portfolio

following the applicable assignment date may be less than the sum of the aggregate current principal balance of the BTL loans in the related cut-off date loan portfolio and the aggregate current principal balance of other BTL loans that the seller expects to assign to the mortgages trustee on such assignment date, in each case, as described in the applicable final terms.

The following is a description of some of the characteristics of the BTL loans that are offered by the seller and includes details of BTL loan types, the underwriting process, lending criteria and selected statistical information. Each BTL loan in the loan portfolio incorporated one or more of the features referred to in this section. The seller will not assign to the mortgages trustee any BTL loan that was more than one month in arrears at any time during the 12 months prior to the assignment date, and will not assign to the mortgages trustee any BTL loan that is a non-performing BTL loan.

Each borrower may have more than one BTL loan incorporating different features however, the seller's current policy requires that no individual borrower may have (i) more than three BTL loans outstanding and (ii) BTL loans which have, in aggregate, an outstanding principal balance of over £1 million. Each BTL loan secured on the same mortgaged property will be held by a separate account with the seller which is called the "**mortgage account**". Each BTL loan is secured by a first-ranking legal charge over a residential property located in England or Wales (an "**English mortgage**") or a first ranking standard security over a residential property located in Scotland (a "**Scottish mortgage**"). A "**mortgage**" means an English mortgage or, as applicable, a Scottish mortgage. Each BTL loan secured over a property located in England and Wales (an "**English BTL loan**") is subject to the laws of England and Wales and each BTL loan secured over a property located in Scotland (a "**Scottish BTL loan**") is subject to the laws of Scotland.

### **Characteristics of the BTL loans**

#### ***BTL loan products offered by the originators***

Mortgage loans in the loan portfolio will consist of mortgage loans originated by the originators and secured by a first ranking mortgage or charge or, in Scotland, a first ranking standard security, on the relevant mortgaged property, which are intended for borrowers who wish to use the BTL loan as a means to purchase or refinance residential property which is not the borrower's main dwelling, usually for the purpose of letting to third parties (each a "**BTL loan**").

The BTL loans in the loan portfolio may only comprise BTL loans originated on or after October 2002 or BTL loans originated prior to October 2002 but which have become subject, in their entirety, to a BTL loan agreement (or agreements) made on or after October 2002.

Some of the BTL loans in the loan portfolio may be "**flexible BTL loans**", which allow the borrower to obtain a BTL loan with either a variable or fixed rate, depending on the product type and which, in certain circumstances, permit the borrower to receive cash re-draws, receive flexible loan reserve advances and make overpayments. For a more detailed description of the features applicable to flexible BTL loans, see "*Flexible BTL loans*" below.

Some of the BTL loans in the loan portfolio may be "**offset BTL loans**". An offset BTL loan allows the relevant borrower to link the BTL loan with certain deposit and/or current accounts that are held with the seller. If a borrower elects to take an offset BTL loan, the interest due from the borrower on the BTL loan will be calculated (on a daily basis throughout the relevant period) on the difference between the total of the daily outstanding balance (being the outstanding principal balance of the BTL loan plus any capitalised arrears) on the offset BTL loan (the "**BTL loan debit balance**") and the daily balances of amounts held in the linked deposit/current accounts held with Clydesdale Bank (the "**combined credit balance**"). For the avoidance of doubt, the deposit and/or current accounts which are linked to an offset BTL loan will not form part of the trust property.

The "**offset benefit**", in respect of a BTL loan and a scheduled payment due in respect of such BTL loan, is the difference between (a) that part of such scheduled payment that constitutes interest (prior to the application of the offset provisions of such BTL loan) and (b) that part of such scheduled payment that constitutes interest (after the application of the offset provisions of such BTL loan). Any offset benefit is used to reduce the current principal balance on the BTL loan. The application of the offset benefit may lead to amortisation of the related BTL loan more quickly than would otherwise be the case, as a higher proportion of the scheduled payment (which the borrower is obligated to continue making in full) could

be allocated towards the repayment of principal of the BTL loan. See "*Risk factors – The inclusion of flexible BTL loans may affect the rate of repayment and prepayment of the BTL loans*".

The terms of offset BTL loans also permit borrowers to make small annual increases in the amount of their repayments, thereby further accelerating the pace at which the BTL loan is repaid. Despite the foregoing, the borrower is nevertheless obligated to make his scheduled payment of principal (if any) and interest in full. Offset BTL loans may also have the flexible payment features described under "*Flexible BTL loans*" below.

The connection between a borrower's BTL loan and any linked account or accounts of the borrower may be ended (1) by the relevant originator giving the borrower 30 days notice in writing at any time or (2) by the borrower giving the relevant originator seven days' notice in writing.

### **Interest terms**

Interest terms under the BTL loans differ. Each of the originators offer a variety of fixed rate, variable rate, discounted rate and hybrid BTL loan products to borrowers. The seller may assign to the mortgages trustee any of its BTL loan products described above having interest terms comprising of one or more of the following:

- "**fixed rate BTL loans**": BTL loans subject to a fixed interest rate for a specified period of time and at the expiration of that period are generally subject to the seller's standard variable BTL rate.
- "**standard variable rate BTL loans**": BTL loans subject to the seller's standard variable BTL rate (together with, in various BTL loans, a fixed margin above or below the seller's standard variable BTL rate) for the life of the BTL loan, the terms of which BTL loans allow changes to the seller's standard variable BTL rate to reflect the Bank of England base rate.
- "**variable rate BTL loans**": BTL loans subject to a variable rate (other than the seller's standard variable BTL rate) determined by the originator, which rate in part depends upon the amount of money lent to the borrower.
- "**capped rate BTL loans**": BTL loans subject to a maximum rate of interest and interest which is charged at the lesser of the seller's standard variable BTL rate or the specified capped rate.
- "**discount rate BTL loans**": BTL loans, the terms of which allow the borrower to pay interest at a specified discount to the seller's standard variable BTL rate for a specified period of time or for the life of the loan.
- "**tracker rate BTL loans**": BTL loans subject to a variable rate of interest that is linked to the Bank of England base rate plus an additional fixed percentage.
- "**offset variable BTL loans**": offset BTL loans subject to a variable rate (other than the Seller's standard variable BTL rate).
- "**offset tracker rate BTL loans**": offset BTL loans subject to a variable rate of interest that is linked to the Bank of England base rate plus an additional fixed percentage.

The "specified period of time" referred to above for which a certain interest rate will apply to a BTL loan is referred to in this base prospectus as the "**concessionary interest rate period**".

### ***Repayment terms***

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

- **"repayment BTL loans"**: the borrower makes weekly, fortnightly or monthly payments of both interest and principal so that, when the BTL loan is scheduled to mature, the borrower will have repaid the full amount of the principal of the BTL loan on or before the maturity of the BTL loan.
- **"interest-only BTL loans"**: the borrower makes weekly, fortnightly or monthly payments of interest but not of principal and when the BTL loan matures, the entire principal amount of the BTL loan is still outstanding and the borrower must repay that amount in one lump sum.

The amount of the required weekly, fortnightly or monthly payments on the BTL loans may vary from period to period for various reasons, including changes in interest rates. Borrowers are required to make payments on their BTL loan on contractually agreed dates (which, in the case of monthly payments, will fall between the 1st and the 28th of each month).

The ability for borrowers to make weekly or fortnightly payments on mortgage loans was withdrawn as an option (i) in January 2005 for new borrowers of BTL loans originated by Clydesdale Bank, (ii) in July 2007 for existing borrowers of BTL loans originated by Clydesdale Bank requesting a variation of the terms in their BTL loans, and (iii) in March 2009 for borrowers of BTL loans originated by YBHL. Some BTL loans originated by the originators (including BTL loans in the loan portfolio) however still allow the applicable borrowers to make weekly or fortnightly payments of interest and principal.

Although borrowers under interest-only BTL loans are recommended to put in place an investment plan or other repayment mechanism forecast to provide sufficient funds to repay the principal due at the end of the term of the BTL loan, the relevant originator does not (and in some cases cannot) take security over any such investment plans. See *"Risk factors – There can be no assurance that a borrower will repay principal at the end of a term on an interest-only BTL loan (with or without a capital repayment vehicle)"*.

All payments due under the BTL loans included in the loan portfolio that have been originated by Clydesdale Bank are made by electronic direct debit ("**direct debit**") authorised by the relevant borrower and are made from such borrower's bank account to the collection account as more fully described under *"The servicer and the servicing agreement – Appointment – Collection of payments"*. All payments due under the BTL loans included in the loan portfolio that have been originated by YBHL, where the borrower holds a bank account at Clydesdale Bank, are made by automated debit or to the extent the borrower holds a bank account at a bank other than Clydesdale Bank are made by standing order, in each case as authorised by the relevant borrower and are made from the relevant bank account, to the collection account.

All such repayments are made periodically in accordance with the repayment terms of the relevant BTL loan. In certain circumstances, for example in the case of late payments, the borrower may pay by cheque or other means into accounts in the name of the servicer as more fully described under *"The servicer and the servicing agreement – Appointment – Collection of payments"*.

### ***Overpayments on non-flexible BTL loans***

Certain BTL loans offered by the originators are not marketed as being flexible BTL loans. Such BTL loans do not have any of the other features of flexible BTL loans such as cash re-draws. However a borrower may make overpayments in respect of such a BTL loan without incurring an early repayment charge, provided the concessionary interest rate period (if any) offered by the relevant originator to such borrower has ended. Any such overpayment will immediately reduce the current balance of such BTL loan from the day the overpayment is credited to the borrower's mortgage account and will result in the immediate reduction in the amount of interest payable by such borrower. For information on overpayments on flexible BTL loans and other flexible BTL loan features, see *"– Flexible BTL loans"*.

### ***Early repayment charges***

Borrowers under the originators' BTL loan products that have received a benefit in the form of a capped, discounted, fixed rate or other BTL loan that is subject to a concessionary interest rate may be required to

pay an early repayment charge if (a) the borrower makes a lump sum payment at any time prior to the end of the concessionary interest rate period offered by the relevant originator to such borrower, or (b) generally if they make a product switch, in each case before a date specified in the offer of advance.

Borrowers under BTL loans that have been originated by the seller through its intermediaries (see "*Origination of the BTL loans*") are permitted to make early repayments, during the concessionary interest rate period, either by way of regular overpayments (subject to the borrowers affordability) or by way of lump sums in an amount not to exceed 10 per cent of the current principal balance of the BTL loan in any one year (whether by way of one lump sum or over several payments), without incurring an early repayment charge.

Any early repayment charge will equal a percentage of the amount repaid in excess of a specified percentage limit, except for an early repayment in full, where the early repayment charge will equal a varying percentage of the entire amount repaid. Each originator retains absolute discretion to waive or enforce early repayment charges in accordance with its policy from time to time.

Pursuant to the terms of the mortgage sale agreement, the amount of any early repayment charges which may become payable on any BTL loans in the loan portfolio will be paid by the mortgages trustee to the seller as deferred purchase price.

All of the originators' BTL loan products allow for the borrower to avoid early repayment charges and, if applicable, avoid repaying to the relevant originator any of the cash payment described above, by "**porting**" the existing BTL loan to a new mortgaged property, provided that (1) the new BTL loan is equal to or greater than the existing BTL loan and (2) the borrower receives from the relevant originator substantially the same BTL loan product. The new BTL loan preserves the borrower's status in that BTL loan product (for an amount equal to the then current principal balance of the existing BTL loan).

A prepayment of the entire current balance of a BTL loan discharges the related mortgage. Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid charges and any early repayment charges.

#### ***Interest payments and setting of interest rates***

Interest on each BTL loan accrues on the current principal balance of that BTL loan from time to time. Interest is payable by the borrower either weekly, fortnightly or monthly in arrears. Interest on the BTL loans in the loan portfolio is computed on a daily basis and applied monthly on the first working day of each month, effective from the 1<sup>st</sup> of the month. Each BTL loan in the loan portfolio accrues interest at any time at either a fixed or a variable rate.

Fixed rate BTL loans provide that the borrower pays interest on such BTL loan at a fixed rate of interest for the period specified in the offer of advance. At the end of that period, the interest rate reverts to the seller's standard variable BTL rate or another variable interest rate as set forth in the offer of advance.

The rate of interest set by an originator for variable rate BTL loans is the buy-to-let standard variable rate which is set by Clydesdale Bank, (the "**seller's standard variable BTL rate**") or such other variable interest rate as may be set forth in the relevant offer of advance. Interest accrues on these BTL loans at a rate equal either to the seller's standard variable BTL rate or such other variable interest rate as set forth in the offer of advance (or, for a specified period of time, at a set margin below the applicable variable interest rate). The seller's standard variable BTL rate is not directly linked to interest rates in the financial markets although, in general, the seller's standard variable BTL rates follows movements in the markets.

Except in limited circumstances as set out in "*The servicer and the servicing agreement – The servicing agreement – Undertakings by the servicer*", the servicer, on behalf of the mortgages trustee and Funding, is responsible for setting the seller's standard variable BTL rate, the variable mortgage rate and the other discretionary rates and margins applicable to the BTL loans in the loan portfolio. The mortgage conditions applicable to all of the standard variable rate BTL loans and the variable rate BTL loans provide that the originators and their respective successors may vary the relevant standard variable mortgage rate or variable mortgage rate only for certain reasons which are specified in the mortgage conditions. These reasons may include:

- where there has been, or the lender reasonably expects there to be in the near future, a general trend to increase rates on mortgage loans generally;

- where the lender for good commercial reasons needs to fund an increase in the interest rate or rates payable to depositors;
- where the lender wishes to adjust its interest rate structure to maintain a prudent level of profitability;
- where there has been, or the lender reasonably expects there to be in the near future, a general increase in the risk of shortfalls on the accounts of borrowers; and
- where the lender's administrative costs have increased or are likely to increase in the near future.

The term "**lender**" in the above five bullet points means each of the originators and their respective successors.

The rate that a borrower is required to pay under a standard variable rate BTL loan or a variable rate BTL loan must not be greater than either the seller's standard variable BTL rate (or the other variable interest rate set forth in the offer of advance). In maintaining, determining or setting the variable interest rate for a BTL loan in the loan portfolio, the servicer is required to apply the factors set out here and will undertake to maintain, determine or set the seller's standard variable BTL rate (or the other variable interest rate set forth in the offer of advance) at rates which are not higher than the seller's equivalent rates from time to time.

The originators have given the mortgages trustee, Funding and the servicer the power to set the seller's standard variable BTL rate (and the other variable interest rates), but that power may only be exercised in limited circumstances.

#### **Flexible BTL loans**

The BTL loan products of the originators are subject to a range of options that may be selected by borrowers and that give such borrowers greater flexibility in the timing and amount of payments made under the BTL loans as well as access to cash re-draws or additional advances under the BTL loans. A BTL loan that has one or more of these features is called a "**flexible BTL loan**".

In addition to the flexible BTL loans described in this base prospectus, the seller may in the future assign BTL loans to the mortgages trustee that have different flexible features.

The following options currently are available to a borrower under a flexible BTL loan:

- **Overpayments.** A borrower under a BTL loan may make overpayments or may repay the entire current balance at any time without incurring any early repayment charges, provided the concessionary interest rate period offered by the relevant originator to such borrower has ended. Any overpayment made as a flexible BTL loan will immediately reduce the current balance of such BTL loan from the day on which the overpayment is credited to the borrower's mortgage account. As such, any overpayment on a flexible BTL loan will also result in the immediate reduction in the amount of interest payable by the relevant borrower.
- **Cash re-draws.** A borrower under a BTL loan may request a cash re-draw of overpayments that the borrower has previously made on his flexible BTL loan by requesting that the relevant originator refund some or all of such overpayments in cash. The minimum amount for a cash re-draw is £1,000. The maximum amount of a cash re-draw is an amount equal to the amount overpaid by the borrower. The cash re-draw may be taken at any time after the making of an overpayment (including any lump sum overpayment) in respect of a BTL loan being made by a borrower. Pursuant to the terms of the mortgage sale agreement, any cash re-draws in respect of a BTL loan in the loan portfolio are required to be funded solely by the seller, but form part of the loan portfolio and thereby increase the seller share of the trust property.
- **Flexible loan reserve advances.** A borrower under an offset BTL loan may, subject to the satisfaction of certain conditions, request an additional advance (an "**flexible loan reserve advance**") by requesting the relevant originator to advance an amount up to the offset reserve available to the borrower. The minimum amount for a flexible loan reserve advance is £5,000 (which figure may be increased to such amount as the relevant originator decides it is reasonably



cost-effective to make available as an additional advance). The "**flexible loan reserve**" of a BTL loan is the difference between:

- (a) the total amount actually drawn by the borrower either at the time of the origination of the BTL loan or at any subsequent time; and
- (b) the amount the relevant originator agreed that it was prepared to lend at the time of the origination of the BTL loan.

The seller currently does not intend to transfer to the mortgages trustee BTL loans with flexible loan reserves. However, this intention may change at a later date.

Provided that certain conditions are satisfied, each originator is required to grant a request for a flexible loan reserve advance. Each originator retains the discretion whether to grant a cash re-draw or to provide a further advance (as described under "*Further advances*" below) to a borrower on a flexible BTL loan depending on the facts associated with the borrower's request. Despite the foregoing means by which the originators describe and treat cash re-draws and flexible loan reserve advances, each re-draw or flexible loan reserve advance technically would be a "further advance" as such term is used in the Land Registration Act 2002 (which applies only in England and Wales and which has no statutory or common law equivalent in Scotland).

A borrower may repay amounts owed under a flexible BTL loan currently offered to the relevant originator under any of the repayment terms described above under "*Repayment terms*". The term over which a borrower may repay its flexible BTL loan currently is up to 40 years in the case of BTL loans originated through the originators' branch networks, integrated financial solution centres and telephone centres (up to a maximum age of 65 at the end of the mortgage term) and 25 years for BTL loans originated through intermediaries, generally to normal retirement age. BTL loans may be extended beyond retirement age so long as the borrower can demonstrate sufficient ability to repay the BTL loan following retirement. This concession does not, however, allow the current maximum loan term of 40 years to be exceeded.

Each originator reviews on an ongoing basis the interest rate on its flexible BTL loans which are variable rate BTL loans and standard variable rate BTL loans. In addition, each originator recalculates accrued interest on flexible BTL loans to take account of the exercise of any overpayment, re-draw or the making of any flexible loan reserve advance so that (a) interest on any re-draw or flexible loan reserve advance is charged from the date of such re-draw or advance, and (b) borrowers are given the benefit of any overpayment from the date on which the seller credits such overpayment to the borrower's BTL loan.

In addition to the conditions described above, the re-draw or flexible loan reserve advance options for borrowers with flexible BTL loans may cease to be available, at the seller's sole discretion, if an event of default (as set out in the applicable mortgage conditions) occurs.

#### ***Further advances***

An existing borrower may apply to the relevant originator for a further amount to be lent to him or her under his or her BTL loan, which amount will be secured by the same mortgaged property as the BTL loan. Any such application may result from a solicitation made by such originator, as each originator may periodically contact borrowers in respect of its total portfolio of BTL loans in order to offer to a borrower the opportunity to apply for a further advance. Any further advance approved by the relevant originator and made to an existing borrower will be added to the current principal balance of that borrower's BTL loan at the time of the further advance under the same terms and conditions as the existing BTL loan or under different terms and conditions set up under a new BTL loan but using the same security. The aggregate of the outstanding amount of the BTL loan and the further advance may be greater than the original amount of the BTL loan.

In determining whether to make a further advance, the relevant originator will use its then current lending criteria applicable to further advances at that time in determining, in its sole discretion, whether to approve the application. The originator will calculate a new LTV ratio by dividing the aggregate of the outstanding amount of the BTL loan and the further advance by a revised valuation of the mortgaged property. The originator will in all cases reassess the value of the mortgaged property that is the subject of the further advance, either by using an automated valuation model for BTL loans with a remaining

term of less than 3 years or instructing a valuer, who may physically inspect the property for all other BTL loans. The seller will not assign to the mortgages trust any BTL loan where the LTV ratio at the time of origination or further advance is in excess of 80 per cent. in the case of repayment BTL loans and 75 per cent. in the case of interest-only BTL loans originated through the originators' branch networks, integrated financial solution centres and telephone centres and, in relation to all BTL loans originated through intermediaries and originated prior to October 2011, 70 per cent. and thereafter 75 per cent. (excluding capitalised fees and/or charges).

None of the BTL loans to be assigned to the mortgages trustee will oblige either of the originators to make further advances (other than cash re-draws and flexible loan reserve advances (if the seller decides, at a later date, to assign BTL loans with flexible loan reserves to the mortgages trustee) under a flexible BTL loan). However, an originator may choose to make further advances on any such BTL loan prior to its assignment to the mortgages trustee and, in such circumstances, the originator will be solely responsible for funding such further advance. Under the servicing agreement, the servicer is permitted, on behalf of an originator, to accept an application from or issue an offer for a further advance to any borrower in respect of a BTL loan which has been assigned to the mortgages trustee where the seller has confirmed that it would elect to purchase that BTL loan in accordance with the terms of the mortgage sale agreement. If the seller decides at a later date to retain those BTL loans within the trust property and to assign such further advances to the mortgages trustee, then this may have an effect on whether a further advance may be offered or made on such BTL loans. See "*Risk factors – The yield to maturity of the notes may be adversely affected by prepayment or redemptions on the BTL loans or repurchases of BTL loans by the seller*" and "*Conditions to assignment*".

#### ***Product switches***

From time to time a borrower may request, or the relevant originator may offer, in limited circumstances, a variation in the mortgage conditions applicable to the borrower's BTL loan. In addition, in order to promote the retention of borrowers, the originator may periodically contact certain borrowers in respect of its total portfolio of outstanding BTL loans in order to encourage a borrower to review the originators' other mortgage products and to discuss moving that borrower to an alternative mortgage product. Any such variation, including a change in product type, is called a "**product switch**". The servicer is required, pursuant to the terms of the servicing agreement, not to accept an application from, or issue an offer for a product switch to, any borrower in respect of a BTL loan which has been assigned to the mortgages trustee unless the seller has elected to purchase that BTL loan in accordance with the terms of the mortgage sale agreement. See "*Risk factors – The yield to maturity of the notes may be adversely affected by prepayment or redemptions on the BTL loans or repurchases of BTL loans by the seller*" and "*Conditions to assignment*".

#### ***Arrears capitalisation***

In extremely limited circumstances, where a borrower has demonstrated a regular payment history following previous arrears, an originator may agree to capitalise any outstanding amounts in arrears. In those circumstances, the amount of arrears will be added to the current principal balance of the related BTL loan, the arrears tracking balance will be reset to zero and the BTL loan will no longer be considered to be in arrears. The current principal balance will be required to be repaid over the remaining term of such BTL loan. See "*The servicer and the servicing agreement – Arrears and default procedures*".

#### **Origination of the BTL loans**

The originators currently derive their mortgage lending business from the following sources:

In respect of Clydesdale Bank:

- financial intermediaries;
- its branch network throughout the United Kingdom; and
- its integrated financial solution centres and telephone centres.

In respect of YBHL:

- its branch network throughout the United Kingdom; and

- its integrated financial solution centres and telephone centres.

In each case, the relevant originator performs all the evaluations of the borrower and determines whether a BTL loan will be offered.

### **Underwriting**

Since September 2008, the decision by an originator to offer a BTL loan to a potential borrower is made by one of the originator's underwriters in its credit offices in Leeds and London, who may liaise with the intermediaries. Each underwriter must pass a formal training program to gain the authority to approve BTL loans. Each originator has established various levels of authority for its underwriters who approve BTL loan applications. The levels are differentiated by, among other things, the amount of the BTL loan and LTV ratio in the relevant application. Each originator also monitors the quality of underwriting decisions on a regular basis.

Prior to September 2008, the decision by an originator to offer a BTL loan to a potential borrower also may have been made by one of the originator's mandate holders located in a branch office or a financial solutions centre or the originator's head office. "**Mandate holders**" are employees of a company, which is within the NAB group who are not underwriters but who have participated in a formal training program, and who have been given a mandate by the relevant originator to approve a BTL loan for which the potential borrower has attained a specified minimum credit score on the originator's initial credit review.

In the case of BTL loans originated by Clydesdale Bank through its intermediary/broker network, following input to Autoscore (credit score) by Genpact, all applications, whether accept, refer or decline, are passed to the underwriting team for overview and approval prior to the issue of any offer of the BTL loan.

Each originator continually reviews the way in which it conducts its mortgage origination business in order to ensure that it remains up-to-date and cost effective in a competitive market. Each originator may therefore change its origination processes from time to time.

Each originator will also retain exclusive control over its underwriting policies and lending criteria to be applied to the origination of each BTL loan. Each originator's underwriting and processing of BTL loans are independent from the process by which such originator's BTL loans are originated.

### ***Lending criteria***

BTL loans may only be assigned by the seller to the mortgages trustee if they have been originated in accordance with the relevant originator's lending criteria applicable at the time the BTL loan is offered and if the conditions contained in "*Assignment of the BTL loans and related security – Conditions to assignment*" have been satisfied. However, each originator retains the right to revise its lending criteria from time to time, so the criteria applicable to new BTL loans may not be the same as those currently used.

To obtain a BTL loan, each prospective borrower completes an application form which includes information about the applicant's income, current employment details, bank account information, if any, current mortgage information, if any, and certain other personal information. The credit reference agency search is made in respect of each applicant at their current address and, if necessary, former addresses and gives details of public information including any county court judgments and details of any bankruptcy. Some of the factors currently used in making a lending decision are as follows:

#### **(1) *Employment details and rental income***

Between June 2005 and September 2008, the ratio between the principal amount of the BTL loan and the expected rental income for the property (the "**rental income ratio**") for a prospective borrower was made in the originators' decision assessment. Since September 2008 both the prospective borrower's employment income and rental income has been assessed.

Each originator operates the following policy in respect of the verification of a prospective borrower's income details. Under this policy, the originator categorises prospective borrowers as either "**employed**" or "**self-employed**".

Proof of income for employed prospective borrowers who are applying for BTL loans may be established by the three most recent monthly payslips of the prospective borrowers (or the average of the three most recent salary payments as set out in the borrower's bank statements) prior to the date of the loan application. In addition, each prospective borrower is required to provide his or her three most recent monthly bank statements, if the borrower's main transactional current account is not domiciled with the originator.

Proof of income for self-employed prospective borrowers who are applying for mortgage loans is established by annual financial statements covering a three year period.

(2) *Valuation*

For BTL loans, a valuation with full internal inspection is required and is carried out by an approved panel of independent third party providers.

(3) *Property types*

Each originator applies the criteria set out below in determining the eligibility of properties to serve as security for BTL loans. Under these criteria, eligible property types include freehold, heritable and leasehold houses, heritable and leasehold flats. In the case of a BTL loan secured by a leasehold property, the relevant originator requires that the unexpired term of the lease be at least 50 years from the end of the agreed BTL loan term.

(4) *Loan amount*

The seller will represent and warrant in the mortgage sale agreement that, as of the date of assignment, no BTL loan in the loan portfolio has a current principal balance greater than £1,000,000.

(5) *Term*

Each BTL loan may not exceed a maximum term of 40 years.

(6) *Age of applicant*

All borrowers in respect of all BTL loans must be aged 18 or over. There are no maximum age limits.

(7) *Status of applicant(s)*

The maximum loan amount of the BTL loan(s) under a mortgage account is determined by a number of factors, including the applicant's income and the rental income ratio. In determining income, each originator includes basic salary along with pensions and annuities. On a case by case basis, overtime and commission can be taken into consideration by the originator's underwriters.. Bonuses may also be included in the determination of a borrower's income. The relevant originator will deduct the annual cost of existing financial commitments, core utilities and insurance from the applicant's gross income. Positive proof of the applicant's identity and address is obtained in all cases.

Each originator may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount an applicant can borrow. Accordingly, these parameters may vary for some BTL loans. Each originator may take the following into account when applying discretion: credit score result, existing customer relationship, LTV and total income needed to support the BTL loan.

(8) *Credit history*

(a) *Credit search*

A credit search is carried out in respect of all applicants. Applications may be declined where an adverse credit history (for example, county court judgment (or Scottish court decree), default or bankruptcy notice) is revealed.

(b) Existing lender's reference

In some cases the relevant originator may seek a reference from any existing and/or previous lender. Any reference must satisfy the relevant originator that the account has been properly conducted and that no history of material arrears exists. The relevant originator may substitute the reference with the bureau record obtained as a result of the credit search.

(9) *Scorecard*

Each originator uses some of the criteria described here and various other criteria to produce an overall score for the application that reflects the statistical analysis of the risk of advancing the BTL loan. The scorecard has been developed using the data of the originator and experience of their mortgage accounts. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Full use is made of software technology in credit scoring new applications. Credit scoring applies statistical analysis to publicly available data and customer-provided data to assess the likelihood of a mortgage account going into arrears.

Each originator reserves the right to decline an application that has achieved a passing score. Each originator does have an appeals process if an applicant believes that his/her application has been unfairly declined. It is each originator's policy to allow only authorised individuals to exercise discretion in granting variances from the scorecard.

***Originator's discretion to lend outside of its lending criteria***

On a case-by-case basis, and within approved limits as detailed in each originator's lending criteria, the relevant originator may have determined that, based upon compensating factors, a prospective borrower that did not strictly qualify under its lending criteria at that time warranted an underwriting exception. The relevant originator may take into account compensating factors including, but not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence. BTL loans and further advances (made prior to their assignment to the mortgages trustee or if the relevant originator decides at a later date to retain such BTL loans subject to further advances within the mortgages trust, after their assignment to the mortgages trustee) that the relevant originator has originated under lending criteria that are different from the lending criteria set out here may be assigned to the mortgages trustee.

***Maximum LTV ratio***

The maximum LTV ratio permitted for prospective borrowers applying for BTL loans is 80% in the case of repayment BTL loans, 75% in the case of interest-only BTL loans originated through the originators' branch networks, integrated financial solution centres and telephone centres and 70% for all BTL loans originated through intermediaries (however, on a case-by-case basis, as set out in "*Seller's discretion to lend outside its lending criteria*", an originator may originate a BTL loan with an LTV ratio of more than 80%).

In the case of a purchase of a mortgaged property, the relevant originator will determine the current market value of that mortgaged property (which will be used to determine the maximum amount of the BTL loan permitted to be made by the relevant originator) to be the lower of:

- the valuation made in accordance with the process described in "*Lending criteria – (2) Valuation*"; or
- the purchase price for the mortgaged property paid by the prospective borrower.

If a borrower or a prospective borrower has applied to remortgage its current mortgaged property, the relevant originator will determine the current market value of the mortgaged property (for the purpose of determining the maximum amount of the loan available) by undertaking a physical valuation from a member of the approved valuation panel.

If the borrower has applied for a further advance, the relevant originator will determine the current market value of the mortgaged property by undertaking a physical valuation from a member of the approved valuation panel.

## **Buildings insurance policies**

### ***Insurance on the property***

A borrower is required to arrange for insurance on the mortgaged property for an amount equal to the full rebuilding cost of the property. The borrower may either purchase the insurance through an insurer arranged or introduced by Clydesdale Bank (an "**originator arranged insurer**"), or the borrower or landlord (for a leasehold property) may arrange for the insurance independently.

### ***Originator arranged buildings insurance policies***

If a borrower asks Clydesdale Bank to take steps for the arrangement of insurance on its behalf, subject to the borrower meeting the required application criteria, a policy will be issued by one of the originator arranged insurers, which are currently Royal & Sun Alliance Insurance plc (for insurance up to £600,000) and Hiscox Insurance Company Ltd. (for insurance up to £1,000,000). For insurance in excess of £1,000,000, Hiscox Insurance Company Ltd. is able to offer borrowers alternative insurance arrangements to customers through certain brokers.

Royal & Sun Alliance Insurance plc's registered number is 93792 and its address is St Mark's Court, Chart Way, Horsham, West Sussex RH12 1XL. Hiscox Insurance Company Ltd.'s registered number is 00070234 and its address is 1 Great St Helen's, London EC3A 6HX.

Each originator arranged insurance policy will provide the borrower with rebuilding insurance up to an amount equal to the full reinstatement value of the property, architects fees and removal of debris from site. Standard policy conditions apply, which are renegotiated periodically with each originator arranged insurer.

### ***Borrower arranged buildings insurance policies***

A borrower may elect not to take up an originator arranged insurance policy, or if a borrower originally had an originator arranged insurance policy may terminate such insurance. In such circumstances, the borrower is required to arrange an alternative insurance policy which covers the rebuilding cost of the property.

It is possible that an originator may not be insured under any insurance policy which is not arranged by that originator and, therefore, it may not have the benefit of any security over such policies. The mortgages trustee, therefore, may not have an interest in policies that were not arranged through the originators. See "*Risk factors – The mortgages trustee may not receive the benefit of claims made on the buildings insurance which could adversely affect payments on the notes*".

### ***Properties in possession policy***

If the relevant originator takes possession of a property from a borrower in default, the relevant originator has coverage through a "properties in possession policy" from Giles Insurance Limited, which is a broker service with the insurance underwritten by Brit Insurance. The policy covers any property based on its reinstatement value with a requirement to undertake a physical inspection on higher value properties. There is no limit on the rebuilding insurance. The seller will assign its rights under this policy to the mortgages trustee for any BTL loan in the loan portfolio and is a property in possession. Amounts paid under the properties in possession policy are generally utilised to fund the reinstatement of the property or are otherwise paid to the relevant originator to reduce the amount of the BTL loan.

### ***Title insurance***

Between April 2004 and 31 January 2009, in the case of BTL loans that are refinancings (of loans originated by third parties) and that are originated through the intermediary/broker network and, between October 2006 and 31 January 2009 in relation to all such refinancings originated using panel solicitors since October 2006, a search and title insurance policy (the "**title insurance**") has been relied upon as a part of the diligence process. In such cases, rather than the usual full certificate of title, panel solicitors produce a certificate that is slightly reduced in scope (as described below) confirming that the insurer's underwriting criteria have been complied with, and this certificate is supported by the title insurance. Since February 2009, in relation to the types of refinancing described above, title insurance has not been

obtained. Where the borrower uses their own solicitor who is not a panel firm or where the origination is not in respect of a refinancing (as referred to above), a full certificate of title is required.

The title insurance in relation to BTL loans and the related mortgaged property is currently provided to the originators by AXA Insurance UK plc, 107 Cheapside, London EC2V 6DU, acting by its agent London & European Title Insurance Services Limited, 5-10 Bury Street, London EC3A 5AT. Among other things, the title insurance purports to cover, up to a specified indemnity limit (expressed in the relevant policy document), losses arising in respect of: (i) the title to the mortgaged property belonging to someone other than the borrower, (ii) any defect or invalidity in or loss of documents necessary for proving the borrower's title to the property, and (iii) any adverse entries that would have been identified in replies to searches if searches had been carried out. The policy is subject to specified exclusions and the terms and conditions of the policy itself which include, in particular, a requirement that the solicitors, licensed conveyancers or (in Scotland) qualified conveyancers acting for the originator in relation to the relevant BTL loan comply with the criteria required of them, including, the issue of a reduced certificate as referenced to above.

An originator would normally require solicitors to follow the standard procedures for providing a certificate of title, in compliance with The Law Society rules (if applicable), and to provide a full certificate of title confirming that all such procedures had been undertaken. However, as referred to above, where the BTL loan constitutes a refinancing in the circumstances described above, then the certificate or confirmation is more limited in nature. Whilst the limited certificate or confirmation still requires the solicitor to confirm (amongst other things) that the name of the borrower/vendor is that shown on the relevant title/title deeds, and that the only charges registered against the property are those which have been disclosed to the relevant originator and sufficient funds are available to redeem any such charges (save where they are to be postponed), the scope of the solicitor's due diligence is reduced to the extent, among other things, that the full set of searches and enquiries are not undertaken. A property which has undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation and which could have been remedied or, if incapable of remedy, may have resulted in the property not being accepted as security for the BTL loan.

Where title insurance is in place in relation to the origination of such BTL loans, the purpose of such insurance is to cover those matters that have not been undertaken and which would otherwise in a full exercise have been addressed and checked.

Although such insured risks are similar in nature to the matters that would otherwise be addressed by a certificate of title given by a solicitor, licensed conveyancer or (in Scotland) a qualified conveyancer who carried out the standard conveyancing procedures (see below), there is no assurance that they are the same. There is also no assurance as to whether losses suffered in respect of a BTL loan that proves to be deficient in some respect would be less, the same or more in the situation where title insurance has been entered into in respect of a BTL loan or where the standard conveyancing procedures have been followed (or vice versa).

Until October 2006, the originators used one panel firm of solicitors (Walker Morris) to act on their behalf in the case of certain remortgages relating to mortgaged properties in England and Wales. Pursuant to the terms of the service agreement between Walker Morris and the originators, a similar approach to that described above was used. Walker Morris carried out a limited title investigation in relation to the relevant property, and then produced a request for funds, confirming that the relevant ownership checks on the property had been carried out in accordance with the service agreement. This limited title investigation was then supported by defective title and local search indemnity insurance provided by Norwich Union.

### ***Scottish BTL loans***

A portion of the BTL loans in the loan portfolio may, at any time, be secured over properties located in Scotland. Under Scots law, the only means of creating a fixed charge or a fixed security interest over heritable or long leasehold property is the statutorily prescribed standard security. In relation to the Scottish BTL loans, references in this base prospectus to a "**mortgage**" are to be read as references to such standard security and references to a "**mortgagee**" are to be read as references to the security holder (under Scots law, termed the "**heritable creditor**").

In practice, each originator has advanced and intends to advance BTL loans on a similar basis both in England and Wales and in Scotland. While there are certain differences in law and procedure in connection with the enforcement and realisation of Scottish mortgages, the seller does not consider that these differences make Scottish mortgages significantly different from or less effective than English mortgages. For further information on Scottish mortgages, see "*Material legal aspects of the BTL loans and the related security – Scottish BTL loans*".

The final terms will set out the geographical concentration of the BTL loans in the loan portfolio as at the relevant cut-off date (as defined in the relevant final terms).

**Selected statistical information on the loan portfolio**

In respect of each series of notes, statistical information regarding the BTL loans as of the relevant cut-off date in the loan portfolio will be set out in the applicable final terms. Please note, however, that the information provided is historical and will not be updated and, given that new BTL loans of a series of notes may be added to the loan portfolio at any time, the statistical information provided at the time of issue may be different to the actual composition of the loan portfolio at any other given time.



## CONDITIONS TO ASSIGNMENT

The following section describes, in summary, the material terms of the mortgage sale agreement. The description does not purport to be complete and is subject to the provisions of the mortgage sale agreement.

### **The mortgage sale agreement**

Pursuant to the terms of the mortgage sale agreement, the seller will be permitted, from time to time, to assign BTL loans and related security to the mortgages trustee. In addition to providing for the assignment of the BTL loans and related security, the mortgage sale agreement will also set out and provide for the following:

- the representations and warranties to be given by the seller in relation to the BTL loans and the related security, to be given by the seller as of each assignment date in relation to the BTL loans and the related security assigned to the mortgages trustee on that date (the "**BTL loan warranties**");
- (i) the repurchase by the seller from the mortgages trustee of BTL loans together with their related security which are subject to a product switch or in respect of which a further advance is made or (ii) the repurchase by the seller from the mortgages trustee of BTL loans together with their related security where the seller has breached any of the BTL loan warranties in respect of such BTL loans or their related security (the repurchase to include all BTL loans in the same mortgage account in the loan portfolio, if such a breach occurs in respect of any such BTL loan);
- the making of cash re-draws and flexible loan reserve advances in respect of flexible BTL loans in the loan portfolio;
- the circumstances for the transfer of legal title to the BTL loans in the loan portfolio and their related security to the mortgages trustee; and
- the formation and administration of each all moneys mortgage trust.

Each sale and assignment by the seller to the mortgages trustee of Scottish BTL loans and related security will be given effect by a declaration of trust by the seller, in the case of Scottish BTL loans originated by the seller or by YBHL, with the consent of the seller, in the case of Scottish BTL loans originated by YBHL and sold by YBHL to the seller (each such declaration of trust being a "**Scottish declaration of trust**"). In relation to Scottish BTL loans, references in this base prospectus to the "**assignment**" of such BTL loans and related security are to be read as the transfer of the beneficial interest in such BTL loans and related security by the making of such Scottish declarations of trust and the term "**assign**" shall be construed accordingly (see "*- Transfer of legal title to the mortgages trustee*").

### **Representations and warranties**

The mortgage sale agreement will contain the BTL loan warranties to be given by the seller to the mortgages trustee, Funding and the Funding security trustee in relation to each BTL loan assigned, or to be assigned, by the seller to the mortgages trustee pursuant to the terms of the mortgage sale agreement (except as otherwise provided below). None of the mortgages trustee, Funding, the Funding security trustee or the issuer has carried out or will carry out any searches, inquiries or independent investigations of the type which a prudent purchaser or mortgagee would normally be expected to carry out. Each will rely entirely on the BTL loan warranties. The BTL loan warranties, in relation to a BTL loan assigned, or to be assigned, by the seller to the mortgages trustee, will be substantially as follows:

#### (a) ***Buy-to-let mortgage loans***

The loan to be assigned by the seller to the mortgages trustee is a mortgage loan which is intended for borrowers who wish to use the relevant mortgage loan as a means to purchase or refinance residential property which is not the borrower's main dwelling, including for the purpose of letting to third parties (a "**BTL loan**").

(b) ***Legal and beneficial owner***

Subject to the completion of any registration or recording which may be pending at the Land Registry (in England and Wales) or Registers of Scotland (in Scotland), the seller is the absolute legal and beneficial owner of the BTL loan, the related security and all other property to be sold by the seller to the mortgages trustee pursuant to the terms of the mortgage sale agreement (except, where the BTL loan is a YBHL BTL loan, where legal title to the BTL loan and related security, is held by YBHL).

(c) ***Legal valid and binding obligation***

The BTL loan and its related mortgage constitute the legal, valid and binding obligations of the relevant borrower enforceable in accordance with their respective terms and are non-cancellable and such related mortgage secures the repayment of all advances, interest, costs and expenses payable by the relevant borrower to the seller or to YBHL, as applicable, under the BTL loan.

(d) ***First ranking mortgage***

Subject to completion of any registration or recording which may be pending at the Land Registry (in England and Wales) or Registers of Scotland (in Scotland)), the related mortgage constitutes a first ranking charge by way of legal mortgage (in England and Wales) or a first ranking standard security (in Scotland) over the relevant mortgaged property, and there is nothing to prevent such registration or recording being effected with absolute title (or the relevant equivalent) in due course. For the avoidance of doubt, the fact of the existence of a second ranking charge, or in Scotland, a second ranking standard security over the relevant mortgaged property does not render this warranty untrue provided that the seller or YBHL, as applicable, has first priority for all advances, interest, costs and expenses payable by the relevant borrower under the BTL loan.

(e) ***Lending criteria***

- (i) The BTL loan was originated by the seller or YBHL (as applicable) in accordance with its lending criteria in force at the time of the origination of the BTL loan (or with material variations from such lending criteria provided that such variations have been notified to the rating agencies and a ratings confirmation has been received in relation thereto) and the exercise of any discretion by the relevant originator in making the BTL loan was consistent with the practice of a reasonable and prudent mortgage lender.
- (ii) Immediately prior to making the BTL loan, the nature and amount of the BTL loan and its related security and the circumstances of the relevant borrower and the relevant mortgaged property satisfied the lending criteria in all material respects (or with material variations from such lending criteria provided that such variations have been notified to the rating agencies and a ratings confirmation has been received in relation thereto).
- (iii) The lending criteria of each of the Seller and YBHL (as applicable) are in line with those of a reasonable and prudent mortgage lender.

(f) ***No adverse effect of assignment***

Neither the entry by the seller or YBHL into the mortgage sale agreement nor the sale, assignment, assignment or any declaration of trust in relation to the rights, title, interests and benefits in the BTL loan and its related security contemplated by the mortgage sale agreement and its related agreements will have a material adverse effect on the BTL loan or its related security and the seller and (where the BTL loan is a YBHL BTL loan) YBHL may freely sell, assign or declare a trust over its rights, title, interests and benefits in, the BTL loan and its related security without breaching any term or condition applying to the BTL loan or its related security.

(g) ***Approvals and consents***

All formal approvals, consents and other steps necessary to permit the sale of the BTL loan and its related security have been obtained or taken.

(h) ***No borrower right of set off***

No lien or right of set off, retention, compensation, rescission, defence or counterclaim has been created or has arisen between each of the seller and YBHL (as applicable) and the relevant borrower which would entitle the relevant borrower to reduce the amount of any payment otherwise due in respect of the BTL loan and to the best of the seller's knowledge, no such lien or right has been asserted by the relevant borrower.

(i) ***Searches and insurance as to title***

(i) Save where the BTL loan is a refinancing (of a loan originated by a third party) originated since April 2004 through the intermediary/broker network of the relevant originator or originated since October 2006 using the panel solicitors of the relevant originator (a "**third party refinancing**"), prior to making the BTL loan, the relevant originator instructed, or required to be instructed on its behalf, solicitors, licensed conveyancers or, in Scotland, qualified conveyancers to carry out, in relation to the relevant mortgaged property, all investigations, searches and other actions and enquiries which a reasonable and prudent mortgage lender or its solicitors, licensed conveyancers or qualified conveyancers normally would have made when lending to an individual an amount equal to the amount advanced on the security of residential property in England and Wales or Scotland, as applicable, as permitted under the lending criteria, and received a report on title or certificate of title which, either initially or after further investigation, revealed no material matter which would have caused a reasonable and prudent mortgage lender to decline the loan, having regard to the lending criteria.

(ii) Where the BTL loan is a third party refinancing (A) where the related mortgage is not covered by a valid title and/or local search insurance policy, prior to making the BTL loan, the relevant originator instructed, or required to be instructed on its behalf, solicitors, licensed conveyancers or, in Scotland, qualified conveyancers to carry out, in relation to the relevant mortgaged property, a limited form of investigation of title for residential property in England and Wales or Scotland, as applicable, confirming that the name of the borrower is that shown on the relevant title deeds and such other matters as may be required by a reasonable prudent mortgage lender in relation to loans that are equivalent to third party refinancing, or (B) where the related mortgage is covered by a valid title and/or local search insurance policy, the title and/or local search insurance policy has been issued by a reputable title insurance company that has previously been approved by the relevant originator, is in full force and effect and all premiums thereon due on or before the relevant assignment date have been paid in full and the seller is not aware of any circumstances giving the insurer under the policy the right to avoid or terminate such policy.

(j) ***Valuation***

Prior to making the BTL loan, and where required under the relevant lending criteria the relevant property was valued in accordance with the lending criteria by an independent qualified surveyor (MRICS or FRICS or equivalent qualification) from a panel of valuers from time to time appointed by the Seller or YBHL (as applicable) or as otherwise permitted under the lending criteria, and the results of each such valuation would be acceptable to a reasonable and prudent mortgage lender.

(k) ***Waiver of rights against solicitors, licensed conveyancers, qualified conveyancers or valuers***

Each of the Seller and YBHL (as applicable) has not agreed to waive any of its rights against any valuer, solicitor, licensed conveyancer, qualified conveyancer or other professional who has provided information, carried out work or given advice in connection with the BTL loan or its related security.

(l) ***Further advances***

Except in the case of cash re-draws, there is no obligation on the seller and/or (where the BTL loan is a YBHL BTL loan), on YBHL, under the BTL loan to make any further advance to the relevant borrower.

(m) ***Registration***

If the registration or recording of the related mortgage is pending at the Land Registry (in England and Wales) or Registers of Scotland (in Scotland), so far as the seller is aware, there is no caution, notice, inhibition, restriction or other matter which would prevent the registration or recording of the mortgage as a first priority charge or, in Scotland, first ranking standard security and application has been made, in the case of English mortgages, to the Land Registry (in England and Wales) within the applicable priority period or, in the case of Scottish mortgages, to Registers of Scotland.

(n) ***Standard documentation***

The BTL loan and its related security have been made on the terms of, or on terms not materially different from, documents forming part of the standard mortgage documentation of the Seller or YBHL (as applicable) and such documents have not been varied in any material respect since the date of completion of the BTL loan, other than as required to comply with any applicable law or regulation.

Each of the Seller and/or YBHL (as applicable) has complied with its material obligations under the BTL loan.

(o) ***Consumer Credit Act***

The agreement for the BTL loan or variation of such agreement is not and does not include a regulated consumer credit agreement (as defined in Section 8 of the CCA) or constitute any other agreement regulated or partly regulated by the CCA (other than Sections 140A and 140B of the CCA) and the agreement for the BTL loan is not unenforceable in whole or in part as a result of non-compliance with the CCA.

(p) ***MCOB***

The BTL loan does not constitute a regulated mortgage contract for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

(q) ***Distance Marketing Regulations***

To the extent that the BTL loan qualifies as a "**distance contract**" (as defined by the Financial Services (Distance Marketing) Regulations 2004), each of the Seller and YBHL (as applicable) has complied with the provisions of such regulations in respect of the BTL loan.

(r) ***Unfair Terms in Consumer Contracts Regulations***

To the extent that the agreement for the BTL loan was not "**individually negotiated**" between the Seller or YBHL (as applicable) and the relevant borrower, so far as the seller is aware, none of the terms of the agreement for the BTL loan and its related mortgage are unfair terms within the meaning of the Unfair Terms in Consumer Contracts Regulations 1999 in any material respect.

(s) ***Unfair Contract Terms Act***

The limitations or exclusions of the liability of the Seller or YBHL (as applicable) contained in the agreement relating to the BTL loan are fair and reasonable having regard to the circumstances of the relevant borrower for the purposes of the Unfair Contract Terms Act 1977, as amended or re-enacted from time to time.

(t) ***Consumer Credit Act authorisation***

Where necessary, the Seller and YBHL (as applicable) held, at all relevant times in relation to the BTL loan and currently, holds an appropriate licence granted by the Office of Fair Trading in accordance with the CCA.

(u) ***Data Protection Act registration***

Each of the Seller and/or YBHL (as applicable) was, at all relevant times in relation to the BTL loan, and is, registered as a data controller with the Office of the Information Commissioner under the provisions of the Data Protection Act 1998 and all subordinate legislation made pursuant to that Act.

(v) ***FSA authorisation***

- (i) If the BTL loan was introduced to the relevant originator by an intermediary, at the time that such intermediary submitted the relevant mortgage application form for such BTL loan to the originator, such intermediary was registered with the Mortgage Code Compliance Board or, as applicable, authorised by the FSA to carry on its mortgage intermediary business.
- (ii) Each of the Seller and YBHL have complied and will comply, in all material respects, with all applicable laws and regulations including, without limitation, the FSMA.

(w) ***Dealing with the BTL loan***

- (i) So far as the seller is aware, the relevant borrower is not in material breach of the terms of the BTL loan.
- (ii) The scheduled payments due from the relevant borrower in the first month following the date of origination of the BTL loan have been paid in full.
- (iii) No representation or warranty has been made to the relevant borrower (whether prior to the execution of the agreement for the BTL loan or at any time thereafter) which is inconsistent with the terms and provisions set out in the relevant agreement.
- (iv) None of the provisions of the agreement in respect of the BTL loan were (at the time any such agreement was entered into) or have since been waived, altered or modified except a change to the terms of the BTL loan to which a reasonable and prudent mortgage lender would have agreed.

(x) ***Insurance***

Each of the Seller or YBHL (as applicable) has taken such steps as a reasonable and prudent mortgage lender would take to ensure that, at the date of completion of the BTL loan, the relevant mortgaged property was insured under a policy with an insurance company against fire and other commercial risks usually covered by a reasonable and prudent mortgage lender for an amount not less than the full reinstatement value of the mortgaged property at or around the time that the mortgaged loan was made, or in the case of leasehold properties, the relevant property was insured by the relevant landlord.

(y) ***The insurance policies***

So far as the seller or YBHL (as applicable) is aware, each insurance policy arranged by the seller or YBHL (as applicable) in respect of any mortgaged property has been issued by a reputable insurance company, is in full force and effect and the seller or YBHL (as applicable) is not aware of any circumstances giving the insurer under any such insurance policy the right to avoid or terminate the insurance policy in so far as it relates to the BTL loan and its related security.

(z) ***Origination date***

The BTL loan was originated after October 2002 or, if originated prior to October 2002, has since its origination and in its entirety, become subject to a BTL loan agreement (or agreements) dated on or after October 2002.

- (aa) ***Loan term***
- The BTL loan does not have a final maturity beyond December 2058 or such later date as may be specified as the "**BTL loan final maturity date**" in the final terms relating to the most recent issuance of notes by an issuer.
- (bb) ***Loan files***
- All loan files in respect of the BTL loans are in the seller's possession or held to its order
- (cc) ***Balance***
- The BTL loan does not have a current principal balance outstanding of greater than £1,000,000.
- (dd) ***Number of BTL loans per borrower***
- No individual borrower is permitted to have more than three BTL loans at any time, based on current lending criteria.
- (ee) ***The relevant borrower***
- The relevant borrower is an individual, was 18 years or over at the time of completion of the BTL loan and is not a member of staff of, or employee of, the seller, YBHL and/or National Australia Group Europe Limited.
- (ff) ***Property type and location***
- The relevant mortgaged property is a residential property situated in England or in Wales or Scotland.
- (gg) ***Currency***
- The BTL loan was originated by the Seller or YBHL (as applicable) in sterling and is denominated in sterling (or was originated and denominated in euro at any time after the date on which the euro is adopted as the lawful currency of the UK) and is currently repayable in sterling.
- (hh) ***Ordinary course***
- The BTL loan was originated in the ordinary course of the residential secured lending activities of the relevant originator.
- (ii) ***No stock or marketable securities or chargeable securities or chargeable interest***
- Neither the related security nor any related property to the BTL loan consists of stock or marketable securities (in either case for the purposes of Section 122 of the Stamp Act 1891), chargeable securities (for the purposes of Section 99 of the Finance Act 1986) or a "chargeable interest" (for the purposes of Section 48 of the Finance Act 2003).
- (jj) ***Interest rate determination***
- The BTL loan is (or is a combination of) a fixed rate BTL loan, a standard variable rate BTL loan, a variable rate BTL loan, a capped rate BTL loan, a discount rate BTL loan or a tracker rate BTL loan. If it is a tracker rate BTL loan, the rate of interest in respect of the BTL loan is a rate set at a fixed margin above the Bank of England base rate. If it is a capped rate BTL loan, the rate of interest in respect of the BTL loan is subject to a maximum rate of interest being the lesser of the seller's standard variable BTL rate or the specified capped rate. If it is a discount rate BTL loan, the rate of interest in respect of the BTL loan is a rate set at a specified discount to the seller's standard variable BTL rate for a specified time or for the life of the BTL loan. If it is a standard variable rate BTL loan, the rate of interest in respect of the BTL loan is set at the seller's standard variable BTL rate (together with, in various BTL loans, a fixed margin above or below the seller's standard variable BTL rate) and the terms of the BTL loan allow the relevant originator to change its standard variable rate to reflect any changes in the Bank of England base rate.

(kk) ***Administration***

Since the creation of the BTL loan, full and proper accounts, books and records have been kept showing clearly all material transactions, payments, receipts, notices and proceedings relating to the BTL loan and its related security and all such accounts, books and records are up to date, accurate in all material respects and have been kept to standards acceptable to a reasonable and prudent mortgage lender and are in the possession of the seller or (where the BTL loan is a YBHL BTL loan ) YBHL or held to its order.

(ll) ***No fraud***

So far as the seller is aware, no fraud has been perpetrated by the relevant borrower or other person (whether or not an agent or staff member of the relevant originator or otherwise) in or in relation to or in connection with the origination or completion of the BTL loan or its related security and none of the documents, reports, applications, forms and deeds given, made, drawn up or executed in relation to such origination or completion has been given, made, drawn up or executed in a fraudulent manner.

(mm) ***Title***

If the related mortgage is an English mortgage and the relevant mortgaged property is not registered, the relevant borrower has a good and marketable title to the fee simple absolute in possession or a term of years absolute in the relevant property; and if the relevant mortgaged property is registered, it has been or is in the course of registration with title absolute in the case of freehold property or absolute or good leasehold title in the case of leasehold property and, if in the course of registration, there is nothing to prevent such registration being effected with such title and the relevant borrower registered as proprietor of such title in due course.

If the related mortgage is a Scottish mortgage, the borrower has a good and marketable heritable or long leasehold title to the relevant property duly registered or recorded at Registers of Scotland (with, in the case of titles registered in the Land Register of Scotland, no exclusions of indemnity) or in the process of being so registered or recorded.

If the relevant mortgaged property has joint legal owners, all of such joint legal owners have joined in the related mortgage.

(nn) ***Occupiers***

In relation to English mortgages only, to the best of the seller's knowledge having made due enquiry in accordance with the lending criteria, every person who, at the date upon which the related mortgage was granted, was in or about to be in actual occupation of the relevant property, is a party to a current assured shorthold tenancy agreement with the relevant borrower.

(oo) ***Pending litigation or claims***

Neither the seller nor (where the BTL loan is a YBHL BTL loan) YBHL has received written notice of any litigation or claim calling into question in any material way the title of the seller or YBHL to the BTL loan and/or the related security.

(pp) ***Complaints***

Neither the seller nor (where the BTL loan is a YBHL BTL loan) YBHL has been notified:

- (i) by the OFT, that it is considering a complaint within regulation 10 of the UTCCR in relation to any term of the BTL loan; or
- (ii) by any qualifying body within the meaning of the UTCCR, that such qualifying body is considering a complaint within regulation 11 of the UTCCR in relation to any term of the BTL loan.

Neither the seller nor (where the BTL loan is a YBHL BTL loan) YBHL, has given any undertaking to the OFT or to any such qualifying body in relation to any term of the BTL loan

(other than the undertaking given in January 2009 by National Australia Group Europe Limited to the FSA in relation to YBHL's terms and conditions) nor has any injunction been granted or applied for under regulation 12 of the UTCCR in relation to an agreement for a BTL loan.

(qq) **Arrears**

The aggregate amount overdue in respect of the BTL loan does not exceed an amount equal to the aggregate of the scheduled payments due in three calendar months.

**Repurchase by the seller**

The seller will agree, pursuant to the terms of the mortgage sale agreement, to repurchase any BTL loan in the loan portfolio together with its related security in the circumstances described below.

If a BTL loan in the loan portfolio or its related security did not comply on the date of its assignment with any of the BTL loan warranties and such breach could have a material adverse effect on such BTL loan and/or its related security, then the seller will be required to remedy the breach (if capable of remedy) within 28 days of the seller becoming aware of the same or of receipt by it of a notice from the mortgages trustee, Funding or the Funding security trustee. If the error is not remedied by the seller or waived within such 28 day period, then at the direction of the beneficiaries the seller will be required to repurchase from the mortgages trustee (i) the relevant BTL loan and its related security and (ii) any other BTL loans in the relevant mortgage account and their related security that are in the loan portfolio.

For so long as the seller is the servicer, it will be required to notify the mortgages trustee, Funding and the Funding security trustee of any material breach of a BTL loan warranty as soon as it becomes aware of such breach.

The repurchase price payable upon the repurchase of any BTL loan and its related security by the seller from the mortgages trustee will be an amount (not less than zero) equal to the current balance of such BTL loan as of the date of completion of such repurchase.

If the seller fails to pay the consideration due for any repurchase or otherwise fails to complete such repurchase pursuant to the terms of the mortgage sale agreement, then the seller share of the trust property shall be reduced by an amount equal to that consideration (see "*The mortgages trust – Adjustments to trust property*"). If, pursuant to the terms of the mortgage sale agreement, the seller assigns BTL loans together with their related security to the mortgages trustee on any date on which the seller is obliged to repurchase any BTL loan or BTL loans, the seller will be entitled to set-off against the repurchase price payable by it on such repurchase the amount of any initial purchase price payable for any such new BTL loans and shall pay or be paid a net amount.

**Product switches and further advances**

Pursuant to the terms of the mortgage sale agreement, the servicer will not, on behalf of the originators, be permitted to accept an application from, or issue to, a borrower an offer for a further advance or a product switch in relation to a BTL loan in the mortgages portfolio without first having received confirmation from the seller that it intends to purchase the relevant BTL loan together with its related security in accordance with the terms of the mortgage sale agreement. The servicer, upon receipt of such confirmation and on behalf of the relevant originator, may then issue an offer for a further advance or a product switch and accept the mortgage documentation duly completed by the borrower. The mortgages trustee itself will not be permitted to offer or make any product switch or further advance.

A BTL loan in the mortgages portfolio will be subject to a "**product switch**" if there is any variation of the financial terms and conditions of the BTL loan other than:

- a change which was previously agreed with the borrower at the time of the origination of the BTL loan (for example, the relevant originator and the borrower may agree at the time of origination of a BTL loan that a fixed rate BTL loan may become a standard variable rate BTL loan at a specified time in the future);
- a change between an interest only BTL loan and a repayment BTL loan;
- a transfer of equity;



- a release of a party to a BTL loan or a release of part of the land subject to the mortgage;
- any variation agreed with borrowers to control or manage arrears on a BTL loan;
- any variation which extends the maturity date of the BTL loan unless, while any loan tranche under the global intercompany loan agreement is outstanding, it is extended beyond December 2058 or such later date as may be specified as the "**BTL loan final maturity date**" in the final terms relating to the most recent issuance of notes by an issuer;
- any variation imposed by statute; and/or
- any variation of the interest rate payable in respect of BTL loans in the loan portfolio where that rate is offered to the borrowers of more than 10 per cent. by aggregate current principal balance of the BTL loans in the loan portfolio in any interest period,

provided that, at the end of any trust calculation period, if the interest only BTL loan test is not satisfied, then the seller will, in accordance with the terms of the mortgage sale agreement, purchase BTL loans in the loan portfolio (together with their related security) which, during such trust calculation period, changed from a repayment BTL loan to an interest only BTL loan, in an aggregate amount equal to the lesser of (a) the aggregate current principal balance of all such BTL loans, as at the end of the relevant trust calculation period, and (b) the aggregate current principal balance of such BTL loans, as at the end of the relevant trust calculation period, that would need to be removed from the loan portfolio in order that the interest only BTL loan test be satisfied as at such date.

The "**interest only BTL loan test**" will be satisfied on any trust determination date where the percentage amount specified as the "**interest only BTL loan mortgage amount**" in the final terms relating to the most recent issuance of notes by an issuer is not exceeded by the amount calculated in accordance with the following formula:

$$\frac{A}{B} \times 100$$

where,

A = the aggregate current principal balance, as at the relevant trust determination date, of all interest only BTL loans in the loan portfolio; and

B = the aggregate current principal balance, as at the relevant trust determination date, of all BTL loans in the loan portfolio.

A BTL loan in the loan portfolio will be subject to a further advance if an existing borrower requests further monies to be advanced to him or her under the relevant BTL loan either in circumstances which do not amount to a re-draw or flexible loan reserve advance under a flexible loan or where such BTL loan is not a flexible BTL loan, and in either case such request is granted.

If the servicer is notified or is otherwise aware that a borrower in relation to a BTL loan in the mortgages portfolio has requested a further advance or a product switch and the mortgages trustee has received confirmation of the seller's intention to purchase the BTL loan and its related security, the mortgages trustee shall, at the direction of the beneficiaries and at any time upon receipt of notice from the seller, assign to the seller, and the seller shall purchase from the mortgages trustee such BTL loan together with its related security in accordance with the terms of the mortgage sale agreement at a price not less than the current principal balance on such BTL loan as of the date of completion of such purchase (including all unpaid interest (including all accrued interest and arrears of interest) and expenses payable on such BTL loan to the date of purchase).

The seller currently intends to purchase BTL loans from the mortgages trustee that become subject to further advances and does not intend to transfer to the mortgages trustee BTL loans with flexible loan reserves. However, in the future, such BTL loans may, as applicable, remain within or be assigned to the mortgages trustee (and the further advances and flexible loan reserve advances may be assigned to and form part of the trust property) but only if a ratings confirmation is obtained with respect to such assignment and the making of the further advance or flexible loan reserve advance would not require the

mortgages trustee to be authorised under FSMA to carry on activities with respect to regulated mortgage contacts.

#### **Cash re-draws and flexible loan reserve advances under flexible BTL loans**

Only the seller will be responsible for making and funding all future cash re-draws in respect of flexible BTL loans in the loan portfolio. The seller share of the trust property will increase by the principal amount of any cash re-draw. As indicated above, the seller currently does not intend to transfer to the mortgages trustee BTL loans with flexible loan reserves. If the seller decides at a later date to assign BTL loans with flexible loan reserves to the mortgages trustee, only the seller will be responsible for making and funding all flexible loan reserve advances that are to be made under such BTL loan.

#### **Offset rebate amounts**

If the current principal balance of any offset BTL loan in the loan portfolio (and hence the trust property) is reduced by the application of the amount of any offset benefit payment to such offset BTL loan, then pursuant to the terms of the mortgage sale agreement, the seller is required to make an offset rebate payment to the mortgages trustee as a rebate of the purchase price on each distribution date of an amount equal to the offset rebate amount as calculated on such date.

The "**offset rebate amount**" will be determined on each distribution date (referred to in this section as the "**relevant distribution date**") and calculated in accordance with the following formula:

$$A - B$$

where:

A = the aggregate amount of the offset benefit applied during the trust calculation period immediately preceding the relevant distribution date in reduction of the current principal balance of the offset BTL loans in the loan portfolio;

B = the amount (if any) standing to the credit of the offset benefit reserve ledger on the relevant distribution date (not including any offset rebate amount paid by the seller on such date).

The offset rebate amount paid by the seller to the mortgages trustee will be credited to the offset benefit reserve ledger.

In determining the mortgages trustee available revenue receipts for a distribution date, the cash manager will include an amount equal to the lesser of (a) the amount equal to the amount calculated in accordance with item "A" above for the relevant distribution date and (b) the aggregate of the amount (if any) standing to the credit of the offset benefit revenue ledger on the relevant distribution date (including any offset rebate amount paid by the seller on such date).

If, on any distribution date on which the seller makes an offset rebate payment to the mortgages trustee, the seller will be entitled to receive on such date an amount of mortgages trustee available revenue receipts in accordance with the priority of payments described in "*Mortgages trust allocation of revenue receipts*", the mortgages trustee will be entitled to set-off against such mortgages trustee available revenue receipts to be distributed to the seller, the amount of such offset rebate payment owed to it that is the aggregate of any offset rebate amount.

For the avoidance of doubt, the seller share of the trust property will not be increased by any offset rebate amounts.

## Conditions to assignment

The seller is entitled, pursuant to the terms of the mortgage sale agreement, to assign BTL loans and their related security to the mortgages trustee, from time to time, subject to the fulfilment of certain conditions (which may be varied or waived by the mortgages trustee with the prior approval of the rating agencies or following receipt of a ratings confirmation with respect to the outstanding notes of any issuer) on or as at the relevant assignment date, including the following:

- (a) the aggregate arrears of interest in respect of all the BTL loans in the loan portfolio, as a percentage of the aggregate gross interest due on all BTL loans in the loan portfolio during the previous 12 months, does not exceed the "**aggregate arrears of interest threshold**", as specified in the applicable final terms, or such other percentage as is then acceptable to the rating agencies at such time ("**arrears of interest**" for the purpose of this item, in respect of a BTL loan on any date, shall mean the aggregate amount overdue on that date, but only where such aggregate amount overdue equals or exceeds an amount equal to the scheduled payment then due on the BTL loan and such amount has been overdue for an entire calendar month);
- (b) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated no lower than "A3" by Moody's, and "A-" by Fitch (at the time of and immediately following the assignment of the new loan portfolio to the mortgages trustee) or, in the alternative, a solvency certificate is provided by each originator at such time;
- (c) on the relevant assignment date, the aggregate current principal balance of the BTL loans in the loan portfolio which are then in arrears for at least three months is less than the "**aggregate current principal balance in arrears threshold**", as specified in the applicable final terms, of the aggregate current principal balance of all BTL loans in the loan portfolio on such date, unless a ratings confirmation has been obtained in respect thereof;
- (d) no BTL loan in the new loan portfolio has, on the relevant assignment date, an aggregate amount in arrears which is greater than the amount of the scheduled payments then due in any full calendar month for the relevant BTL loan;
- (e) the requirement to obtain a ratings confirmation with respect to the assignment to the mortgages trustee of the new loan portfolio on the relevant assignment date;
- (f) the aggregate current principal balance of the BTL loans assigned to the mortgages trustee in any three consecutive trust calculation periods does not exceed the "**aggregate current principal balance threshold**", as specified in the applicable final terms, of the aggregate current principal balance of the BTL loans in the loan portfolio as at the beginning of the first of such trust calculation periods;
- (g) the issuer reserve fund of each issuer and the Funding reserve fund are (in aggregate) fully funded on the relevant assignment date up to the programme reserve required amount (or, if any of each issuer reserve fund and/or the Funding reserve fund is not so fully funded on such relevant assignment date, no payments have been made from any issuer reserve fund or the Funding reserve fund, as applicable);
- (h) no Funding enforcement notice (which has not been withdrawn) has been delivered by the Funding Security Trustee to Funding pursuant to the terms of any Funding intercompany loan agreement;
- (i) the assignment of the new loan portfolio to the mortgages trustee on the relevant assignment date does not result in the Moody's portfolio variation test value of the BTL loans in the mortgages portfolio after giving effect to such assignment (calculated by applying the Moody's portfolio variation test to the BTL loans in the mortgages portfolio on such assignment date), exceeding the Moody's portfolio variation test threshold value as determined in relation to the BTL loans in the loan portfolio as at the most recent date on which Moody's performed a full pool analysis on the mortgages portfolio (such pool analysis not to be less frequent than annually) plus the "**Moody's portfolio variation test margin**", as specified in the applicable final terms;
- (j) each issuer has, where required, entered into appropriate hedging arrangements in respect of the BTL loans in the loan portfolio;

- (k) no event of default under the programme documents shall have occurred which is continuing and unwaived at the relevant assignment date;
- (l) the weighted average yield on the BTL loans in the loan portfolio after giving effect to the assignment of the new loan portfolio to the mortgages trustee on the relevant assignment date is not less than LIBOR for three-month sterling deposits plus the "**weighted average yield threshold**", as specified in the applicable final terms, taking into account the weighted average yield on the BTL loans and the margins on the Funding basis rate swaps as at the relevant assignment date;
- (m) the assignment of the new loan portfolio to the mortgages trustee on the relevant assignment date does not result in the weighted average LTV ratio of the BTL loans in the loan portfolio after giving effect to such assignment, after application of the LTV test on the relevant assignment date, exceeding the LTV ratio (based on the LTV test), as determined in relation to the BTL loans in the loan portfolio on the most recent closing date preceding the relevant assignment date, plus the "**weighted average LTV ratio margin**", as specified in the applicable final terms;
- (n) the related borrower under each BTL loan to be assigned to the mortgages trustee on the relevant assignment date has made scheduled payments in an amount equal to the aggregate of the scheduled payments due in a calendar month;
- (o) the receipt of a ratings confirmation with respect to the notes issued by the issuers and the assignment to the mortgages trustee of a BTL loan in respect of a loan product having characteristics and/or features that differ materially from the characteristics and/or features of the BTL loans in the loan portfolio prior to such assignment date;
- (p) the BTL loans to be assigned to the mortgages trustee on the relevant assignment date do not include any home owner BTL loans;
- (q) no trigger event under the programme documents shall have occurred which is continuing and unwaived at the relevant assignment date;
- (r) there is no debit balance on the Funding principal deficiency ledger; and
- (s) the assignment of BTL loans to the mortgages trust will not result in a breach of any of the Fitch conditions (as the same may be amended from time to time) as calculated on the relevant assignment date.

The "**Fitch conditions**" mean, collectively, that on the relevant assignment date:

- (a) the "**original weighted average LTV**" (calculated in the manner agreed with Fitch from time to time) of the BTL loans in the trust property, including the BTL loans to be sold to the mortgages trustee on the relevant date, cannot be more than the "**original weighted average LTV threshold**", as specified in the applicable final terms. The current balance and the property valuation at the relevant origination date, in each case, in respect of such Loan, shall be used in the calculation of original weighted average LTV;
- (b) the "**current weighted average LTV**" (calculated in the manner agreed with Fitch from time to time) of the BTL loans in the trust property, including the BTL loans to be sold to the mortgages trustee on the relevant date, not taking into account any indexation cannot be more than the "**current weighted average LTV threshold**", as specified in the applicable final terms. The current balance and the most recent property valuation at the relevant calculation date, in each case, in respect of such BTL loan, shall be used in the calculation of current weighted average LTV;
- (c) the "**weighted average Fitch interest coverage ratio**" (calculated in the manner agreed with Fitch from time to time) of the BTL loans in the trust property, including the BTL loans to be sold to the mortgages trustee on the relevant date, cannot be less than the "**weighted average Fitch interest coverage ratio amount**", as specified in the applicable final terms; and
- (d) the proportion of BTL loans with a "**Fitch original LTV**" (calculated in the manner agreed with Fitch from time to time) higher than 80% in the trust property, including the BTL loans to be sold

to the mortgages trustee on the relevant calculation date, cannot be more than the "**Fitch original LTV threshold**", as specified in the applicable final terms,

"**Fitch interest coverage ratio**" for each BTL loan means an amount equal to:

$$\frac{12 \times \text{monthly rental income}}{((\text{stabilised loan margin} + 5.50\%) \times \text{current balance})}$$

PROVIDED THAT, if an initial purchase price for the BTL loans to be assigned to the mortgages trustee is payable to the seller by the mortgages trustee on or around the relevant assignment date, only the conditions set out in paragraphs (d), (e), (h), (k), (l), (m), (o), (p), (q), (r) and (s) are required to be satisfied to effect an assignment of such new BTL loans.

In addition, no assignment of BTL loans to the mortgages trustee may occur if any notes remain outstanding more than 3 months after the step-up date in respect of such notes.

Any BTL loans and related security so assigned to the mortgages trustee or, in the case of any Scottish BTL loans so assigned, the beneficial interest in such Scottish BTL loans and related security, will be held by the mortgages trustee on trust for Funding and the seller in accordance with the terms of the mortgages trust deed.

The mortgage sale agreement will provide that the seller may not assign BTL loans to the mortgages trustee during any trust calculation period prior to the distribution date occurring in that trust calculation period, and that the seller may only make one assignment of BTL loans to the mortgages trustee during any trust calculation period.

To the extent that, on any assignment date, Funding makes an initial contribution to increase the Funding share of the trust property, the consideration for the assignment of the BTL loans and their related security on such assignment date to the mortgages trustee will consist of:

- where, on the relevant assignment date, Funding has made an initial contribution to the mortgages trustee pursuant to the terms of the mortgages trust deed to increase the Funding share of the trust property and for the purpose of funding the payment of the initial purchase price, the payment by the mortgages trustee to the seller, on such date, of the initial purchase price for the BTL loans to be assigned by the seller to the mortgages trustee on such date. Such initial purchase price will be funded from such initial contribution made by Funding, which will be funded out of the proceeds of any new loan tranche made by the issuer (or the proceeds of any other Funding intercompany loan made by another issuer) to Funding;
- the covenant of the mortgages trustee to pay, or procure the payment, to the seller of amounts of deferred purchase price pursuant to the terms of the mortgage sale agreement and the mortgages trust deed, which payment will also satisfy the obligation of Funding to make deferred contributions to the mortgages trustee for the Funding share of the trust property. Amounts of deferred purchase price will be payable to the seller to the extent of available funds only after paying or providing for prior ranking claims and only out of excess income to which Funding is entitled in accordance with and subject to the priority of payments set out in "*The mortgages trust – Mortgage trust allocation of revenue receipts*";
- the covenant of the mortgages trustee (in its capacity as the all moneys mortgages trustee) to hold the rights under each all moneys mortgage assigned to the mortgages trustee and the proceeds of the enforcement thereof upon trust for itself (as mortgages trustee for the beneficiaries of the mortgages trust) and the relevant originator (as the holder of the associated debt); and/or
- the covenant of the mortgages trustee to hold the trust property on trust for Funding (as to the Funding share of the trust property) and the seller (as to the seller share of the trust property) in accordance with the terms of the mortgages trust deed.

Pursuant to the terms of the mortgage sale agreement, the seller will undertake to use reasonable efforts to assign to the mortgages trustee, and the mortgages trustee will undertake to use reasonable efforts to acquire from the seller (and hold pursuant to the terms of the mortgages trust deed), until the earlier to occur of the (a) monthly payment date falling in November 2017 (or such later date as may be specified

as the "**mortgage sale representation date**" in the final terms relating to the most recent issuance of notes by an issuer) and, (b) the occurrence of a trigger event, sufficient BTL loans and their related security to ensure that the overcollateralisation test will not be breached on any three consecutive distribution dates. However, the seller will not be obliged to assign to the mortgages trustee, and the mortgages trustee shall not be obliged to acquire from the seller, BTL loans and their related security if, in the opinion of the seller, such assignment would adversely affect the business of the seller. If Funding borrows a new loan tranche or any other Funding intercompany loan, then the period during which the seller covenants to use reasonable efforts to maintain the aggregate current balance of BTL loans in the mortgages trust at a certain level prior to a trigger event may be extended.

The overcollateralisation test will be calculated on each distribution date and, on any distribution date, will be breached where the aggregate current balance of BTL loans in the loan portfolio on such distribution date is less than an amount equal to the product of 1.05 and the principal amount outstanding of all notes of the issuers (including the issuer) on such distribution date provided that, in the case of the notes issued by the issuer (i) where the notes outstanding are controlled amortisation notes, the principal amount outstanding of such notes will be calculated on a straight-line basis by applying the appropriate constant payment rate (being the constant payment rate most recently calculated) applicable to each series of notes on a monthly, rather than quarterly, basis and (ii) where the notes are bullet notes, the amount standing to the credit of the Funding cash accumulation ledger shall be deducted from the aggregate principal amount outstanding of the bullet notes.

### **All moneys mortgages**

The mortgage in respect of a BTL loan in the loan portfolio that was originated by an originator may constitute an "all moneys charge" in that such mortgage purports to secure the repayment of indebtedness a borrower owes or may owe to the originator from time to time which is not assigned to the mortgages trustee (such as business loans) ("**associated debt**") as well as the BTL loan (each, an "**all moneys mortgage**").

Pursuant to a trust to be established on the date that a BTL loan secured by an all moneys mortgage is assigned by the seller to the mortgages trustee, the seller will declare a trust over the all moneys mortgage and the mortgages trustee will hold the beneficial interest in such mortgage and the proceeds of enforcement of such mortgage on trust for the benefit of itself and the relevant originator (each such trust, an "**all moneys mortgage trust**" and such property being the "**all moneys mortgage trust property**"). Each of the mortgages trustee and the relevant originator will have a joint and undivided interest in the trust property, but in the event that enforcement proceedings are instituted against the relevant borrower under the terms of the all moneys mortgage, any proceeds therefrom which are available to be distributed will be distributed under the terms of the relevant all moneys mortgage trust, firstly, to the mortgages trustee (in an amount up to, but not to exceed, the then current balance of the related BTL loan and including any accrued interest in respect thereof) and thereafter, to the relevant originator.

Any proceeds of enforcement with respect to an all moneys mortgage trust and which are distributable to the mortgages trustee shall be allocated to amounts representing interest outstanding on the relevant BTL loan ("**all moneys mortgage revenue receipts**") and principal outstanding on the relevant BTL loan ("**all moneys mortgage principal receipts**")

An all moneys mortgage may be enforceable on the occurrence of a default by the relevant borrower of the terms of the BTL loan or of the terms of the associated debt.

Currently, no borrower in respect of a BTL loan originated by YBHL owes associated debt to YBHL.

### **Transfer of legal title to the mortgages trustee**

The English BTL loans in the loan portfolio and their related security will be assigned to the mortgages trustee by way of equitable assignment. The transfer by the seller to the mortgages trustee of the beneficial interest in the Scottish BTL loans in the loan portfolio and their related security will be given effect by declarations of trust to be made by the seller, or, in the case of any Scottish BTL loans originated by YBHL and sold to the seller, by YBHL with the consent of the seller. In each case this means that legal title to the BTL loans in the loan portfolio and their related security will remain with the seller or YBHL (as appropriate) until such time as certain additional steps have been taken, including the giving of notices of the assignment or assignation to the borrowers.

In relation to mortgages of registered land in England and Wales, until such time as transfers of such mortgages in favour of the mortgages trustee have been completed and registered at the Land Registry and the Registers of Scotland (as applicable), the assignment of the mortgages to the mortgages trustee takes effect in equity (in England and Wales only) and transfers beneficial title only (in England and Wales). In the case of mortgages of unregistered land in England and Wales, in order for legal title to pass to the mortgages trustee, conveyances of the relevant mortgages will have to be completed in favour of the mortgages trustee.

Legal title to the Scottish mortgages will remain with the relevant originator until assignments in favour of the mortgages trustee in the form prescribed by statute have been completed and registered at Registers of Scotland.

Pursuant to the terms of the mortgage sale agreement, notification of such assignments or assignment to the borrowers or the execution and completion of such transfers, assignments and conveyances in favour of the mortgages trustee or the registration of such transfers in order to effect the transfer of legal title to the BTL loans in the loan portfolio and their related security (including, where appropriate, their registration) will not be required, except in the limited circumstances described below.

The notifications of assignments or assignments of BTL loans in the loan portfolio to the borrowers and the execution of transfers and assignments of the related mortgages to the mortgages trustee will be required to be completed within 20 business days of receipt by the seller of written notice from the mortgages trustee or Funding (in each case, with the consent of the Funding security trustee) or the Funding security trustee upon the occurrence of any of, amongst other things:

- the valid service of a Funding enforcement notice or (unless the sole reason for service of any issuer enforcement notice is default by an issuer swap provider) an issuer enforcement notice;
- unless otherwise agreed by the rating agencies, the termination of the role of Clydesdale Bank as servicer pursuant to the terms of the servicing agreement and failure of any substitute servicer to assume the duties of the servicer;
- the seller being required by (a) an order of a court of competent jurisdiction, or (b) a change in law occurring after the programme date, or (c) a regulatory authority or organisation whose members include mortgage lenders of which the seller is a member or with whose instructions it is customary for the seller to comply, to perfect the transfer of legal title to the BTL loans in the loan portfolio and their related security to the mortgages trustee;
- the security under the Funding deed of charge or any material part of such security being in jeopardy and it being necessary to perfect the transfer of legal title to the BTL loans in the loan portfolio and their related security in favour of the mortgages trustee in order to reduce such jeopardy materially;
- the occurrence of an insolvency event in relation to the seller; or
- notice in writing from the seller to the mortgages trustee and Funding (with a copy to the Funding security trustee) requesting such transfer.

If the seller ceases to have a long term unsecured, unsubordinated and unguaranteed credit rating by Moody's of at least "Baa3" and by Fitch of at least "BBB-" (unless a ratings confirmation is received) the seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the BTL loans in the loan portfolio to the borrowers but will not be required to complete any other steps necessary to perfect legal title to the BTL loans in the loan portfolio or their related security in favour of the mortgages trustee.

#### **Title deeds**

To the extent not held at the Land Registry electronically, the title deeds and BTL loan files relating to the BTL loans are currently held by or to the order of the seller or by solicitors, licensed conveyancers or qualified conveyancers acting for the seller in connection with the creation of BTL loans and their related security. Under the servicing agreement the servicer will undertake that all the title deeds and BTL loan files at any time in its possession or under its control or held to its order relating to the BTL loans in the loan portfolio will be held to the order of the mortgages trustee. The servicer will be required to keep, or

to cause to be kept, the title deeds and BTL loan files relating to each BTL loan in the loan portfolio and each relevant mortgaged property in safe custody and will not be permitted to part with possession, custody or control of them except in the limited circumstances specified in the servicing agreement.

**Governing law**

The mortgage sale agreement and any non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law (other than certain aspects and non-contractual obligations relating to the Scottish BTL loans and their related security which are governed by and construed in accordance with Scots law).



**CERTAIN CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET**

The final terms for each series of notes will contain information as to certain characteristics of the United Kingdom mortgage market.

## THE SERVICER AND THE SERVICING AGREEMENT

### Introduction

Pursuant to the terms of the servicing agreement, the mortgages trustee, the seller and Funding will appoint Clydesdale Bank as the initial servicer of the BTL loans in the loan portfolio and their related security, to be their agent to exercise their respective rights, powers and discretions in relation to such BTL loans and related security and to perform their respective duties in relation to such BTL loans and related security. The servicer performs the day-to-day servicing of the BTL loans through its retail branches, mortgage service centres and telephone banking and operations centres. The servicer continues to administer other BTL loans in addition to those BTL loans in the loan portfolio.

The servicer has been servicing UK residential BTL loans since 1979. Subject to the terms of the servicing agreement, the servicer is required to administer and service the BTL loans in the loan portfolio and their related security in accordance with its administration, arrears and enforcement policies and procedures or, at any time when the servicer is not also the seller, the policies and procedures from time to time which would be adopted by a reasonable, prudent lender (collectively referred to in this base prospectus as the "**administration procedures**"). The servicer's administration procedures in respect of BTL loans have not been amended in any material respect since 31 October, 2004.

This section describes the servicer's procedures in relation to BTL loans generally. A description of the servicer's obligations under the servicing agreement follows in "*The servicing agreement*". The servicer is continually reviewing the way in which it conducts its BTL loan administration business in order to ensure that it remains up-to-date and cost effective in a competitive market, and the servicer may therefore change its administration processes from time to time.

### Administration of BTL loans

Administration procedures include monitoring compliance with and administering the BTL loan features and facilities applicable to the BTL loans, responding to customer inquiries and management of BTL loans in arrears. See "*The servicing agreement*".

Pursuant to the terms and conditions of the BTL loans, borrowers make scheduled payments under the terms and conditions of the BTL loans on weekly, fortnightly or monthly payment due dates. Interest accrues in accordance with the terms and conditions of each BTL loan and is collected from borrowers on such weekly, fortnightly or monthly dates.

In the case of variable rate BTL loans and standard variable rate BTL loans which are in the loan portfolio, except in certain limited circumstances, the servicer will continue to determine the variable rates applicable to such BTL loans on behalf of the mortgages trustee and Funding.

Pursuant to the terms and conditions of the BTL loans, the seller is obliged to take all necessary steps to notify borrowers of any change in the interest rates applicable to the BTL loans (whether or not due to a change in the seller's standard variable BTL rate (or other discretionary rate)). Pursuant to the terms of the servicing agreement, the servicer will agree to notify borrowers of any change in the interest rates in accordance with the terms of the terms and conditions of the BTL loans in the loan portfolio.

Payments of interest and, in the case of repayment BTL loans, principal, are payable weekly, fortnightly or monthly in arrear. Where a borrower defaults in the payment of interest and/or principal under a BTL loan in the loan portfolio, the servicer will use reasonable efforts to follow the arrears procedures described under "*Arrears and default procedures*" below.

### Arrears and default procedures

The servicer collects all payments due under or in connection with BTL loans in accordance with its administration procedures in force from time to time, but having regard to the circumstances of the relevant borrower in each case.

The servicer identifies a BTL loan as being "**in arrears**" when, on any date which is five or more days past the relevant due date, any amount owed by the borrower is overdue.

The arrears are reported at each calendar month end. After the arrears are first reported the borrower is contacted and asked for payment of the arrears. The servicer will continue to contact the borrower asking for payment of the arrears. The servicer classifies a BTL loan that is in arrears as a "**non-performing BTL loan**" if the related borrower has not made any payment within any period of three consecutive calendar months.

In seeking to control and manage arrears, the servicer from time to time enters into arrangements with borrowers regarding the arrears, including:

- arrangements to make each weekly, fortnightly or monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to pay only a portion of each weekly, fortnightly or monthly payment as it falls due; and/or
- a deferment for a period of time (not to exceed three months) of all payments, including interest and principal or parts of any of them.

Such arrangements will generally be agreed to apply for a maximum period of three months, after which they are subject to review, the primary aim being to rehabilitate the borrower and recover arrears.

Legal proceedings do not generally commence until the arrears are overdue for a period of more than 90 days. However, in some cases legal proceedings may commence earlier than this.

The servicer will attempt to contact the borrower directly and by way of a collections agent to collect information in order to determine whether the property is occupied by any tenants and to obtain details of any tenancy agreements and leases. If the servicer is unable to obtain sufficient information from the borrower, the servicer may instruct an agent to visit the borrower or the property or instruct an occupancy report to be carried out. In addition, in the case of borrowers with a number of loans, the borrower's relationship manager will also be contacted to obtain such information. A demand for the arrears will be issued prior formal legal to proceedings being commenced.

With respect to Scottish BTL loans, the servicer will instruct solicitors to commence formal legal proceedings against the borrower. With respect to English and Welsh BTL loans, if the property is occupied by any tenants, the servicer will appoint a receiver under the Law of Property Act 1925 (an "**LPA receiver**"). If it can be established that the property is vacant, the servicer will instruct solicitors to commence formal legal proceedings against the borrower.

Once proceedings have commenced, the servicer may still enter into an arrangement with a borrower at any time prior to a court hearing, or it may request an adjournment of a court hearing. If the servicer (on behalf of the mortgagee) applies to the court for an order for possession following a default of the borrower, the court has discretion as to whether it will grant the order requiring the borrower to vacate the mortgaged property, and discretion as to the terms upon which the order is granted. If, after the possession order has been granted, the borrower does not voluntarily vacate the property, then the servicer will be required to request a warrant for execution by a court officer of the possession order. On average, the equivalent of nine monthly payments may have been missed prior to the servicer obtaining possession, assuming no prior mortgage or the imposition of defences. Where a court order for possession is deferred to allow time for payment and the borrower subsequently defaults in making the payment, the servicer may take any action it considers appropriate, including entering into an arrangement with the borrower. In all cases, the servicer has a duty of care to the borrower to act reasonably and fairly.

The servicer has discretion to deviate from these arrears procedures. In particular, the servicer may deviate from these procedures where a borrower suffers from a mental or physical infirmity, is deceased or where the borrower is otherwise prevented from making payment due to causes beyond the borrower's control. This is the case for both sole and joint borrowers.

After the mortgagee has obtained possession, the servicer (on behalf of the mortgagee) may take any action it considers appropriate, subject to any fiduciary duties which the mortgagee may owe to the borrower, including but not limited to:

- securing, maintaining or protecting the property and putting it into a suitable condition for sale;

- creating (other than in Scotland) any estate or interest on the property, including a leasehold; and/or
- disposing of the property (in whole or in parts) or of any interest in the property, by auction, private sale or otherwise, for a price it considers appropriate.

Subject as provided above, the servicer (on behalf of the mortgagee) has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The servicer (on behalf of the mortgagee) may also carry out works on the property as it considers appropriate, including the demolition of the whole or any part of it.

The period between the servicer (on behalf of the mortgagee) obtaining possession and sale of a mortgaged property is generally between three and six months.

However, you should note that the servicer's ability to exercise its power of sale in respect of a mortgaged property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the servicer's control, such as whether the borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the servicer's decision (on behalf of the mortgagee) to exercise the power of sale and final completion of the sale.

The servicer will apply the net proceeds of sale of the mortgaged property against the sums owed by the borrower to the extent necessary to discharge the mortgage including any accumulated fees and interest. Where the funds arising from application of these procedures are insufficient to pay all amounts owing in respect of a BTL loan, the funds are applied first in paying costs (other than interest), secondly, in paying principal and thirdly in paying interest.

At this point the servicer will close the borrower's account. However, the borrower remains liable for any deficit remaining after the mortgaged property is sold. The servicer may pursue the borrower to the extent of any deficiency resulting from the sale if the servicer deems it appropriate to do so.

If a BTL loan in the loan portfolio is not in arrears but the relevant borrower is not complying with the terms of any related associated debt, such non-compliance may entitle the seller to instruct the mortgages trustee (in its capacity as the all moneys mortgages trustee) or the servicer on its behalf to commence legal proceedings, as described above, with respect to the recovery of all amounts owed by the borrower under the associated debt and the BTL loan. In relation to such enforcement action, the seller will agree to subordinate its rights in respect of any associated debt to the rights of the mortgages trustee under the BTL loan and any proceeds of such legal proceedings will (in accordance with the terms of the applicable all moneys mortgage trust) be applied firstly in repayment of all amounts outstanding under the BTL loan. The mortgages trustee (in its capacity as all moneys mortgage trustee) or the servicer on its behalf will allocate the proceeds of enforcement with respect to such all moneys mortgage trust and which will be applied in repaying amounts outstanding under the relevant BTL loan as all moneys mortgage revenue receipts and all moneys mortgage principal receipts.

These arrears and security enforcement procedures may change over time as a result, amongst other things, of a change in the servicer's business practices, a change in the identity of the servicer or a change in any relevant business codes of practice or any legislative or regulatory changes.

### **Arrears experience**

There can be no assurance that the arrears and repossession experience with respect to the BTL loans in the loan portfolio will correspond to the experience of the overall loan portfolio of the originators. Moreover, if the property market experiences an overall decline in property values so that the value of the mortgaged properties relating to the BTL loans in the loan portfolio falls below the current balances of such BTL loans, the actual rates of arrears and repossessions could be significantly higher than those previously experienced by the originators. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears, repossessions and losses with respect to the BTL loans in the loan portfolio. You should note that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the tables included in the final terms for the relevant series of notes. If interest rates were to continue to rise, it is likely that the rate of arrears and repossessions likewise would rise.

The performance of the business of the originators and the arrears profiles are constantly monitored and, whenever arrears rise, the cause is reviewed and acted upon.

### **The servicing agreement**

The following section describes, in summary, the servicing agreement. As it is a summary, the description does not purport to be complete and is subject to the more detailed terms of the servicing agreement.

### **Appointment**

Pursuant to the terms of the servicing agreement, Clydesdale Bank will be appointed as the initial servicer of the BTL loans in the loan portfolio and their related security. 8.3.7

The servicer has agreed to administer and service the BTL loans in the loan portfolio and their related security in accordance with:

- the terms and conditions of such BTL loans and the related security;
- the servicer's administration procedures. The servicer's administration procedures are the administration, arrears and enforcement policies and procedures, as amended from time to time, pursuant to which the servicer administers and enforces BTL loans and their related security which are beneficially owned by the originators; and
- the terms of the servicing agreement.

Subject to the terms of the servicing agreement, the terms of the BTL loans and the related security and the terms of the other programme documents, the servicer will have the right, power and discretion to do or cause to be done any and all things which it reasonably considers necessary, convenient or incidental to the administration of the BTL loans in the loan portfolio and their related security.

Except as otherwise specified in the terms of servicing agreement, the terms of the BTL loans and the related security and the terms of the other programme documents, the servicer will agree to comply with any reasonable directions, orders and instructions which the mortgages trustee may, from time to time, give to it in accordance with the provisions of the servicing agreement.

### ***Undertakings by the servicer***

Under the servicing agreement, the servicer will undertake, among other things:

- (A) to determine and set the interest rates applicable to the BTL loans in the loan portfolio including the standard variable rate, except in the limited circumstances set out in the servicing agreement when the mortgages trustee, and Funding will be entitled to do so. The servicer may not at any time, without the prior consent of the mortgages trustee and/or Funding and subject to the terms of the servicing agreement, set or maintain the standard variable rate (and other discretionary rates) for BTL loans in the loan portfolio at rates which are higher than the then prevailing rates for BTL loans which are beneficially owned by the originators outside the mortgages trust;
- (B) to determine on each monthly payment date, having regard to the aggregate of:
  - (1) the income which Funding would expect to receive prior to the next following monthly payment date;
  - (2) the standard variable rate for BTL loans in the loan portfolio and the variable mortgage rates in respect of such BTL loans which the servicer proposes to set under the servicing agreement; and
  - (3) all other resources available to Funding including the Funding reserve fund, the Funding liquidity reserve fund and any applicable issuer reserve fund;

whether Funding would receive an amount of income prior to the next following monthly payments date which, when aggregated with the funds otherwise available to it is less than the amount which is the aggregate of (a) the amount of interest which will be payable by Funding in

respect of the AAA loan tranches and all amounts ranking higher in priority to such amounts on the monthly payment date falling at the end of that interest period, and (b) all other amounts payable by Funding which rank equally with or in priority to interest due in respect of the AAA loan tranches.

If the servicer determines that there will be a revenue shortfall in the foregoing amounts, it will be required to give written notice to the mortgages trustee, Funding and the Funding security trustee, within one London business day of such determination, of the amount of the revenue shortfall for Funding and recommend the standard variable rate (and the other discretionary rates) which would, in the servicer's opinion, need to be set in relation to the BTL loans in the loan portfolio in order for no revenue shortfall (in respect of Funding) to arise, having regard to the obligations of Funding. If the mortgages trustee and/or Funding notify the servicer that, having regard to the obligations of Funding, the standard variable rate (and the other discretionary rates) for BTL loans in the loan portfolio should be increased, the servicer is required to take all steps which are necessary, including publishing any notice required under the mortgage conditions, to effect such increase in those rates. The mortgages trustee or Funding may terminate the authority of the servicer to set the standard variable rate (and the other discretionary rates) applicable to BTL loans in the loan portfolio in certain limited circumstances set out in the servicing agreement (including upon the occurrence of any servicer termination event (as described below)), in which case the mortgages trustee shall set such standard variable rate (and the other discretionary rates);

- (C) not to accept an application from, or issue to any borrower an offer for a further advance or a product switch in respect of a BTL loan in the loan portfolio without having received confirmation that the seller will elect to purchase the relevant BTL loan(s) together with its related security from the mortgages trustee pursuant to the terms of the mortgage sale agreement;
- (D) to take all reasonable steps necessary under the mortgage conditions and applicable law to notify borrowers of each change in interest rates, whether due to a change in the standard variable rate (including any such change effected at the request of the mortgages trustee or Funding) or as a consequence of the mortgage conditions. The servicer will also notify the mortgages trustee, each beneficiary and the Funding security trustee of any change in the standard variable rate;
- (E) to maintain such records as are reasonably necessary to enforce each BTL loan in the loan portfolio and its related security and to keep and maintain, on a loan by loan basis, relevant records and accounts on behalf of the mortgages trustee in relation to the BTL loans in the loan portfolio;
- (F) to keep or cause to be kept the BTL loan files and title deeds (if any) in safe custody and in such a manner that they are readily identifiable and accessible;
- (G) to provide the mortgages trustee, Funding and the Funding security trustee and their agents with reasonable access to the title deeds and BTL loan files at all reasonable times;
- (H) to assist the cash manager in the preparation of a quarterly report substantially in the form set out in the cash management agreement on, among other things, arrears outstanding. The servicer will regularly give to the mortgages trustee and the beneficiaries written details of BTL loans that are in arrears;
- (I) to take all reasonable steps to collect and recover payments due under or in respect of the BTL loans in the loan portfolio and the related security, including instituting proceedings and enforcing any relevant BTL loan, mortgage or any other related security in accordance with the seller's administration procedures but having regard to the circumstances of the relevant borrower in each case; and
- (J) not knowingly to fail to comply with any legal requirements in the performance of its obligations under the servicing agreement.

#### ***Collection of payments***

The servicer will undertake to ensure that all payments due under the BTL loans in the loan portfolio will be made by the relevant borrower by direct debit, automated debit or standing order or, if such payment is

late or borrowers choose not to pay by direct debit, automated debit or standing order, by cheque or other means into accounts in the name of the relevant originator held with Clydesdale Bank (in such capacity, the "**collection bank**") and other accounts (each a "**collection account**") that the servicer may utilise from time to time in accordance with the collection bank agreement and the servicing agreement. All amounts standing to the credit of such accounts will be held on trust by the originators for the mortgages trustee.

The servicer will agree to use its reasonable endeavours to credit any payment made by a borrower to the relevant collection account within the following time limits:

- in the case of direct debit or automated debit payment from an account held at the collection bank, by close of business on the London business day which immediately follows the day on which such amounts are received;
- in the case of standing order, by close of business on the second London business day following the day on which such amounts are received;
- in the case of payment by cash, or cheque where reference to the relevant borrower is provided or payment made by way of paying-in book, by close of business on the London business day which immediately follows the day on which such amounts are received; and
- in the case of any payment by cheque where a reference to the relevant borrower is not provided, by close of business on the next London business day after the determination by the collection bank of the identity of the borrower, **provided however, that** in any event the servicer has agreed to procure that scheduled payments made by a borrower are credited to the relevant collection account within three London business days of receiving that scheduled payment.

Payments from borrowers under BTL loans originated by the originators which are not intended to be assigned to the mortgages trustee are also paid into and flow through the collection accounts.

Amounts paid into the collection accounts will be held on trust by the seller and YBHL for the relevant beneficiaries (which will include the mortgages trustee (including in its capacity as all moneys mortgages trustee)). The trusts in favour of the mortgages trustee will be in respect of all amounts credited to the collection accounts which represent receipts in respect of BTL loans which have been assigned to the mortgages trustee and included in the loan portfolio.

The collection accounts will be operated by the servicer in accordance with the collection bank agreement to be entered into on or about the programme date, among the mortgages trustee, Funding, the seller, YBHL, the servicer, the cash manager, the Funding security trustee and the collection bank (as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, the "**collection bank agreement**"). Under the collection bank agreement, until the collection bank receives notice that, amongst other things, a Funding enforcement notice has been served or that the appointment of the servicer has been terminated, the collection bank will agree to operate the collection accounts in accordance with the instructions of the servicer and thereafter act solely in accordance with the instructions of the Funding security trustee.

If the short term, unsecured, unguaranteed and unsubordinated debt obligations of the collection bank (or any entity guaranteeing the obligations of the collection bank with respect to the collection account) are not rated at least "P-1" by Moody's and "F1" by Fitch (or, if the collection bank is on "rating watch negative", "F1+") or the long-term issuer default rating of the collection bank is not rated at least "A" by Fitch (or, if the collection bank is on "rating watch negative", "A+"), then the servicer, the mortgages trustee and the collection bank will, as soon as practicable but in any event within 30 days of the date on which such required ratings were not longer satisfied, use reasonable commercial efforts either:

- (i) to procure the credit balance on such accounts to be transferred to another bank which has the required ratings; or
- (ii) to procure the obtaining of a guarantee of the obligations of the collection bank from a financial institution that satisfies the required ratings.

In the event that the servicer, the mortgages trustee and collection bank are unable, using reasonable commercial efforts, to procure either (i) or (ii) above, then they will use reasonable commercial efforts to procure the transfer of the collection accounts to another bank or to procure a guarantee from another

financial institution, provided that such transfer or guarantee would not cause the then current ratings of the notes issued by any issuer to be reduced, qualified or withdrawn.

The long term and short term, unsecured, unguaranteed and unsubordinated debt obligations of the collection bank are currently rated "A1" (on review for possible downgrade) and "P-1" by Moody's and "AA-" and "F1+" by Fitch.

Subject to the terms of the collection bank agreement, amounts standing to the credit of the collection accounts that represent amounts collected in respect of BTL loans in the loan portfolio (other than the proceeds of the enforcement of an all moneys mortgage subject to an all moneys mortgage trust) will be transferred to the mortgages trustee transaction accounts within three London business days of the payment of such amounts into the collection accounts. Amounts (if any) standing to the credit of the collection accounts that represent the proceeds of the enforcement of an all moneys mortgage subject to an all moneys mortgage trust will be transferred to the all moneys mortgage trust account.

Amounts standing to the credit of the mortgages trustee transaction accounts will be required to be transferred (subject to retaining a minimum balance of £1 in such account) on a weekly basis and amounts standing to the credit of the all moneys mortgage trust account which are available to be distributed to the mortgages trustee (in its capacity as a beneficiary of an all moneys mortgage trust) are required to be transferred by the cash manager to the mortgages trustee GIC account or, at the cash manager's option, invested in authorised investments, provided that the yield on those authorised investments expressed as an annual percentage rate of return is not less than the interest rate on the mortgages trustee GIC account at the time the investment decision is made. Any amounts invested in authorised investments, including the interest accrued on such amounts, will be required to be invested on terms that provide for such amounts to be transferred to the mortgages trustee GIC account on the required distribution date.

In the case of scheduled payments which are made by direct debit, the servicer will initially credit the applicable collection account with the full amount of the direct debit. If an unpaid direct debit is returned in circumstances where the servicer has credited to a mortgages trustee transaction account the amount of the scheduled payment, the servicer will be permitted to reclaim from such mortgages trustee transaction account the corresponding amounts previously credited.

Any amount standing to the credit of the mortgages trustee GIC account will accrue interest at a margin below LIBOR for three-month sterling deposits.

### ***Redemption***

Pursuant to the terms of the servicing agreement, the servicer will be responsible for handling the procedures connected with the redemption of BTL loans and will be authorised to release the relevant title deeds (if any) to the person or persons entitled thereto upon redemption.

### ***Fees***

The servicer will be entitled to receive a fee for servicing the BTL loans. On each distribution date the mortgages trustee will pay to the servicer an "**administration fee**" of 0.10 per cent. per annum (inclusive of VAT) on the amount of the Funding share of the trust property as determined on that distribution date in respect of the then current trust calculation period, but only to the extent that the mortgages trustee has sufficient funds to pay such amount in accordance with the mortgages trust allocation of revenue receipts. The unpaid balance (if any) will be carried forward until the next succeeding distribution date and, if not paid before such time, will be payable on the last occurring final maturity date of the Funding intercompany loans (including the global intercompany loan) or on their earlier repayment in full by Funding. The servicing agreement will provide for the servicer to be reimbursed for all reasonable out-of-pocket expenses and charges properly incurred by the servicer in the performance of its services under the servicing agreement.

If, pursuant to the terms of the servicing agreement, a substitute or successor servicer is required to be appointed with respect to any of the BTL loans, the mortgages trustee will be required to agree the administration fee rate for such substitute or successor servicer at the time such substitute or successor servicer enters into a servicing agreement. Any administration fee due to a substitute or successor servicer will be paid on each distribution date out of revenue receipts in accordance with the revenue priority of payments set out in the mortgages trust deed.



### ***Removal or resignation of the servicer***

Pursuant to the terms of the servicing agreement, the mortgages trustee or Funding (in each case, with the consent of the Funding security trustee) or the Funding security trustee will be entitled to terminate the appointment of the servicer following the delivery of written notice to the servicer, on the occurrence of certain events (each a "**servicer termination event**"), including:

- the servicer fails to pay any amount due and payable by it and such failure is not waived or is not remedied for a period of five London business days after the servicer becomes aware of the default;
- subject as provided further in the programme documents, the servicer fails to comply with any of its other material obligations under the servicing agreement which is materially prejudicial to the interests of the holders of the notes issued by the issuers, and such failure is not waived or is not remedied within a period of 20 London Business days after the servicer becomes aware of the default;
- if at any time required under any UK mortgage regulatory regime, the servicer fails to obtain or maintain the necessary license, authorisation or permission or regulatory approval enabling it to continue administering BTL loans; or
- the occurrence of an insolvency event in relation to the servicer.

Following the delivery of a notice of termination of the appointment of the servicer, Funding will be required to use its reasonable endeavours to procure the appointment of a substitute servicer. No termination of the appointment of the servicer will be permitted to take effect until a substitute servicer has been appointed.

In addition, subject to the fulfilment of certain conditions including, without limitation, that a substitute or successor servicer has been appointed, the servicer will be permitted to voluntarily resign by giving not less than 12 months' notice of termination to the mortgages trustee, Funding and the seller.

Any such substitute or successor servicer (whether appointed upon a termination of the appointment of, or the resignation of, the servicer) will be required:

- if possible, to have experience in administering BTL loans secured on residential properties in England, Wales and Scotland; and
- to enter into an agreement on substantially the same terms as the provisions of the servicing agreement.

In addition, the then current ratings (if any) of the notes issued by each issuer may not be reduced, withdrawn or qualified as a result of the termination of the appointment of the servicer or the appointment of the substitute servicer.

Forthwith upon termination of the appointment of, or the resignation of, the servicer, it will be required to deliver the title deeds (if any), the BTL loan files and all books of account and other records maintained by it that relate to the BTL loans in the loan portfolio and/or the related security to, or at the direction of, the mortgages trustee.

The servicing agreement will terminate automatically upon a termination of the mortgages trust when Funding has no interest in the trust property.

***Delegation by the servicer***

The servicer will be permitted, subject to certain conditions (including the prior written consent of the mortgages trustee and Funding), to delegate or sub-contract the performance of any of its obligations or duties under the servicing agreement. Upon the appointment of any such delegate or sub-contractor the servicer will nevertheless remain responsible for the performance of those duties to Funding, the mortgages trustee and the Funding security trustee.

***Delegation by the Funding security trustee to an authorised third party***

The Funding security trustee will be entitled, pursuant to the terms of the servicing agreement and subject to the satisfaction of certain conditions, to delegate certain of its functions and rights under the programme documents to one or more authorized third parties.

In the event of any such appointment, the Funding security trustee will not be required to monitor or supervise the third party's performance and is not responsible for any act or omission of such third party or for any loss caused thereby.

**Governing law**

The servicing agreement is governed by and construed in accordance with English law except for any terms or non-contractual obligations of the servicing agreement which are particular to the law of Scotland, which are governed by and construed in accordance with Scots law.

## THE MORTGAGES TRUST

The following section contains a summary of the material terms of the mortgages trust deed. The summary does not purport to be complete and is subject to the provisions of the mortgages trust deed.

### General legal structure

The mortgages trust will be formed on the programme date as a trust under English law with the mortgages trustee as trustee for the benefit of the seller and Funding as beneficiaries (the "**mortgages trust**"). This section describes the material terms of the mortgages trust, including how money will be distributed from the mortgages trust to Funding and the seller.

Under the terms of the mortgages trust deed, as of the programme date, the mortgages trustee will agree to hold all of the trust property on trust absolutely for Funding and the seller. The "**trust property**" will consist of:

- the sum of £100 settled on trust on the programme date;
- any BTL loans that are assigned to the mortgages trustee by the seller on or after the programme date, together with their related security (or, in the case of all moneys mortgages, the beneficial interest of the mortgages trustee in each all moneys mortgage trust) and the rights of the seller under the other originator arranged insurance policies;
- any interest and principal paid by borrowers on their BTL loans on or after the date of assignment of such BTL loans to the mortgages trustee;
- any other amounts received under the BTL loans in the loan portfolio and related security (excluding third party amounts) on or after the date of assignment of such BTL loans to the mortgages trustee;
- any cash re-draws under flexible BTL loans in the loan portfolio;
- any further advances or flexible loan reserve advances made by the seller to borrowers which are assigned to the mortgages trustee pursuant to the terms of the mortgage sale agreement;
- any contribution paid by Funding or the seller to the mortgages trustee for application pursuant to the terms of the mortgages trust deed but only up to the time of such application;
- amounts on deposit (and interest earned on such amounts) in the mortgages trustee transaction accounts and the mortgages trustee GIC account; and
- the proceeds of sale of any BTL loan in the loan portfolio and its related security to the seller pursuant to the terms of the mortgage sale agreement and any other proceeds of sale of any trust property;

*less*

- any actual losses in relation to the BTL loans in the loan portfolio and any actual reductions occurring in respect of the BTL loans in the loan portfolio as described in paragraph (1) in "*Adjustments to trust property*" below; and
- distributions of principal made by, or on behalf of, the mortgages trustee, from time to time, to the beneficiaries of the mortgages trust.

In the case of any Scottish BTL loan in the loan portfolio and its related security, the interest of the mortgages trustee therein will comprise its beneficial interest under the relevant declaration of trust over such Scottish BTL loan and its related security, as described under "*Assignment of the BTL loans and related security – The mortgage sale agreement*".

In addition, the current principal balances of any offset BTL loans in the loan portfolio (and therefore the aggregate amount of the trust property) will be required to be reduced from time to time by the application of the terms of the offset BTL loans applied to those offset BTL loans, respectively, as described under "*The BTL loans – Characteristics of the BTL loans – BTL loan products offered by the originators*".

Funding will not be entitled to any interest in particular BTL loans in the loan portfolio and their related security separately from the seller. Instead, each of the beneficiaries has an undivided interest in all of the BTL loans in the loan portfolio and their and their related security.

The beneficial interest of Funding and the seller in the trust property, referred to as the "**Funding share**" and the "**seller share**" respectively, represent *pro rata* interests in the trust property.

#### **Fluctuation of the seller share and the Funding share of the trust property**

The Funding share and the seller share of the trust property will fluctuate depending on a number of factors including:

- the allocation of principal receipts from the BTL loans in the loan portfolio to Funding and/or the seller on each distribution date;
- losses arising on the BTL loans in the loan portfolio;
- the conditions to assignment to the mortgages trustee;
- any of the beneficiaries increasing its beneficial interest in, and hence its share of, the trust property by making contributions (excluding, in the case of Funding, any deferred contribution) to the mortgages trustee pursuant to the terms of the mortgages trust deed;
- a borrower making a re-draw under a flexible BTL loan in the loan portfolio;
- the capitalisation of arrears in respect of any BTL loan in the loan portfolio;
- the seller making a further advance or a flexible loan reserve advance to a borrower whose BTL loan is in the loan portfolio; and
- the mortgages trustee making a special distribution to any beneficiary on a distribution date.

The Funding share of the trust property will not be permitted to be reduced below zero. The seller is not entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until the earlier to occur of (a) the Funding share of the trust property having been reduced to zero and (b) an asset trigger event.

Funding will use the proceeds of loan tranches advanced to it by the issuer (less any amount utilised to fund the Funding reserve fund) to, among other things, make contributions to the mortgages trustee or refinance an existing loan tranche. Any such contribution made by Funding to the mortgages trustee (an "**initial contribution**") will constitute consideration payable by Funding to the mortgages trustee to increase the Funding share of the trust property in accordance with the terms of the mortgages trust deed and will be utilised by the mortgages trustee to:

- fund the payment to the seller of the initial purchase price in respect of any BTL loans and their related security assigned to the mortgages trustee on the date that such contribution is received by the mortgages trustee; and
- fund a special distribution to the seller (which will reduce the seller share of the trust property) or, after a new third party has become a beneficiary of the mortgages trust, to fund a special distribution to such new third party (which will reduce the share of the new third party of the trust property).

The cash manager will recalculate the Funding share and the seller share:

- on each calculation date;
- on any date (each such date, an "**assignment date**") on which BTL loans are assigned to the mortgages trustee.
- on any date which is not a calculation date or an assignment date (each such date, a "**contribution date**") on which Funding makes an initial contribution to the mortgages trustee and/or on which the mortgages trustee pays to the seller an initial purchase price or special distribution or pays to Funding or to a new third party (which has acquired a beneficial interest in the mortgages trust) a special distribution.

The reason for the recalculation on an assignment date or a contribution date is to determine the percentage shares of each beneficiary in the trust property which will reflect the assignment of the BTL loans to the mortgages trustee, the making of additional contributions to the mortgages trust by Funding and the making of principal distributions by the mortgages trustee to the beneficiaries.

When the cash manager recalculates the share and the share percentage of each beneficiary on a calculation date, that recalculation will apply for the then current trust calculation period. The new recalculation made by the cash manager on an assignment date or contribution date will apply from (and including) that assignment date or contribution date, as applicable, to the earlier to occur of the next following assignment date or contribution date and the next calculation date. The portion of a trust calculation period that is less than a full trust calculation period is called an "**interim calculation period**".

The percentage shares that each of the beneficiaries have in the trust property determines their entitlement to interest and principal receipts from the BTL loans in the loan portfolio and also the allocation of losses arising on the BTL loans for each trust calculation period or interim calculation period, as applicable. The method for determining those new percentage shares is set out in the next three sections.

#### **Funding share of trust property (calculation date recalculation)**

On each calculation date (referred to in this section as the "**relevant distribution date**") the interest of Funding in the trust property will be recalculated for the then current trust calculation period or related interim calculation period, as applicable, in accordance with the following formula:

- The "**current Funding share**" of the trust property will be an amount equal to:

$$A - B - C + D$$

- The "**current Funding share percentage**" of the trust property will be an amount equal to:

$$\frac{A - B - C + D}{H} \times 100$$

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

where,

A = the amount of the Funding share of the trust property as determined on the later to occur of the calculation date, the assignment date and the contribution date immediately preceding the relevant distribution date;

B = the aggregate of the amount (without double counting) of any principal receipts on the BTL loans distributed to Funding and the amount of any special distribution made to Funding, in each case, on the relevant calculation date (as described under "*- Mortgages trust allocation and distribution of mortgages trustee available principal receipts prior to the occurrence of a trigger event*" and "*- Mortgages trust allocation and distribution of mortgages trustee available principal receipts on or after the occurrence of a trigger event*");

- C = the amount of losses sustained on the BTL loans and the amount of any reductions occurring in respect of the BTL loans, as described in paragraph (1) in "*Adjustments to trust property*" below, during the immediately preceding trust calculation period, in each case allocated to Funding on the relevant calculation date;
- D = the amount of any capitalised arrears sustained on the BTL loans during the immediately preceding trust calculation period which are allocated to Funding on the relevant calculation date; and
- H = the amount of the mortgages trustee retained principal receipts (if any) plus the aggregate current principal balance of all of the BTL loans in the loan portfolio as at the last day of the immediately preceding trust calculation period after (and without double counting) giving effect to (a) the distributions, allocations and additions (if any) referred to in "B", "C" and "D" above, and (b) the following (being "**trust property calculation adjustments**"):
  - (i) any distribution of principal receipts to the seller and Funding but excluding the payment of any special distribution to Funding or the seller during such trust calculation period;
  - (ii) the amount of any losses and the amount of any capitalised arrears sustained on the BTL loans during the immediately preceding trust calculation period which are allocated to the seller and Funding on the relevant calculation date;
  - (iii) the adjustments referred to in paragraphs (1) to (5) in "*Adjustments to trust property*" below (or, if the seller share is zero, the adjustments referred to in paragraph (1) only); and
  - (iv) the amount of any other additions to or removals from the trust property during such trust calculation period (including, without limitation, any additions to the trust property resulting from cash re-draws made by borrowers in respect of flexible BTL loans in the loan portfolio and (if the seller subsequently elects not to purchase BTL loans which are the subject of further advances from the mortgages trustee) further advances sold and assigned by the seller to the mortgages trustee and (if the seller subsequently elects to sell and assign BTL loans with flexible loan reserves to the mortgages trustee) flexible loan reserve advances sold and assigned by the seller to the mortgages trustee) but excluding the assignment of BTL loans made on an assignment date and any initial contribution made by Funding or the seller during such trust calculation period.

**Funding share of trust property (assignment date and contribution date recalculation)**

On each assignment date or contribution date falling in a trust calculation period (also referred to in this section as the "**relevant recalculation date**"), the interest of Funding in the trust property will be recalculated for the related interim calculation period, for the sole purposes of calculating the distributions to be made from the trust property and determining the amount of losses to be allocated to Funding on the immediately succeeding calculation date, in accordance with the following formula:

- The "**current Funding share**" of the trust property will be an amount equal to:

$$A + E - F$$

- The "**current Funding share percentage**" of the trust property will be an amount equal to:

$$\frac{A + E - F}{I + J} \times 100$$

where,

- A = the amount of the Funding share of the trust property as determined on the latest to occur of the calculation date, the assignment date and the contribution date immediately preceding the relevant recalculation date;
- E = the amount equal to the initial contribution (if any) made by Funding to the mortgages trustee (or as it, or the cash manager on its behalf shall have directed) on such relevant recalculation date;

- F = the amount of any special distribution (if any) made by the mortgages trustee to Funding on such relevant recalculation date;
- I = the amount of the mortgages trustee retained principal receipts (if any) plus the aggregate current principal balance of all of the BTL loans in the trust property as determined at the later to occur of the calculation date, assignment date and contribution date immediately preceding such relevant recalculation date (in the case of a preceding calculation date, as determined on that date in accordance with item (H) under "*Funding share of trust property (calculation date recalculation)*" above); and
- J = the aggregate current principal balance of the BTL loans (if any) sold and assigned to the mortgages trustee on the relevant recalculation date.

### **Adjustments to trust property**

For the purposes of making the trust property calculation adjustments on the relevant distribution date and each relevant recalculation date, the aggregate current principal balance of the BTL loans in the loan portfolio will be reduced or deemed to be reduced in the following manner if any of the following events occurs during a trust calculation period:

- (1) any borrower exercises a right of set-off in relation to any BTL loan in the loan portfolio so that the amount of principal and/or interest owing under such BTL loan is reduced but no corresponding payment is received by the mortgages trustee, in which event, the aggregate current principal balance of the BTL loans in the loan portfolio will be reduced by an amount equal to the amount of so set-off by such borrower; and/or
- (2) a BTL loan or (as applicable) its related security (i) was assigned to the mortgages trustee in breach of the loan warranties as at the applicable assignment date or (ii) is the subject of a product switch or a further advance and the seller has elected to repurchase or purchase, as applicable, the relevant BTL loan or BTL loans under the relevant mortgage account and their related security pursuant to the terms of the mortgage sale agreement, and the seller is unable, for any reason, to repurchase or purchase, as applicable, the relevant BTL loan or BTL loans under the relevant mortgage account and their related security as required, in which event, the aggregate current principal balance of the BTL loans in the loan portfolio will be deemed to be reduced, for the purposes of making the trust property calculation adjustments, by an amount equal to the current balance of the relevant BTL loan or BTL loans under the relevant mortgage account (including all accrued interest and arrears of interest) which the seller has failed to repurchase or purchase, as applicable; and/or
- (3) Funding, the Seller and/or the Funding Security Trustee are notified that a flexible BTL loan or part thereof has been determined by a court judgment on the point or determined by a relevant regulatory authority (whether or not in relation to an analogous flexible BTL loan product of another UK mortgage lender):
  - (a) to be unenforceable; and/or
  - (b) not to fall within the first ranking charge by way of legal mortgage or first ranking standard security over the relevant mortgaged property,

and, in either case, such flexible BTL loan is not otherwise subject to the repurchase obligation of the seller pursuant to the terms of the mortgage sale agreement, in which event, the aggregate current principal balance of the BTL loans in the loan portfolio will be deemed to be reduced, for the purposes of making the trust property calculation adjustments, by an amount equal to that portion of the current principal balance of the flexible BTL loan which is so determined to be unenforceable or not to fall within the first ranking charge by way of legal mortgage or first ranking standard security over the relevant mortgaged property; and/or

- (4) a BTL loan or (as applicable) its related security (i) was assigned to the mortgages trustee in breach of the loan warranties as at the applicable assignment date or (ii) is the subject of a product switch or a further advance and the seller has elected to repurchase or purchase the relevant BTL loan or BTL loans under the relevant mortgage account and their related security pursuant to the terms of the mortgage sale agreement, but the relevant BTL loan or BTL loans

under the relevant mortgage account and their related security are not capable, for any reason, of being repurchased or purchased, as applicable, in which event, the aggregate current principal balance of the BTL loans in the loan portfolio will be deemed to be reduced, for the purposes of making the trust property calculation adjustments, by an amount equal to the current balance of the relevant BTL loan or BTL loans under the relevant mortgage account (including all arrears of interest and accrued interest) which are not capable of being repurchased or purchased, as applicable; and/or

- (5) the seller does not comply, in any material respect, with any other warranty under the mortgage sale agreement and/or (for so long as it is the servicer) the servicing agreement, in which event the aggregate current principal balance of the BTL loans in the loan portfolio will be deemed to be reduced, for the purposes of making the trust property calculation adjustments, by an amount equal to the resulting loss incurred by Funding and the seller as a result of such non-compliance.

The reductions or deemed reductions to the trust property set out in paragraphs (1) to (5) will be allocated, firstly, to the seller share of the trust property (or for the purposes of calculating the seller share of the trust property as the case may be), and thereafter (but in respect of paragraph (1) only) will be made to the Funding share of the trust property. Any subsequent recoveries on a BTL loan in the loan portfolio and its related security, which is or has been subject to any matter described in paragraphs (1) through (5) above and in respect of which the seller share of the trust property or the Funding share of the trust property has been reduced or deemed reduced, will constitute a revenue receipt in respect of the relevant BTL loan. Such revenue receipt will belong to Funding (but only if and to the extent that the related reductions or deemed reductions were applied against the Funding share of the trust property) and thereafter will belong to the seller and, to the extent received by the mortgages trustee, will be allocated accordingly.

#### **Weighted average Funding share percentage**

If, during any trust calculation period (i) the seller had assigned BTL loans to the mortgages trustee, or (ii) Funding or the seller had made an initial contribution to the mortgages trustee, or (iii) the seller or Funding had received a special distribution from the mortgages trustee, then on the calculation date following such trust calculation period the cash manager is required to calculate (for the purpose of making the distributions or allocations (as applicable) of revenue receipts, principal receipts and losses to be made on the next distribution date) the weighted average of the current Funding share percentages that were calculated previously in respect of each interim calculation period occurring in that trust calculation period. The calculation will be based on the relative lengths of the foregoing interim calculation periods. The "**weighted average Funding share percentage**" for any such calculation date will be equal to the aggregate of the amounts calculated in respect of each interim calculation period occurring in the trust calculation period immediately preceding the relevant calculation date in accordance with the following formula:

$$(A \times B)$$

where, in respect of an interim calculation period occurring in the trust calculation period immediately preceding such calculation date,

A = the current Funding share percentage for the such interim calculation period; and

B = the number of days in the such interim calculation period divided by the number of days in such trust calculation period;

#### **Seller share of trust property (calculation date recalculation)**

On each relevant calculation date, the "**current seller share**" of the trust property will be recalculated for the then current trust calculation period or related interim calculation period, as applicable, in accordance with the following formula:

- the aggregate amount of the trust property (excluding revenue receipts) as at the relevant distribution date minus the current Funding share as calculated on such relevant calculation date.



On each relevant calculation date, the "**current seller share percentage**" of the trust property will be recalculated for the then current trust calculation period or related interim calculation period, as applicable, in accordance with the following formula:

- 100 per cent. minus the current Funding share percentage as calculated on such relevant calculation date.

#### **Seller share of trust property (assignment date and contribution date recalculation)**

On each relevant recalculation date, the "**current seller share**" of the trust property will be recalculated for the related interim calculation period in accordance with the following formula:

- the aggregate amount of the trust property (excluding revenue receipts) as at the relevant recalculation date minus the current Funding share as calculated on such relevant recalculation date.

On each relevant recalculation date, the "**current seller share percentage**" of the trust property will be recalculated for the related interim calculation period in accordance with the following formula:

- 100 per cent. minus the current Funding share percentage.

#### **Weighted average seller share percentage**

On any calculation date with respect to which (i) the seller has assigned BTL loans to the mortgages trustee during the immediately preceding trust calculation period, or (ii) Funding or the seller has made an initial contribution to the mortgages trustee during the immediately preceding trust calculation period, or (iii) the seller or Funding has received a special distribution during the immediately preceding trust calculation period from the mortgages trustee, the cash manager is required to calculate (for the purpose of making the distributions or allocations (as applicable) of revenue receipts, principal receipts and losses to be made on the next distribution date) the weighted average of the current seller share percentages that were calculated previously in respect of each interim calculation period occurring in that immediately preceding trust calculation period. The "**weighted average seller share percentage**" for any such calculation date, will be a percentage equal to 100 per cent. minus the sum of the weighted average Funding share percentage.

#### **Minimum seller share**

The seller share of the trust property includes an amount known as the "**minimum seller share**". The amount of the minimum seller share will fluctuate depending on changes to the characteristics of the BTL loans in the loan portfolio. The seller is not entitled to receive principal receipts (in any manner) which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until the earlier to occur of (a) the Funding share of the trust property having been reduced to zero or (b) an asset trigger event. The minimum seller share is required to be determined on each calculation date in accordance with the following formula:

$$W + X + Y + Z$$

where,

- W = (a) if the seller's short term, unsecured, unguaranteed and unsubordinated debt obligations are rated at least "P-1" by Moody's and "F1+" by Fitch and the seller's long term, unsecured, unguaranteed and unsubordinated debt obligations are rated at least "Aa3" by Moody's, 20 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio in respect of each calendar month or part of any such calendar month;

- (b) if the seller's short term, unsecured, unguaranteed and unsubordinated debt obligations are rated "P-1" by Moody's and "F1" by Fitch; and the seller's long term, unsecured, unguaranteed and unsubordinated debt obligations are rated at least "A3" by Moody's, the greater of:
- (i) 60 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio in respect of each calendar month or part of any such calendar month; and
  - (ii) 100 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio in respect of each calendar month or part of any such calendar month less 5 per cent. of the aggregate current principal balance of BTL loans in the loan portfolio as at the last day of the immediately preceding trust calculation period;
- (c) in all other circumstances where (a) or (b) do not apply, 100 per cent. of the sum of the average cleared credit balance of all applicable accounts linked to offset BTL loans in the loan portfolio in respect of each calendar month or part of any such calendar month;

X = 2 per cent. (or such other percentage determined by the seller and notified to the mortgages trustee following its annual review or, if the seller's short-term, unsecured, unguaranteed and unsubordinated debt obligations are not rated at least "F1" by Fitch and "P-1" by Moody's, its quarterly review) of the aggregate current principal balance of BTL loans in the loan portfolio;

Y = the product of:  $q \times r$  where:

q = 24 per cent.; and

r = the "**flexible cash re-draw capacity**", being an amount equal to the difference between (a) the maximum amount of cash re-draws that borrowers may make under flexible BTL loans in the loan portfolio (whether or not drawn) as at the last day of the immediately preceding trust calculation period and (b) the aggregate current principal balance of cash re-draws on BTL loans in the loan portfolio as at the last day of the immediately preceding trust calculation period; and

Z = the aggregate current principal balance of cash re-draws in respect of BTL loans in the loan portfolio as at the last day of the immediately preceding trust calculation period.

The purpose of "**W**" is to mitigate the risks relating to borrowers holding deposits in Clydesdale Bank bank accounts that are linked to offset BTL loans. The purpose of "**X**" is to mitigate the risks relating to borrowers holding deposits in Clydesdale Bank bank accounts that are not linked to offset BTL loans (see "*Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the BTL loans and their related security which may adversely affect payments on the notes*"). The purpose of the calculation in "**Y**" is to mitigate the risk of the seller failing to fund a re-draw under a flexible BTL loan in the loan portfolio. The purpose of "**Z**" is to mitigate enforceability and priority risks relating to cash re-draws under the flexible BTL loans in the loan portfolio.

If, by reason of the downgrade of the rating of the short term, unsecured, unguaranteed and unsubordinated debt obligations or the long term, unsecured, unguaranteed and unsubordinated debt obligations of the seller, as applicable, the percentage amount specified under "**W**" is required to be increased, the minimum seller share, as calculated on the calculation date immediately preceding the occurrence of such downgrading will be recalculated, for such calculation date, on the assumption that the rating event had occurred on or before such calculation date. The seller will use reasonable efforts to ensure that, within 10 London business days of the occurrence of such downgrading, the seller share is increased by an amount equal to the difference (if greater than zero) calculated by subtracting the seller share (as calculated on the calculation date immediately preceding the occurrence of such downgrading) from the recalculated minimum seller share.

#### **Cash management of trust property – revenue receipts**

Under the cash management agreement, the cash manager is responsible for distributing revenue receipts on behalf of the mortgages trustee on each distribution date in accordance with the order of priority

described in the following section. For further information on the role of the cash manager, see "*Cash management for the mortgages trustee and Funding*".

### **Mortgages trust allocation of revenue receipts**

"**Mortgages trustee available revenue receipts**" are required to be calculated by the cash manager on or around each distribution date and will be an amount equal to the sum of:

- revenue receipts received by the mortgages trustee on the BTL loans in the loan portfolio (calculated by reference to the period ending on the last day of the immediately preceding trust calculation period);
- any all moneys mortgage revenue receipts;
- interest payable to the mortgages trustee on the mortgages trustee transaction accounts and the mortgages trustee GIC account and all income from authorised investments, which will be received on or prior to the relevant distribution date; and
- any offset rebate amount paid by the seller to the mortgages trustee in respect of the application of any offset benefit in respect of any offset BTL loan in the loan portfolio, which will be received on or prior to the relevant distribution date and of any amounts standing to the credit of the offset benefit reserve ledger as further described in "*– Offset rebate amount*";

*less*

- amounts due to third parties (also known as "**third party amounts**") including:
  - (1) payments of insurance premiums, if any, due to any originator in respect of any insurance policy arranged by such originator to the extent not paid or payable by such originator (or to the extent such insurance premiums have been paid by the such originator in respect of a further advance in respect of a BTL loan which is not purchased by the seller, to reimburse the seller);
  - (2) amounts under an unpaid direct debit which are repaid by the servicer to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;
  - (3) other charges which are due to the seller; and/or
  - (4) recoveries in respect of amounts deducted from BTL loans as described in paragraphs (1) to (5) under "*– Adjustments to trust property*" above, which will belong to and be paid to Funding and/or the seller as described therein, which amounts may be paid daily from monies on deposit in the mortgages trustee transaction accounts or the mortgages trustee GIC account; and
- amounts distributed on each previous distribution date in accordance with the mortgages trust allocation of revenue receipts.

On each distribution date, the cash manager is required to apply mortgages trustee available revenue receipts in the following order of priority (the "**mortgages trust allocation of revenue receipts**"):

- (A) *first*, in no order of priority between them but in proportion to the respective amounts due, to pay:
- (1) the mortgages trustee under the provisions of the mortgages trust deed (including the mortgages trustee fee);
  - (2) to third parties from the mortgages trustee in respect of the mortgages trust but only if:
    - (a) payment is not due as a result of a breach in any material respect by the mortgages trustee of the programme documents to which it is a party; and
    - (b) payment has not already been provided for elsewhere;

- (B) *second*, in no order of priority between them but in proportion to the respective amounts due to the servicer and the cash manager or to become due to the servicer and the cash manager prior to the next following distribution date pursuant to the terms of the servicing agreement and/or the cash management agreement, as applicable;
- (C) *third*, in no order of priority between them but in proportion to the respective amounts due:
- (1) to the seller, in an amount determined by multiplying the total amount of the remaining mortgages trustee available revenue receipts by the current seller share percentage of the trust property;
  - (2) to Funding, in an amount determined by multiplying the total amount of the remaining mortgages trustee available revenue receipts by the current Funding share percentage of the trust property excluding any deferred contribution amounts payable under item (Y) of the Funding pre-enforcement revenue priority of payments and/or item (P) of the Funding post-enforcement priority of payments;

provided that, if an assignment date or a contribution date has occurred during the trust calculation period immediately preceding the relevant calculation date, then the cash manager is required to use (i) the weighted average seller share percentage (instead of the seller share percentage) in determining the amount of mortgages trustee available revenue receipts to distribute to the seller on that distribution date, and (ii) the weighted average Funding share percentage (instead of the Funding share percentage) in determining the amount of mortgages trustee available revenue receipts to distribute to Funding on that distribution date.

#### **Cash management of trust property – principal receipts**

Under the cash management agreement, the cash manager is responsible for distributing principal receipts on behalf of the mortgages trustee on each distribution date in accordance with the order of priority described in the next two following sections. To understand the basis on which the cash manager will distribute principal receipts on the BTL loans on each distribution date you need to understand the definitions set out below.

A "**trigger event**" means an asset trigger event and/or a non-asset trigger event.

An "**asset trigger event**" will occur when an amount is debited to the AAA principal deficiency sub-ledger of the Funding principal deficiency ledger and, for the avoidance of doubt, will occur even if there are sufficient funds available to clear such debit on the next monthly payment date. For more information on the Funding principal deficiency ledger, see "*Credit structure – Funding principal deficiency ledger*".

A "**non-asset trigger event**" means any of the following events:

- an insolvency event occurs in relation to the seller;
- the seller's role as servicer is terminated and a new servicer is not appointed within 60 days;
- on any distribution date, the seller fails to pay to the mortgages trustee any offset rebate amount where, following notification of such failure, the Funding security trustee is of the opinion that such failure is materially prejudicial to the interests of the noteholders of the notes issued by all issuers; or
- on the distribution date immediately following a seller share event distribution date, the current seller share is equal to or less than the minimum seller share for such distribution date (determined using the amounts of the current seller share and minimum seller share that would exist after making the distributions of mortgages trustee available principal receipts on that distribution date on the basis that the cash manager assumes that those mortgages trustee available principal receipts are distributed in the manner described under "*– Mortgages trustee allocation and distribution of mortgages trustee available principal receipts prior to the occurrence of a trigger event*").

A "**seller share event**" will occur if, on a distribution date (i) the current seller share on that distribution date is equal to or less than the minimum seller share for such distribution date (determined using the

amounts of the current seller share and minimum seller share that would exist after making the distributions of mortgages trustee available principal receipts on that distribution date on the basis that the cash manager assumes that those mortgages trustee available principal receipts are distributed in the manner described in the mortgages trust deed) and (ii) a seller share event has not occurred on the immediately preceding distribution date.

A "**seller share event distribution date**" is a distribution date on which a seller share event occurs.

**Mortgages trust allocation and distribution of mortgages trustee available principal receipts prior to the occurrence of a trigger event**

Prior to the occurrence of a trigger event (and whether or not the Funding security trustee has delivered a Funding enforcement notice to Funding or the note trustee has delivered an issuer enforcement notice to the issuer) the cash manager on behalf of the mortgages trustee is required to allocate and distribute mortgages trustee available principal receipts on each distribution date (or, in respect of the allocation and payment of any initial purchase price or special distribution, on any contribution date) as follows:

- (A) *first*, to the seller and/or Funding, the amount of any special distribution which is then allocable and payable to the seller and/or Funding pursuant to the terms of the mortgages trust deed;
- (B) *second*, to Funding in an amount equal to the lesser of:
  - (1) if Funding has a repayment requirement on that distribution date (as to which, see "*Cashflows – Funding allocation of mortgages trustee available principal receipts*"), the amount of such repayment requirement; and
  - (2) an amount determined by multiplying the total amount of remaining mortgages trustee available principal receipts by the current Funding share percentage of the trust property;
- (C) *third*, to Funding, to the extent not already paid pursuant to item (B) above, in an amount up to the amount set forth in item (B)(1);
- (D) *fourth*, if such distribution date is not a seller share event distribution date, an amount equal to the lesser of (i) the amount by which the current seller share exceeds the minimum seller share and (ii) the remaining mortgages trust principal receipts, shall be paid to the seller and shall be applied to reduce the seller share by such amount;

provided that, if an assignment date or a contribution date has occurred during the trust calculation period immediately preceding that distribution date, then the cash manager is required to use the weighted average Funding share percentage (instead of the Funding share percentage) in determining the amount of mortgages trustee available principal receipts to distribute to Funding on that distribution date;

PROVIDED THAT in relation to (A) through (C) above the following rules shall apply:

- (1) If (a) the notes issued by the issuer have become immediately due and payable following the delivery by the note trustee of an issuer enforcement notice to the issuer (or the notes issued by any other issuer have become immediately due and payable following the security created by such issuer becoming enforceable), or (b) the Funding intercompany loans have become immediately due and payable as a result of the delivery by the Funding security trustee of a Funding enforcement notice to Funding, then:
  - principal repayments in respect of the loan tranches may be made in excess of any bullet loan amount or controlled amortisation amount; and
  - item (B)(1) above shall no longer apply and, except following the occurrence of a non-asset trigger event, the amount of mortgages trustee available principal receipts to be distributed to Funding on that distribution date may not exceed the amount determined under paragraph (B)(2) above.
- (2) If (a) the notes issued by the issuer have become immediately due and payable following the delivery by the note trustee of an issuer enforcement notice to the issuer (or the notes issued by any other issuer have become immediately due and payable following the security created by

such issuer becoming enforceable), or (b) the Funding intercompany loans have become immediately due and payable as a result of the delivery by the Funding security trustee of a Funding enforcement notice to Funding, then for the purpose of calculating the amount under item (B)(2) above, such amount will be reduced (provided that it will not be reduced to less than zero) to the extent of any remaining amounts standing to the credit of the Funding reserve ledger and/or the Funding liquidity reserve ledger (if any) which are to be utilised on the immediately succeeding monthly payment date to repay principal pursuant to the provisions of the Funding intercompany loan agreements but only to the extent that such principal repayments would not otherwise be made pursuant to the provisions of the Funding intercompany loan agreements on that monthly payment date.

- (3) The amount of mortgages trustee available principal receipts payable to Funding on a distribution date will be reduced by the amount of mortgages trustee available revenue receipts allocable to Funding on such distribution date and which will be applied on the immediately succeeding monthly payment date in reduction of deficiencies recorded on the Funding principal deficiency ledger, but only to the extent that the mortgages trustee available revenue receipts which are to be so applied on that monthly payment date would not otherwise be payable as principal pursuant to the provisions of the Funding intercompany loan agreements on that monthly payment date.
- (4) On a seller share event distribution date, the cash manager shall deposit all mortgages trustee available principal receipts remaining after (C) above (the "**mortgages trustee retained principal receipts**") into the mortgages trustee GIC account and make a corresponding credit to the mortgages trustee principal ledger.
- (5) The Funding share of the trust property may not be reduced below zero.

**Mortgages trust allocation and distribution of mortgages trustee available principal receipts on or after the occurrence of a trigger event**

On each distribution date falling on or after the occurrence of a non-asset trigger event and until the earliest to occur of an asset-trigger event, the delivery by the note trustee of an issuer enforcement notice to the issuer (or the notes issued by any other issuer have become immediately due and payable following the security created by such issuer becoming enforceable) and the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the cash manager is required to allocate and distribute all mortgages trustee available principal receipts to Funding until the Funding share of the trust property are zero. Following the occurrence of a non-asset trigger event, the notes will be subject to payment risk (that is, they may be repaid earlier or later than expected). See "*Risk factors – The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes*".

On each distribution date falling on or after the earlier to occur of an asset trigger event, the delivery by the note trustee of an issuer enforcement notice to the issuer (or the notes issued by any other issuer have become immediately due and payable following the security created by such issuer becoming enforceable) and the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the cash manager is required to allocate and distribute all mortgages trustee available principal receipts as follows:

- (a) if the immediately preceding distribution date was a seller share event distribution date, all of the mortgages trustee retained principal receipts will be paid to Funding; and then
- (b) in no order of priority among them but in proportion to the respective amounts due, to allocate and pay the remaining mortgages trustee available principal receipts to:
  - (i) the seller, in an amount determined by multiplying the total amount of the remaining mortgages trustee available principal receipts by the current seller share percentage of the trust property; and
  - (ii) to Funding, in an amount determined by multiplying the total amount of the remaining mortgages trustee available principal receipts by the current Funding share percentage of the trust property,

until the Funding share of the trust property has been reduced to zero, even though those payments may reduce the seller share of the trust property to an amount less than the minimum seller share,

provided that, if an assignment date or a contribution date has occurred during the trust calculation period immediately preceding any such distribution date, then the cash manager is required to use (i) the weighted average seller share percentage (instead of the current seller share percentage) in determining the amount of mortgages trustee available principal receipts to distribute to the seller on that distribution date pursuant to item (b)(i) above, and (ii) the weighted average Funding share percentage (instead of the current Funding share percentage) in determining the amount of mortgages trustee available principal receipts to distribute to Funding on that distribution date pursuant to item (b)(ii) above.

Following the occurrence of an asset trigger event, certain series and classes of notes will be subject to prepayment risk (that is, they may be repaid earlier than expected) and other series and classes of notes will be subject to extension risk (that is, they may be repaid later than expected). See "*Risk factors – The occurrence of an asset trigger event or enforcement of the issuer security or the Funding security may accelerate the repayment of certain notes and/or delay the repayment of other notes*".

### **Overpayments**

An overpayment in respect of any BTL loan in the loan portfolio will, on its receipt, be regarded as principal receipts for the relevant trust calculation period.

### **Losses**

All losses arising on the BTL loans in the loan portfolio will, save as otherwise provided, be applied in reducing proportionately the Funding share of the trust property and the seller share of the trust property. Save as otherwise provided, the Funding share of such losses will be determined on any calculation date by multiplying the amount of losses incurred in respect of the BTL loans in the loan portfolio in the immediately preceding trust calculation period by the Funding share percentage (as determined on the immediately preceding calculation date) until the Funding share of the trust property is zero. However, if an assignment date or a contribution date has occurred during the trust calculation period immediately preceding the relevant calculation date, then the amount of losses to be allocated to the Funding share of the trust property shall be determined by the weighted average Funding share percentage (instead of the Funding share percentage). The remainder of the losses shall be allocated to the seller.

For a description of how losses on the BTL loans that have been allocated to Funding on any date will be allocated to the loan tranches of the global intercompany loan, see "*Credit structure – Funding principal deficiency ledger*".

### **Disposal of trust property**

The trust property is held on trust for the benefit of Funding and the seller. Save as provided otherwise in the mortgages trust deed and the other programme documents, the mortgages trustee is not entitled to dispose of the trust property or create any security interest over the trust property without the consent of the beneficiaries.

If a Funding intercompany loan event of default occurs and the Funding security trustee enforces the security granted by Funding over its assets under the Funding deed of charge, including its share of the trust property, then the Funding security trustee will be entitled, among other things, to sell Funding's rights as a beneficiary under the mortgages trust. For further information on the security granted by Funding over its assets, see "*Security for Funding's obligations*".

### **Additions to, and reductions in, the trust property**

The trust property may be increased from time to time by the conditions to assignment to the mortgages trustee. For further information on the conditions to assignment to the mortgages trustee, see "*Conditions to assignment*".

If a borrower makes a cash re-draw under a flexible BTL loan in the loan portfolio, then the seller will be solely responsible for funding that cash re-draw. As a result, the size of the trust property and the seller share of the trust property will increase by the principal amount of such cash re-draw.

If at any time the servicer agrees, on behalf of the seller, to a further advance or a flexible loan reserve advance being made under a BTL loan in the loan portfolio, then the seller will be solely responsible for funding that further advance or flexible loan reserve advance. The seller share of the trust property will increase by the principal amount of the further advance (where the seller does not purchase the relevant BTL loan from the mortgages trustee) or the flexible loan reserve advance made by the seller.

The application of any offset benefit in relation to an offset BTL loan in the loan portfolio will also reduce the amount of trust property. This will occur because the current principal balance of any offset BTL loan in the loan portfolio (and therefore the aggregate amount of the trust property) will be reduced from time to time by the amount of any offset benefit applied to such offset BTL loan, as described under "*The BTL loans – Characteristics of the BTL loans – BTL loan products offered by the originators*". However, where any such offset benefit is so applied, the seller will be required to make an offset rebate to the mortgages trustee in an amount equal to such offset benefit.

#### **Arrears**

The aggregate current principal balance of any BTL loan in the loan portfolio will be increased at any time by the amount in which such BTL loan is in arrears where those arrears have been capitalised. Such increase shall be allocated to Funding and the seller at any time in proportion to their respective percentage shares in the trust property as determined in respect of the trust calculation period or interim calculation period, as the case may be, in which the arrears occur.

#### **Increasing and decreasing the seller share of the trust property**

The seller will fund cash re-draws in respect of any flexible BTL loan in the loan portfolio by payment of the amount of the cash re-draw to the relevant borrower. Accordingly, the trust property and the seller share of the trust property will automatically increase by the amount of any cash re-draw so made.

#### **Increasing the Funding share of the trust property**

If Funding borrows a new loan tranche, then it may apply the proceeds of that loan tranche as an initial contribution to the mortgages trust to increase its beneficial interest in, and the Funding share of, the trust property. Funding is permitted to do this only if it meets certain conditions, including among others:

- that no Funding enforcement notice has been delivered by the Funding security trustee to Funding;
- that as at the most recent monthly payment date no deficiency was recorded on the Funding principal deficiency ledger;
- the requirement to obtain a ratings confirmation with respect to the proposed increase in the Funding share; and
- that, as of the last day of the immediately preceding trust calculation period, the aggregate current principal balance of BTL loans in the loan portfolio which were then in arrears for at least three months is less than 4 per cent. of the aggregate current principal balance of all BTL loans in the loan portfolio as of such date, unless a ratings confirmation is obtained in respect thereof.

Under the mortgages trust deed, Funding and the seller will agree that principal receipts held by the mortgages trustee on any date which are funded from any initial contribution paid by Funding to the mortgages trustee on that date will be allocated and paid by the mortgages trustee to the seller as initial purchase price or to the seller or Funding as a special distribution from the mortgages trust on such date or any other date whether or not such date is a distribution date. The payment of any such initial purchase price or special distribution will reduce the seller share or the Funding share of the trust property, as applicable.

#### **Termination of the mortgages trust**

Pursuant to the terms of the mortgages trust deed, the mortgages trust will terminate on the date on which there is no remaining trust property or, if earlier, such date as may be requested in writing by the beneficiaries to the mortgages trustee being on or after the date on which all amounts owing under the global intercompany loan agreement and any other Funding intercompany loan agreement have been



repaid in full or there is no further claim under the global intercompany loan agreement or any other Funding intercompany loan agreement or both the Funding share of the trust property have been reduced to zero, or such other date which may be agreed between the mortgages trustee, Funding and the seller so long as all amounts due from Funding to its secured creditors have been repaid in full.

**Retirement of mortgages trustee**

The mortgages trustee is not entitled to retire or otherwise terminate its appointment.

**Governing law**

The mortgages trust deed and any non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

## THE GLOBAL INTERCOMPANY LOAN AGREEMENT

The following section describes the material terms of the global intercompany loan agreement. The description does not purport to be complete and is subject to the terms of the global intercompany loan agreement.

### **The facility**

Pursuant to the terms of the global intercompany loan agreement, the issuer will advance to Funding, on the relevant closing date for each series of notes by the issuer, an aggregate amount in sterling equal to the proceeds of the issue of each such series of notes. Each such advance will be made up of separate loan tranches, each of which will be funded by a class of notes issued under the relevant series and, as such, will be equal (in initial principal amount) to the relevant class of notes of the relevant series. The loan tranche and the series and class of notes from which it is funded will be identified in the applicable final terms and the applicable loan tranche supplement.

On the closing date for a series and class of notes, the issuer, Funding, the Funding security trustee and the agent bank will enter into a supplement (a "**loan tranche supplement**") that will set forth the specific terms of the loan tranches to be made by the issuer to Funding on such date. For this purpose, the proceeds of notes issued by the issuer in a specified currency other than sterling will be converted into sterling at the relevant specified currency exchange rate.

Funding will use the proceeds of each loan tranche to:

- make contributions (excluding deferred contributions) to the mortgages trustee to increase its beneficial interest in the trust property pursuant to the terms of the mortgages trust deed;
- fund the Funding reserve fund or to make a deposit into the Funding GIC account;
- make a payment back to the issuer to refinance an existing loan tranche; and/or
- make a payment to another issuer to refinance an existing Funding intercompany loan made by such issuer to Funding.

Upon receipt of a contribution from Funding which constitutes an initial contribution, the mortgages trustee will pay such funds to the seller as an initial purchase price or (as directed by Funding) will pay such funds to the seller as a special distribution, which will reduce the seller share of the trust property (see "*The mortgages trust – Fluctuation of the seller share and the Funding share*").

The global intercompany loan agreement and any non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

### **Classes of loan tranches**

Each loan tranche (other than the Z loan tranches) will be designated with a rating which will reflect the rating expected to be assigned by the rating agencies on the relevant closing date to the series and class of notes from which it is funded. For example, a loan tranche funded by the class A notes (or any sub-class of class A notes) of any series will be designated an "AAA loan tranche". A loan tranche funded by the class Z notes (or any sub-class of class Z notes) of any series will be designated a "Z loan tranche".

References to a "class" of loan tranches refer to any of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and the Z loan tranches.

### **Issuance of loan tranches**

The issuer is permitted to issue series of notes and use the proceeds of such issuance of notes to fund loan tranches to be made to Funding, from time to time, without having to obtain the consent of existing noteholders. The issuer will not be obliged to advance loan tranches to Funding unless, on the closing date for the applicable series of notes, certain conditions have been met, including:

- (a) the series of notes has been issued and the proceeds have been received by the issuer or on its behalf;

- (b) if required, one or more deeds of accession relating to the Funding deed of charge have been executed by the parties to the Funding deed of charge;
- (c) each of the applicable programme issuance documents has been executed by the relevant parties to those documents; and
- (d) Funding has delivered a solvency certificate to the Funding security trustee in form and substance satisfactory to the Funding security trustee.

### **Representations, warranties and undertakings**

The global intercompany loan agreement contains representations, warranties and undertakings to be given by Funding to the issuer.

The undertakings include, among others, the following:

- it will not create or permit to subsist any security interest over or in respect of any of its assets (unless arising by operation of law) other than as provided for pursuant to the terms of the programme documents;
- it will not sell, assign, transfer, lease or otherwise dispose of or grant any option over all or any of its assets, properties or undertakings or any interest, estate, right, title or benefit to or in such assets, properties or undertakings other than as provided for pursuant to the terms of the programme documents;
- it will not enter into any amalgamation, demerger, merger or reconstruction, nor acquire any assets or business nor make any investments other than as provided for pursuant to the terms of the programme documents;
- it will not incur any indebtedness or give any guarantee or indemnity in respect of any obligation of any other person other than as provided for pursuant to the terms of the programme documents;
- it will not pay any dividend or make any other distribution in respect of any of its shares other than in accordance with the Funding deed of charge, or issue any new shares or alter any rights attaching to its issued shares as at the date of the global intercompany loan agreement;
- it will not carry on any business or engage in any activity other than as provided for pursuant to the terms of the programme documents or which is not incidental to or necessary in connection with any of the activities in which the programme documents provide or envisage that Funding will engage; and
- it will not have any subsidiaries or subsidiary undertakings as defined in the Companies Act 2006 (as amended).

### **Payment of interest**

Payment of interest and fees on each loan tranche are required to be made principally from and to the extent of distributions by the mortgages trustee of amounts constituted from revenue receipts, to Funding in respect of the Funding share of the trust property. Such payments of interest and fees are required to be made by Funding on loan payment dates in the priorities set forth in "*Cashflows – Distribution of Funding available revenue receipts prior to enforcement of the Funding security*".

The interest rate applicable to a loan tranche and each interest period thereunder will be determined, from time to time, by reference to LIBOR for three-month sterling deposits or, in certain cases, such other sterling LIBOR rate as may be specified for such loan tranche in the applicable loan tranche supplement, plus or minus, in each case, a margin specified for such loan tranche in the applicable loan tranche supplement. Notwithstanding the previous sentence, for each interest period which commences after the occurrence of any of the events specified in items (1) and (2) under "*– Due dates of loan tranches*", the interest rate applicable to such loan tranche will be determined by reference to LIBOR for one-month sterling deposits plus or minus the applicable margin. The applicable LIBOR rate in respect of an interest

period for a loan tranche will be determined on the date(s) specified for such loan tranche in the applicable loan tranche supplement.

On each loan payment date or as and when required, Funding is required to pay an additional fee to the issuer. This fee will be equal to the amount required by the issuer to pay or provide for certain other amounts (excluding interest and principal due on the notes and tax that can be met out of the issuer's profits) if any, falling due on or after that loan payment date as set forth in the items under "*Cashflows – Distribution of issuer available revenue receipts prior to enforcement of the issuer security*" or in the relevant items under such other issuer priority of payments as may apply on that loan payment date.

### **Repayment of the loan tranches**

Repayment of principal on each loan tranche are required to be made principally from and to the extent of distributions by the mortgages trustee, of amounts constituted from principal receipts, to Funding in respect of the Funding share of the trust property. Such principal repayments will be made in respect of each loan tranche on the dates and in the priorities set forth in "*Cashflows – Distribution of Funding available principal receipts*".

### **Due dates of loan tranches**

The loan tranche supplement for each loan tranche will set forth (i) in the case of a bullet loan tranche, the bullet redemption date for such loan tranche, (ii) in the case of a controlled amortisation loan tranche, the controlled amortisation dates, or (iii) in the case of an original pass-through loan tranche, the loan payment date on which such original pass-through loan tranche will be scheduled to be paid, as applicable. Each such date will be the same as the equivalent dates for the related series and class of notes. A loan tranche (or a part thereof) will become "due" on the earlier to occur of:

- (1) the date upon which a pass-through trigger event occurs; and
- (2) any other date specified for such loan tranche in the applicable loan tranche supplement as being a date upon which the loan tranche will become due;

In each case, when a loan tranche becomes due, it shall continue to be due until it is fully repaid. If there are insufficient funds available to repay a loan tranche on a loan payment date upon which that loan tranche has become or remains due, then the shortfall will be repaid on subsequent loan payment dates from Funding available principal receipts until that loan tranche is fully repaid.

Funding is not permitted, as a general matter, to make a repayment of principal on a loan tranche if, following such repayment, each class of loan tranches then outstanding does not retain its required amount of subordination. This general requirement is expressed in the "repayment tests" set out in part B of Rule (1) in "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security – Rules for application of Funding available principal receipts*" below, which must be satisfied in respect of any repayment of principal on a loan tranche.

### **Funding intercompany loan events of default**

Pursuant to the terms of the global intercompany loan agreement, each of the following events will constitute a "**Funding intercompany loan event of default**"):

- Funding does not pay any amount of principal payable under the global intercompany loan agreement for a period of seven business days after such amount has become due and payable or does not pay any amount of interest or other amount (other than principal) payable under the global intercompany loan agreement for a period of fifteen business days after such amount has become due and payable pursuant to the terms of the global intercompany loan agreement; or
- Funding does not comply, in any material respect, with any of its obligations under the programme documents (excluding its payment obligations under the global intercompany loan agreement) and such non-compliance is not waived or is not remedied within 30 days of Funding receiving notice from the Funding security trustee requiring such non-compliance to be remedied; or

- Funding, otherwise than for the purposes of such amalgamation or reconstruction or merger as is referred to below, ceases or threatens to cease to carry on its business or a substantial part of its business or Funding is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986; or
- an order being made or an effective resolution being passed for the winding-up of Funding, except a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have previously been approved by the Funding security trustee; or
- proceedings being otherwise initiated against Funding under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the making of an application for administration or the filing of documents with the court for an administration) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the opinion of the note trustee, being disputed in good faith with a reasonable prospect of success, a formal notice is given of intention to appoint an administrator in relation to Funding or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to Funding or in relation to the whole or any substantial part of the undertaking or assets of Funding, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of Funding, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of Funding and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or Funding initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally or a composition or similar arrangement with the creditors or takes steps with a view to obtaining a moratorium in respect of its indebtedness, including without limitation, the filing of documents with the court; or
- it is, or becomes, unlawful for Funding to perform its obligations under any of the programme documents to which it is a party; or
- the Funding deed of charge is no longer binding or enforceable against Funding or is no longer effective to create the security intended to be created by it.

If a Funding intercompany loan event of default occurs and is continuing then the Funding security trustee may, by delivery of a Funding enforcement notice to Funding, declare all outstanding loan tranches to be immediately due and payable and/or declare all outstanding loan tranches to be due and payable on demand of the Funding security trustee.

#### **Limited recourse**

Funding will only be obliged to pay amounts to the issuer in respect of any loan tranche to the extent it has funds to do so after making payments ranking in priority to amounts due on such loan tranches (including amounts due on loan tranches of a more senior ranking).

If, on the last occurring final maturity date of any loan tranche, there is a shortfall between the amount of interest and/or principal due on all loan tranches then outstanding and the amount available to Funding to make such payments, then that shortfall shall become immediately due and payable irrespective of whether Funding has the funds to make the payments then due.

Following enforcement of the Funding security and distribution of all proceeds of such enforcement in accordance with the terms of the Funding deed of charge and there are no further assets available to pay any outstanding amounts due and owing by Funding to the issuer, all such outstanding amounts will be extinguished.

The ability of the issuer to repay a series and class of notes will depend, among other things, upon payments received by the issuer from Funding in respect of the related loan tranche. See "*Risk factors – Funding is not required to make payments on the global intercompany loan if it does not have enough money to do so, which could adversely affect the payment on the notes*".

### **Funding intercompany loan surplus**

Funding will be entitled to receive payments of surplus amounts payable as consideration for entering into the Funding intercompany loan agreement the "**Funding intercompany loan surplus amount**" of an amount equal to the amounts received or recovered and available at item (U) of the issuer post-enforcement priority of payments, item (Q) of the issuer pre-enforcement revenue priority of payments and item (H) of the issuer pre-enforcement principal priority of payments.

### **Other Funding intercompany loan agreements**

After the programme date, Holdings may establish additional issuers for the purpose of issuing new notes to investors and using the proceeds thereof to make Funding intercompany loans to Funding. The issuance of notes by any such other issuer and the making of the related Funding intercompany loans will only be permitted if certain conditions precedent are satisfied, including, among others, that the ratings of your notes will not be reduced, withdrawn or qualified at the time of the issuance of such notes (see "*Risk factors – If Funding enters into other Funding intercompany loans, such other Funding intercompany loans and accompanying notes may be repaid prior to the global intercompany loan and the notes*" and "*Risk factors – Other issuers may share in the same security granted by Funding to the issuer, and this may ultimately cause a reduction in the payments you receive on the notes*").

## CASHFLOWS

### **Distributions of Funding available revenue receipts prior to the enforcement of the Funding security**

#### ***Definition of Funding available revenue receipts***

"Funding available revenue receipts" in respect of any monthly payment date are required to be calculated by the cash manager on the distribution date immediately preceding such monthly payment date and will be an amount equal to the sum of:

- all mortgages trustee available revenue receipts distributed or to be distributed to Funding during the period from (and including) the preceding monthly payment date to (but excluding) the relevant monthly payment date;
- other net income of Funding, including all amounts of interest on the Funding bank accounts and all income from authorised investments, in each case, received or to be received during the period from (and including) the preceding monthly payment date to (but excluding) the relevant monthly payment date;
- amounts to be received from the Funding basis rate swap provider under the Funding basis rate swap agreement on the relevant monthly payment date (excluding swap collateral standing to the credit of the Funding swap collateral accounts), any swap termination payments (other than such swap termination payments applied or to be applied by Funding in the purchase of one or more replacement hedging transactions) recovered by Funding under the Funding basis rate swap agreement and any swap replacement premium (other than such swap replacement premium applied or to be applied by Funding in making any swap termination payment due from it to the Funding basis rate swap provider);
- the aggregate of amounts standing to the credit of the Funding principal ledger or the Funding cash accumulation ledger (as applicable) which are to be applied on the relevant monthly payment date to pay items (A) through (G) and items (I), (L), (N) and/or (P) of the Funding pre-enforcement revenue priority of payments;
- amounts to be received by Funding as Funding intercompany loan surplus amounts pursuant to items (Q) of the issuer pre-enforcement revenue priority of payments and (U) of the issuer post-enforcement priority of payments;
- the amount available to be drawn from the Funding reserve fund, subject to any limits or conditions on the purposes for which the Funding reserve fund may be utilised; and
- prior to the repayment in full of the AAA loan tranches and the AA loan tranches, the amount available to be drawn from the Funding liquidity reserve fund (if any) subject to any limits or conditions on the purposes for which the Funding liquidity reserve fund may be utilised and following the repayment in full of the AAA loan tranches and the AA loan tranches, all monies credited to the Funding liquidity reserve fund.

The limits and conditions to the utilisation of the Funding reserve fund and the Funding liquidity reserve fund, if any, are described under "*Credit structure – Funding reserve fund*" and "*Credit structure – Funding liquidity reserve fund*".

#### ***Rules for application of Funding available revenue receipts***

The Funding deed of charge sets out certain rules for the application by Funding, or the cash manager on its behalf, of Funding available revenue receipts on each monthly payment date. The principal rules are as follows:

- (1) If on any monthly payment date, any Funding available revenue receipts are applied by Funding in reducing any deficiency recorded on the Funding principal deficiency sub-ledger of any class of loan tranches, then the Funding available revenue receipts so applied shall constitute repayment of principal under each applicable loan tranche and shall, in no order of priority

among them but in proportion to the respective principal amounts outstanding of the relevant loan tranches, reduce the principal amount outstanding of each such loan tranche accordingly.

- (2) To the extent that, on any monthly payment date, there will be a shortfall in the Funding available revenue receipts available to pay items (G), (I), (L), (N) and/or (P) of the Funding pre-enforcement revenue priority of payments, then the cash manager shall provide for that shortfall by applying the amounts standing to the credit of (a) first, the Funding principal ledger and (b) second, if the amounts standing to the credit of the Funding principal ledger that are applied in accordance with item (a) are insufficient to provide for such shortfall on such date, any amounts standing to the credit of the Funding cash accumulation ledger. The amounts standing to the credit of the Funding principal ledger and the Funding cash accumulation ledger may not be applied to meet any such shortfall if such application would create or increase a principal deficiency in respect of a higher ranking class of loan tranches. For the purposes of this rule, the amounts standing to the credit of the Funding principal ledger and the Funding cash accumulation ledger that may be applied, on any monthly payment date, to meet any such shortfall in the Funding available revenue receipts will be reduced by the amount that would be available to be drawn from the issuer reserve fund to cover any deficit in issuer available revenue receipts to pay items (A) through (I) of the issuer pre-enforcement revenue priority of payments, if no amount standing to the credit of the Funding principal ledger and the Funding cash accumulation ledger were to be applied to such shortfall in Funding available revenue receipts.
- (3) The amount of Funding available revenue receipts that may be applied on any monthly payment date to pay items (B), (T)(ii), (V), (W) and/or (X) of the Funding pre-enforcement revenue priority of payments (to the extent such amounts are paid to the issuer) will be reduced by the amount of interest earned on the issuer sterling account and any and all income from authorised investments made on behalf of the issuer, to the extent that such interest and income will form part of the issuer available revenue receipts on such monthly payment date and therefore available to pay the obligations of the issuer referred to in items (B), (T)(ii), (V), (W) and/or (X) of the Funding pre-enforcement revenue priority of payments (to the extent that, subject to the relevant issuer priority of payments, such amounts are payable by the issuer on such monthly payment date).

#### **Funding pre-enforcement revenue priority of payments**

Prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, on each monthly payment date (or, in respect of amounts due to third parties by Funding under item (C), on each date that such amounts fall due), the cash manager is required, subject to the rules for application of Funding available revenue receipts, to apply Funding available revenue receipts, in the following order of priority (the "**Funding pre-enforcement revenue priority of payments**"):

- (A) *first*, to pay amounts due to the Funding security trustee and to provide for any amounts due or to become due prior to the next following monthly payment date to the Funding security trustee under the Funding deed of charge (together with any VAT on those amounts);
- (B) *second*, to pay amounts due to the issuer in respect of the issuer 's obligations specified in items (A) through (D) (inclusive) of the issuer pre-enforcement revenue priority of payments or, as applicable, items (A) through (C) (inclusive) of the issuer post-enforcement priority of payments;
- (C) *third*, to pay amounts due to any third party creditors of Funding (other than those referred to elsewhere in this order of priority of payments or in the Funding pre-enforcement principal priority of payments) of which the cash manager has notice prior to the relevant monthly payment date, which amounts have been incurred without breach in any material respect by Funding of the terms of the programme documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due by Funding prior to the next following monthly payment date and to pay or discharge any liability of Funding for corporation tax on the taxable profits of Funding;
- (D) *fourth*, to pay amounts due to the cash manager under the cash management agreement and to provide for any amounts due or to become due prior to the next following monthly payment date to the cash manager under the cash management agreement;



- (E) *fifth*, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the account bank to Funding (excluding amounts referred to in item (Z)) under the terms of the bank account agreement and the corporate services provider to Funding under the terms of the corporate services agreement and to provide for any amounts due or to become due prior to the next following monthly payment date to the account bank to Funding under the terms of the bank account agreement and the corporate services provider to Funding under the terms of the corporate services agreement (together with, in relation to amounts due or to become due to the corporate services provider to Funding, any VAT on those amounts);
- (F) *sixth*, to pay amounts (including such part of any swap termination payment) due to the Funding basis rate swap provider under the Funding basis rate swap agreement (excluding any Funding basis rate swap excluded termination amount);
- (G) *seventh*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due and payable on the AAA loan tranches;
- (H) *eighth*, to credit the AAA principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (I) *ninth*, in no order of priority among them but in proportion to the respective amounts due, to payment interest due and payable on the AA loan tranches;
- (J) *tenth*, after taking account of the replenishment of the Funding liquidity reserve fund on the relevant monthly payment date from Funding available principal receipts, to replenish the Funding liquidity reserve fund, if any, up to the Funding liquidity reserve required amount but only to the extent that there are AAA loan tranches and AA loan tranches outstanding on such monthly payment date;
- (K) *eleventh*, to credit the AA principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (L) *twelfth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due and payable on the A loan tranches;
- (M) *thirteenth*, to credit the A principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (N) *fourteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due and payable on the BBB loan tranches;
- (O) *fifteenth*, to credit the BBB principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (P) *sixteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due and payable on the BB loan tranches;
- (Q) *seventeenth*, to credit the BB principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger;
- (R) *eighteenth*, after taking account any replenishment of the Funding reserve fund on that monthly payment date from Funding available principal receipts, to credit the Funding reserve ledger up to an amount no less than the Funding reserve required amount (as defined in "*Credit structure – Funding reserve fund*") or if an arrears or step-up trigger event has occurred, to credit the Funding reserve ledger with such additional amount as set out in "*Credit structure – Funding reserve fund*";
- (S) *nineteenth*, to credit the Z principal deficiency sub-ledger to the Funding principal deficiency ledger in an amount sufficient to eliminate any debit on that sub-ledger;

- (T) *twentieth*, in no order of priority among them but in proportion to the respective amounts due or to be retained:
- (i) to retain an amount rounded up to the nearest penny, equal to the lesser of one-twelfth of (i) £12,000 and (ii) the aggregate of £1,200 per loan tranche outstanding during the course of the previous 11 monthly periods, which amount will be retained by Funding as profit (and which amounts may be distributed to the shareholders of Funding by way of dividend); and
  - (ii) to pay amounts due to the issuer in respect of the issuer's obligations specified in item (K) of the issuer pre-enforcement revenue priority of payments or, as applicable, item (T) of the issuer post-enforcement priority of payments;
- (U) *twenty-first*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due and payable on the Z loan tranches;
- (V) *twenty-second*, to pay amounts due to the issuer in respect of the issuer's obligations to make payments under the start-up loan agreement(s) specified in item (M) of the issuer pre-enforcement revenue priority of payments or, as the case may be, item (Q) of the issuer post-enforcement revenue priority of payments;
- (W) *twenty-third*, to the issuer in respect of its obligations (if any) to make a swap termination payment to any issuer swap provider (but excluding any issuer swap excluded termination amount);
- (X) *twenty-fourth*, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due (without double counting) to:
- (i) the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount; and
  - (ii) the Funding basis rate swap provider in respect of its obligations to pay any Funding basis rate swap excluded termination amount; and
- (Y) *twenty-fifth*, to pay any amount remaining to the mortgages trustee as a deferred contribution pursuant to the terms of the mortgages trust deed.

#### **Distribution of issuer available revenue receipts prior to enforcement of the issuer security**

##### ***Definition of issuer available revenue receipts***

"**Issuer available revenue receipts**", in respect of any monthly payment date, are required to be calculated by the issuer cash manager on the distribution date immediately preceding that monthly payment date and will be an amount equal to the sum of:

- interest, fees and any other amount (including the amounts standing to the credit of the issuer expense sub-ledger but excluding principal) paid by Funding to the issuer on or prior to the relevant monthly payment date pursuant to the terms of the global intercompany loan agreement;
- all other net income of the issuer, including all amounts of interest received on the issuer bank accounts and/or all income from authorised investments (but excluding swap collateral (if any) standing to the credit of the issuer swap collateral accounts and any interest or other income thereon), in each case to be received on or prior to the relevant monthly payment date; and
- the amounts available to be drawn under the issuer reserve fund including any excess over the programme reserve required amount less the amount standing to the credit of the reserve fund (which, for the avoidance of doubt, shall be applied in repayment of principal under the start-up loans under item (P) of the issuer pre-enforcement revenue priority of payments), subject to any limits or conditions or the purposes for which the issuer reserve fund may be utilised.

The limits and conditions to the utilisation of the issuer reserve fund, if any, are described under "*Credit structure – Issuer reserve fund*".

On each monthly payment date, all Funding available revenue receipts received by the issuer from Funding:

- (1) in respect of items (B), (T)(ii), (V), (W) and/or (X) of the Funding pre-enforcement revenue priority of payments will be credited to the sub-ledger of the issuer revenue ledger maintained by the issuer cash manager to record such amounts (the "**issuer expense sub-ledger**"); and
- (2) that constitute interest paid by Funding on a loan tranche shall be credited to a sub-ledger (in respect of the series and class of notes linked to such loan tranche) to the ledger that will be maintained by the issuer cash manager to record amounts (other than principal) received and paid out by or on behalf of the issuer (the "**issuer revenue ledger**").

On or around each distribution date the issuer cash manager is required to calculate whether there will be an excess or a deficit of issuer available revenue receipts to pay items (A) through (O) of the issuer pre-enforcement revenue priority of payments.

#### **Issuer pre-enforcement revenue priority of payments**

Prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, on each monthly payment date (or, in respect of amounts due to third parties by the issuer under item (C), on each date that such amounts fall due), the issuer cash manager is required to apply issuer available revenue receipts in the following order of priority (the "**issuer pre-enforcement revenue priority of payments**"):

- (A) *first*, in no order of priority among them but in proportion to the amounts due, to pay amounts due to the note trustee and the issuer security trustee and to provide for any amounts due or to become due prior to the next following monthly payment date to the note trustee and the issuer security trustee, under the issuer trust deed and/or the issuer deed of charge, as applicable (together with any VAT on those amounts);
- (B) *second*, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the agent bank, the paying agents, the transfer agent and/or the registrar and to provide for any amounts due or to become due prior to the next following monthly payment date to the agent bank, the paying agents, the transfer agent and/or the registrar, under the issuer paying agent and agent bank agreement (together with any VAT on those amounts);
- (C) *third*, to pay amounts due to any third party creditors of the issuer (other than those referred to elsewhere in this order of priority of payments or in the issuer pre-enforcement principal priority of payments) of which the issuer cash manager has notice prior to the relevant monthly payment date, which amounts have been incurred without breach in any material respect by the issuer of the terms of the programme documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any such amounts expected to become due and payable by the issuer prior to the next following monthly payment date and to pay or discharge any liability of the issuer for corporation tax on the taxable profits of the issuer;
- (D) *fourth*, in no order or priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer cash manager under the issuer cash management agreement, the corporate services provider under the corporate services agreement, to any tender agent under a remarketing agreement and the issuer account bank (excluding amounts referred to in item (Q)) under the issuer bank account agreement and to provide for any amounts due, or to become due prior to the next following monthly payment date to the issuer cash manager under the issuer cash management agreement, to the issuer corporate services provider under the issuer corporate services agreement, to any tender agent under a remarketing agreement and to the issuer account bank under the issuer bank account agreement (together with, in relation to the amounts due or to become due to the issuer corporate services provider and any tender agent, any VAT on those amounts);
- (E) *fifth*, from the amounts forming part of the issuer available revenue receipts received by the issuer from Funding in respect of each AAA loan tranche on such monthly payment date (and, in respect of (ii) below, the amounts (excluding principal, any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement

hedge transactions) received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the class A notes of each series of notes):

- (i) to pay the amounts due and payable to the issuer swap provider(s) (if any) in respect of the class A notes of each series of notes (including any swap termination payment but excluding any issuer swap excluded termination amount) in accordance with the terms of the relevant issuer swap agreement(s); and
  - (ii) to pay interest due and payable (if any) on the class A notes of each series of notes on such monthly payment date;
- (F) *sixth*, from the amounts forming part of the issuer available revenue receipts received by the issuer from Funding in respect of each AA loan tranche (and, in respect of (ii) below, the amounts (excluding principal, any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions) received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the class B notes of each series of notes):
- (i) to pay the amounts due and payable to the issuer swap provider(s) (if any) in respect of the class B notes of each series of notes (including any swap termination payment but excluding any issuer swap excluded termination amount) in accordance with the terms of the relevant issuer swap agreement(s); and
  - (ii) to pay interest due and payable (if any) on the class B notes of each series of notes on such monthly payment date;
- (G) *seventh*, from the amounts forming part of the issuer available revenue receipts received by the issuer from Funding in respect of each A loan tranche (and, in respect of (ii) below, the amounts (excluding principal, any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions) received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the class C notes of each series of notes):
- (i) to pay the amounts due and payable to the issuer swap provider(s) (if any) in respect of the class C notes of each series of notes (including any swap termination payment but excluding any issuer swap excluded termination amount) in accordance with the terms of the relevant issuer swap agreement(s); and
  - (ii) to pay interest due and payable (if any) on the class C notes of each series of notes on such monthly payment date;
- (H) *eighth*, from the amounts forming part of the issuer available revenue receipts received by the issuer from Funding in respect of each BBB loan tranche (and, in respect of (ii) below, the amounts (excluding principal, any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions) received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the class D notes of each series of notes):
- (i) to pay the amounts due and payable to the issuer swap provider(s) (if any) in respect of the class D notes of each series of notes (including any swap termination payment but excluding any issuer swap excluded termination amount) in accordance with the terms of the relevant issuer swap agreement(s); and
  - (ii) to pay interest due and payable (if any) on the class D notes of each series of notes on such monthly payment date;

- (I) *ninth*, from the amounts forming part of the issuer available revenue receipts received by the issuer from Funding in respect of each BB loan tranche (and, in respect of (ii) below, the amounts, if any (excluding principal, any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions) received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the class E notes of each series of notes):
- (i) to pay the amounts due and payable to the issuer swap provider(s) (if any) in respect of the class E notes of each series of notes (including any swap termination payment but excluding any issuer swap excluded termination amount) in accordance with the terms of the relevant issuer swap agreement(s); and
  - (ii) to pay interest due and payable (if any) on the class E notes of each series of notes on such monthly payment date;
- (J) *tenth*, after taking account of any replenishment of the issuer reserve fund on the relevant monthly payment date from issuer available principal receipts, to credit the issuer reserve ledger up to an amount no less than the issuer reserve required amount (as defined in "*Credit structure – Issuer reserve fund*");
- (K) *eleventh*, an amount equal to the issuer profit amount to be retained by the issuer (which may, subject to applicable laws, be paid to the shareholders of the issuer by way of dividend);
- (L) *twelfth*, from the amounts forming part of the issuer available revenue receipts received by the issuer from Funding in respect of each Z loan tranche (and, in respect of (ii) below, the amounts, if any (excluding principal, any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions) received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the class Z notes of each series of notes):
- (i) to pay the amounts due and payable to the issuer swap provider(s) (if any) in respect of the class Z notes of each series of notes (including any swap termination payment but excluding any issuer swap excluded termination amount) in accordance with the terms of the relevant issuer swap agreement(s); and
  - (ii) to pay interest due and payable (if any) on the class Z notes of each series of notes on such monthly payment date;
- (M) *thirteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay:
- (i) the interest amounts due to the start-up loan provider(s); and
  - (ii) the principal amounts due to the start-up loan provider(s) (to the extent of issuance fees received from Funding under the global intercompany loan agreement) under the start-up loan agreement(s);
- (N) *fourteenth*, on the monthly payment date falling in December of each year, to pay the issuer account bank an amount equal to the amount of the debit balances (if any) in the issuer bank accounts as permitted by the issuer account bank and outstanding at such monthly payment date;
- (O) *fifteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay to any issuer swap excluded termination payments to the issuer swap providers;
- (P) *sixteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay the principal amounts due to the start-up loan provider(s) under the start-up loan agreement(s) (save to the extent such amounts are paid under item (M)); and
- (Q) *seventeenth*, to pay any amount remaining following the application of issuer available revenue receipts set forth in items (A) to (P) above to Funding as a Funding intercompany loan surplus amount.

Prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, on each monthly payment date, the amounts standing to the credit of any sub-ledger (in respect of a series and class of notes) of the issuer revenue ledger may only be applied by the issuer cash manager to pay the interest due in respect of such series and class of notes under the issuer pre-enforcement revenue priority of payments provided that:

- to the extent that on any monthly payment date, it is determined that there will be a shortfall in the amounts standing to the credit of the issuer expense sub-ledger and the issuer reserve ledger to pay items (A) to (D) of the issuer pre-enforcement revenue priority of payments, then the issuer cash manager shall provide for such shortfall by applying, in no order of priority among them but in proportion to the then balance of the relevant sub-ledgers, the amounts standing to the credit, on such date, of (a) first, the sub-ledgers of the issuer revenue ledger in respect of the class Z notes of each series of notes until the balance of each relevant sub-ledger is zero, (b) second (and if the amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class Z notes of each series of notes that are applied in accordance with item (a) are insufficient to provide for such shortfall on such date), the sub-ledgers of the issuer revenue ledger in respect of the class E notes of each series of notes until the balance of each relevant sub-ledger is zero, (c) third (if the amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class Z notes and the class E notes of each series of notes that are applied in accordance with items (a) and (b) are insufficient to provide for such shortfall on such date), the sub-ledgers of the issuer revenue ledger in respect of the class D notes of each series until the balance of each relevant sub-ledger is zero, (d) fourth (if the amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class Z notes, the class E notes and the class D notes of each series of notes that are applied in accordance with items (a), (b) and (c) are insufficient to provide for such shortfall on such date), the sub-ledgers of the issuer revenue ledger in respect of the class C notes of each series until the balance of each relevant sub-ledger is zero, (e) fifth (if the amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class Z notes, the class E notes, the class D notes and the class C notes of each series of notes that are applied in accordance with items (a), (b), (c) and (d) are insufficient to provide for such shortfall on such date), the sub-ledgers of the issuer revenue ledger in respect of the class B notes of each series until the balance of each relevant sub-ledger is zero, and (f) sixth (if the amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class Z notes, the class E notes, the class D notes, the class C notes and the class B notes of each series of notes that are applied in accordance with items (a), (b), (c), (d) and (e) are insufficient to provide for such shortfall on such date), the sub-ledgers of the issuer revenue ledger in respect of the class A notes of each series of notes until the balance of each relevant sub-ledger is zero; and
- where, on a note payment date for a series and class of notes, an amount standing to the credit of the issuer reserve ledger is applied to pay the interest and other amounts due in respect of such notes under item (E), (F), (G), (H) or (I) of the issuer pre-enforcement revenue priority of payments, as applicable, then to the extent that, on the following note payment dates in respect of such series and class of notes (and following the payment of interest and other amounts due in respect of such notes), there remains an amount credited to the sub-ledger to the issuer revenue ledger in respect of such notes, the issuer cash manager will apply such amount towards the replenishment of the issuer reserve fund in accordance with item (J) of the issuer pre-enforcement revenue priority of payments.

To the extent that on any note payment date for a series and class of notes, there will be a shortfall in the amounts standing to the credit of any sub-ledger of the issuer revenue ledger (in respect of such series and class of notes) to meet the interest and other amounts due in respect of such series and class of notes under the issuer pre-enforcement revenue priority of payments, then the issuer cash manager will:

- (1) *firstly*, provide for such shortfall by applying the amounts standing to the credit of the issuer expense sub-ledger on such date; and
- (2) *secondly*, if the amount standing to the credit of the issuer expense sub-ledger that are applied in accordance with the immediately previous bullet paragraph are insufficient to provide for such shortfall on such date, then the issuer cash manager will (other than for the class Z notes of any series and class) apply amounts standing to the credit of the issuer reserve ledger on such date to meet such shortfall,

in each case, which are not otherwise required to pay the amounts set forth in items (A) to (D) of the issuer pre-enforcement revenue priority of payments or any shortfall in any other sub-ledger of the issuer revenue ledger (in respect of a more senior class of notes of any series) on such date.

Where a shortfall has arisen on a note payment date in respect of two or more notes of the same class of any series, the amounts referred to above will be applied to meet each shortfall in no order of priority among them but in proportion to the amount required by each series and class of notes.

**Distribution of Funding available principal receipts prior to the enforcement of the Funding security**

***Funding allocation of mortgages trustee available principal receipts***

Prior to each distribution date, the cash manager is required to determine whether such distribution date is within a cash accumulation period relating to a bullet loan tranche and will ascertain Funding's repayment requirement.

The cash accumulation period will be calculated separately for each bullet loan tranche.

The loan tranche supplement for each bullet loan tranche will set out the bullet redemption date and bullet loan amount in relation to each such bullet loan tranche.

"**cash accumulation period**" means, in relation to any original bullet loan tranche (the "**relevant original bullet loan tranche**"), the period beginning on the earlier to occur of:

- (a) the date determined after counting back in time from the bullet redemption date for the relevant original bullet loan tranche, the number of months calculated in respect of the anticipated cash accumulation period relating to the relevant original bullet loan tranche; and
- (b) six months prior to the bullet redemption date of the relevant original bullet loan tranche;

and ending when Funding has fully repaid the bullet loan amount for the relevant original bullet loan tranche.

"**anticipated cash accumulation period**" will be calculated as at each distribution date and means, for any original bullet loan tranche (the "**relevant original bullet loan tranche**"), the anticipated number of months required to accumulate sufficient principal receipts to pay the bullet loan amount for the relevant original bullet loan tranche on the bullet redemption date for the relevant original bullet loan tranche which will be equal to:

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

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

J = the bullet loan amount for the relevant original bullet loan tranche;

K = the aggregate, as at the distribution date, of:

- the principal amount outstanding of each other original bullet loan tranche that was not fully repaid on its bullet redemption date; and
- the principal amount outstanding of each other original bullet loan tranche, the bullet redemption date of which falls on or before the bullet redemption date of the relevant original bullet loan tranche;

L = the amounts standing to the credit of the Funding cash accumulation ledger at the start of that distribution date which are available to repay bullet loan amounts;

M = the sum of each monthly CPR on the 12 most recent distribution dates which have occurred prior to that date divided by 12 (or, if less than 12 trust determination dates have occurred prior to such date, the number of distribution dates that have occurred);

N = 0.85; and

O = the aggregate current principal balance of the BTL loans in the loan portfolio at the beginning of the immediately preceding trust calculation period.

"**monthly CPR**" means, on any distribution date, the total mortgages trustee available principal receipts received by the mortgages trustee during the immediately preceding trust calculation period divided by the aggregate current principal balance of the BTL loans in the loan portfolio as at the start of such trust calculation period.

"**cash accumulation requirement**" means on any distribution date:

- the principal amount outstanding of each original bullet loan tranche that is within a cash accumulation period; plus
- amounts due on the next following monthly payment date in items (A) and (B) of the Funding pre-enforcement principal priority of payments;

*less*

- the amount standing to the credit of the Funding cash accumulation ledger at the last monthly payment date (which amount was not to be distributed on that monthly payment date to fund the repayment of any original bullet loan tranches).

The "**Funding cash accumulation ledger**" means the ledger to be maintained for Funding by the cash manager, which will record amounts accumulated by Funding for the purpose of (i) prior to a trigger event or the delivery by the note trustee of an issuer enforcement notice to the issuer, repaying any original bullet loan tranche which is in a cash accumulation period (which, for the avoidance of doubt, will in turn be used to redeem the corresponding series and class of bullet notes) and/or to make a payment under items (A) and (B) of the Funding pre-enforcement principal priority of payments and (ii) on or after a trigger event or the delivery by the note trustee of an issuer enforcement notice to the issuer, being applied as a general Funding available principal receipt.

"**repayment requirement**" means, on any distribution date, the amount, if any, equal to the sum of:

- the cash accumulation requirement;
- the controlled amortisation requirement;
- the pass-through requirement.

"**controlled amortisation requirement**" means, on any distribution date, the aggregate amount required by Funding to repay each controlled amortisation amount which is scheduled to be repaid or is otherwise due on any of the three monthly payment dates immediately following such distribution date in respect of the controlled amortisation loan tranches (after taking into account amounts standing to the credit of the Funding principal ledger on such distribution date which are available therefor).

"**pass-through requirement**" means, on any distribution date, the lesser of:

- the aggregate principal amount outstanding of the pass-through loan tranches (excluding any original bullet loan tranche) which is due on the next following monthly payment date; and
- the greater of:
  - (a) the product of:
    - (i) the Funding share percentage as at the start of the immediately preceding trust calculation period (provided that if an assignment date or a contribution date has occurred during such trust calculation period then the weighted average Funding share percentage will be used);
    - (ii) the aggregate amount of principal receipts received by the mortgages trustee during the immediately preceding trust calculation period; and



- (iii) the aggregate principal amount outstanding, determined as of the most recent monthly payment date, of the pass-through loan tranches (excluding any original bullet loan tranches) which are due,

divided by the aggregate principal amount outstanding of all loan tranches as at the most recent monthly payment date; and

- (b) the product of:

- (i) the Funding share percentage as at the start of the immediately preceding trust calculation period (provided that if an assignment date or a contribution date has occurred during such trust calculation period then the weighted average Funding share percentage will be used); and

- (ii) the aggregate amount of principal receipts received by the mortgages trustee during the immediately preceding trust calculation period;

*less*

- (iii) the sum of the cash accumulation requirement and the controlled amortisation requirement as calculated for such distribution date as described above.

Each of the controlled amortisation requirement and the pass-through requirement shall be calculated on the basis there would be no deferral of loan tranches pursuant to Rule (1) under "*Repayment of loan tranches of each class prior to the occurrence of a trigger event and prior to the service on Funding of a Funding enforcement notice or the service on the issue of an issuer enforcement notice – Rules for application of Funding available principal receipts.*"

On each distribution date, all mortgages trustee available principal receipts received by Funding from the mortgages trustee shall be deposited in the Funding GIC account. The cash manager shall (on behalf of Funding) apply such mortgages trustee available principal receipts firstly towards the satisfaction of the cash accumulation requirement (and shall credit such amount to the Funding cash accumulation ledger). Any remaining mortgages trustee available principal receipts shall be credited by the cash manager (on behalf of Funding) to the Funding principal ledger.

#### ***Definition of Funding available principal receipts***

"**Funding available principal receipts**" in respect of a monthly payment date, will be calculated by the cash manager on behalf of Funding (or, following the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the Funding security trustee) on the distribution date immediately preceding the relevant monthly payment date and will be an amount equal to the sum of:

- all mortgages trustee available principal receipts distributed or to be distributed to Funding that are or will be standing to the credit of the Funding cash accumulation ledger which are to be applied on the relevant monthly payment date to repay the bullet loan amount in relation to an original bullet loan tranche which is in a cash accumulation period and/or to make a payment under items (A) or (B) of the Funding pre-enforcement principal priority of payments and, if such monthly payment date occurs on or after a trigger event or the delivery by the note trustee of an issuer enforcement notice to the issuer, the remainder of such receipts standing to the credit of the Funding cash accumulation ledger;
- all other mortgages trustee available principal receipts received or to be received by Funding from the mortgages trustee that are or will be standing to the credit of the Funding principal ledger which are to be applied on the relevant monthly payment date to repay a controlled amortisation amount repayable in respect of a controlled amortisation loan tranche or a principal amount repayable in respect of a pass-through loan tranche;
- the amounts, if any, credited to the Funding principal deficiency ledger pursuant to items (H), (K), (M), (O), (Q) and (S) of the Funding pre-enforcement revenue priority of payments;
- in so far as needed to make a Funding reserve principal payment (as to which, see "*Credit structure – Funding reserve fund*"), any amount available to be drawn under the Funding reserve

fund less any amounts applied or to be applied on the relevant monthly payment date in payment of interest and expenses under the Funding pre-enforcement revenue priority of payments, plus any amounts to be credited to the Funding reserve ledger on the relevant monthly payment date;

- in so far as needed to make a Funding liquidity reserve principal payment (as to which, see "*Credit structure – Funding liquidity reserve fund*"), any amount available to be drawn under the Funding liquidity reserve fund less any amounts applied or to be applied on the relevant monthly payment date in payment of interest and expenses under the Funding pre-enforcement revenue priority of payments, plus any amounts to be credited to the Funding liquidity reserve ledger on the relevant monthly payment date;
- any Funding intercompany loan surplus amounts received pursuant to item (H) of the issuer pre-enforcement principal priority of payments;
- any excess special distribution proceeds and/or excess proceeds of a new loan tranche;

*less*

- amounts to be applied on the relevant monthly payment date to any of items (G), (I), (L), (N) and/or (P) of the Funding pre-enforcement revenue priority of payments.

The "**Funding pre-enforcement principal priority of payments**" means, together, the priorities of payments set out under the following sub-headings:

- repayment of loan tranches of each class prior to the occurrence of a trigger event and prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer;
- repayment of loan tranches of each class following the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event and prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer;
- repayment of loan tranches of each class following the occurrence of an asset trigger event but prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by the note trustee of an issuer enforcement notice to an issuer; and
- repayment of loan tranches of each class following the delivery by a note trustee of an issuer enforcement notice to an issuer but prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding.

***Repayment of loan tranches of each class prior to the occurrence of a trigger event and prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer***

On each monthly payment date prior to the earlier to occur of a trigger event, the delivery by the Funding security trustee of a Funding enforcement notice to Funding and the delivery by a note trustee of an issuer enforcement notice to an issuer, the cash manager shall apply Funding available principal receipts in the following order of priority:

- (A) *first*, to the extent that monies have previously been drawn from the Funding reserve fund to make Funding reserve principal payments, to replenish the Funding reserve fund up to the Funding reserve required amount;
- (B) *second*, if a Funding liquidity reserve rating event has occurred and is continuing (i) to initially fund the Funding liquidity reserve fund up to the Funding liquidity reserve required amount and (ii) once it has been initially funded, to the extent that Funding available revenue receipts are insufficient to do so, to replenish the Funding liquidity reserve fund up to the Funding liquidity reserve required amount;
- (C) *third*, in order of their final maturity dates, beginning with the earliest such date (and if two or more AAA loan tranches have the same final maturity date, in proportion to the respective

amounts due) to repay the principal amounts due (if any) on such monthly payment date on the AAA loan tranches;

- (D) *fourth*, in no order of priority among them but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such monthly payment date on the AA loan tranches;
- (E) *fifth*, in no order of priority among them but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such monthly payment date on the A loan tranches;
- (F) *sixth*, in no order of priority among them but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such monthly payment date on the BBB loan tranches;
- (G) *seventh*, in no order of priority among them but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such monthly payment date on the BB loan tranches;
- (H) *eighth*, in no order of priority among them but in proportion to the respective amounts due, to repay the principal amounts due (if any) on such monthly payment date on the Z loan tranches;
- (I) *ninth*, to credit the Funding cash accumulation ledger until the balance of the Funding cash accumulation ledger is equal to the cash accumulation requirement (as calculated after any payments are made at item (C) of this priority of payments); and
- (J) *tenth*, to pay any amount remaining to the mortgages trustee as a deferred contribution pursuant to the terms of the mortgages trust deed.

In the applicable circumstances, the following rules apply in determining the amounts to be paid under items (C), (D), (E), (F), (G) and (H) of the priority of payments set out above and below:

***Rules for application of Funding available principal receipts***

The Funding deed of charge sets out certain rules for application by Funding, or the cash manager on its behalf, of Funding available principal receipts on each monthly payment date. The principal rules are as follows:

***Rule (1) - Deferral of repayment of pass-through loan tranches and/or controlled amortisation loan tranches in certain circumstances***

- (A) If, on any loan payment date:
  - (i) after application of the Funding available revenue receipts in accordance with the Funding pre-enforcement revenue priority of payments on that loan payment date, there is a debit balance on the Z principal deficiency sub-ledger, the BB principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger; or
  - (ii) the adjusted Funding reserve fund level is less than the Funding reserve fund threshold; or
  - (iii) the aggregate current principal balance of BTL loans in the loan portfolio, in respect of which the aggregate amount in arrears is more than three times the scheduled payment then due, is more than 4 per cent. of the aggregate current principal balance of BTL loans in the loan portfolio,then:
  - (a) unless and until the AAA loan tranches made under the Funding intercompany loan agreements have been repaid in full, no repayment of any principal amount due on that loan payment date on the AA loan tranches under item (D) of the Funding pre-enforcement principal priority of payments will be made;
  - (b) unless and until the AAA loan tranches and the AA loan tranche made under the Funding intercompany loan agreements have been repaid in full, no repayment of any

principal amount due on that loan payment date on the A loan tranches under item (E) of the Funding pre-enforcement principal priority of payments will be made;

- (c) unless and until the AAA loan tranches, the AA loan tranches and the A loan tranches made under the Funding intercompany loan agreements have been repaid in full, no repayment of any principal amount due on that loan payment date on the BBB loan tranches under item (F) of the Funding pre-enforcement principal priority of payments will be made;
  - (d) unless and until the AAA loan tranches, the AA loan tranches, the A loan tranches and the BBB loan tranches made under the Funding intercompany loan agreements have been repaid in full, no repayment of any principal amount due on that loan payment date on the BB loan tranches under item (G) of the Funding pre-enforcement principal priority of payments will be made; and/or
  - (e) unless and until the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches made under the Funding intercompany loan agreements have been repaid in full, no repayment of any principal amount due on that loan payment date on the Z loan tranches under item (H) of the Funding pre-enforcement principal priority of payments will be made.
- (B) On a loan payment date in respect of which a principal amount in respect of any loan tranche is scheduled to be repaid:
- (i) for any AA loan tranche, the amount of principal due (or any part thereof) in respect of the AA loan tranche may only be repaid in accordance with the Funding pre-enforcement principal priority of payments if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount;
  - (ii) for any A loan tranche, the amount of principal due (or any part thereof) in respect of the A loan tranche may only be repaid in accordance with the Funding pre-enforcement principal priority of payments if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount and the class B available subordinated amount is at least equal to the class B required subordinated amount; and
  - (iii) for any BBB loan tranche, the amount of principal due (or any part thereof) in respect of the BBB loan tranche may only be repaid in accordance with the Funding pre-enforcement principal priority of payments if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount and the class C available subordinated amount is at least equal to the class C required subordinated amount;
  - (iv) for any BB loan tranche, the amount of principal due (or any part thereof) in respect of the BB loan tranche may only be repaid in accordance with the Funding pre-enforcement principal priority of payments if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class C available subordinated amount is at least equal to the class C required subordinated amount and the class D available subordinated amount is at least equal to the class D required subordinated amount; and
  - (v) for any Z loan tranche, the amount of principal due (or any part thereof) in respect of the Z loan tranche may only be repaid in accordance with the Funding pre-enforcement principal priority of payments if, after giving effect to such payment and the payment to

be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class C available subordinated amount is at least equal to the class C required subordinated amount, the class D available subordinated amount is at least equal to the class D required subordinated amount and the class E available subordinated amount is at least equal to the class E required subordinated amount.

See "*Issuance of notes – Issuance*" for a description of the various required subordinated amounts and available subordinated amounts.

- (C) If, on any loan payment date:
- (i) a bullet loan tranche made under a Funding intercompany loan agreement is within a cash accumulation period on that date; and
  - (ii) the quarterly CPR is less than 15 per cent.,

then no repayment of any principal amount due on that loan payment date on any controlled amortisation loan tranche or pass-through loan tranche may be made under items (C), (D), (E), (F), (G) and/or (H), as applicable, of the Funding pre-enforcement principal priority of payments if there is a cash accumulation shortfall on that loan payment date.

In this base prospectus:

**"cash accumulation liability"** means on any monthly payment date, prior to any payment under item (C) of the Funding pre-enforcement principal priority of payments, the aggregate principal amount outstanding of the bullet loan tranches which are then within a cash accumulation period;

**"cash accumulation shortfall"** means at any time that the Funding cash accumulation ledger amount is less than the cash accumulation liability; and

**"Funding cash accumulation ledger amount"** means, at any time, the amount standing to the credit of the Funding cash accumulation ledger at that time (and immediately prior to (i) the making of any drawing from the Funding cash accumulation ledger on any monthly payment date for application in accordance with the Funding pre-enforcement principal priority of payments, and (ii) to the making of any payment under item (I) of the Funding pre-enforcement principal priority of payments).

*Rule (2) - Deferral of repayment of subordinated classes of loan tranches in certain circumstances*

If, on any loan payment date, the issuer reserve requirement and the issuer arrears test are not satisfied and the class A notes of any series and/or the AAA loan tranches remain outstanding, then:

- (i) no repayment of any principal amount due on that loan payment date on the AA loan tranches under item (D) of the Funding pre-enforcement principal priority of payments will be made;
- (ii) no repayment of any principal amount due on that loan payment date on the A loan tranches under item (E) of the Funding pre-enforcement principal priority of payments will be made;
- (iii) no repayment of any principal amount due on that loan payment date on the BBB loan tranches under item (F) of the Funding pre-enforcement principal priority of payments will be made;
- (iv) no repayment of any principal amount due on that loan payment date on the BB loan tranches under item (G) of the Funding pre-enforcement principal priority of payments will be made; and
- (v) no repayment of any principal amount due on that loan payment date on the Z loan tranches under item (H) of the Funding pre-enforcement principal priority of payments will be made.

The "**issuer arrears test**" will be satisfied on a loan payment date if, on the distribution date immediately preceding that loan payment date (i) the issuer, or the issuer cash manager on its behalf, determines that the aggregate current principal balance of the BTL loans in the loan portfolio which are then in arrears for

at least three months is less than 4 per cent. of the aggregate current principal balance of all BTL loans in the loan portfolio unless a ratings confirmation is obtained with respect to the issuer arrears test not having been met; and (ii) the issuer, or the issuer cash manager on its behalf, determines that the aggregate interest arrears in respect of all the BTL loans in the loan portfolio as a percentage of the aggregate gross interest due on such BTL loans during the previous 12 months does not exceed 2 per cent., or such other percentage as is then acceptable to the rating agencies at such time.

The "**issuer reserve requirement**" will be satisfied on a loan payment date if, after taking account of the crediting of Funding available revenue receipts to the Funding reserve ledger and the crediting of issuer available revenue receipts to the issuer reserve ledger on such loan payment date, the aggregate amount of the funds in the Funding reserve fund and the issuer reserve fund is equal to the programme reserve required amount.

**Repayment of loan tranches of each class following the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event and prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer**

Following the occurrence of a non-asset trigger event (and where no asset trigger event has occurred) but prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer (i) the bullet loan tranches and the controlled amortisation loan tranches will become pass-through loan tranches and (ii) on each monthly payment date thereafter, Funding will be required to apply Funding available principal receipts in the following order of priority:

- (A) *first*, to the extent that monies have previously been drawn from the Funding reserve fund to make Funding reserve principal payments, to replenish the Funding reserve fund up to the Funding reserve required amount;
- (B) *second*, if a Funding liquidity reserve rating event has occurred and is continuing (i) to initially fund the Funding liquidity reserve fund up to the Funding liquidity reserve required amount and (ii) once it has been initially funded, to the extent that Funding available revenue receipts are insufficient to do so, to replenish the Funding liquidity reserve fund up to the Funding liquidity reserve required amount;
- (C) *third*, in order of their final maturity date, beginning with the earliest such date (and if two or more AAA loan tranches have the same final maturity date, in proportion to the respective amounts due) to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (D) *fourth*, in no order of priority among them but in proportion to the respective amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (E) *fifth*, in no order of priority among each of them but in proportion to the respective amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (F) *sixth*, in no order of priority among them but in proportion to the respective amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;
- (G) *seventh*, in no order of priority among them but in proportion to the respective amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid; and
- (H) *eighth*, in no order of priority among them but in proportion to the respective amounts due, to repay the Z loan tranches until the Z loan tranches are fully repaid.

**Repayment of loan tranches of each series following the occurrence of an asset trigger event but prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer**

Following the occurrence of an asset trigger event (and whether or not a non-asset trigger event occurs or has occurred) but prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the delivery by a note trustee of an issuer enforcement notice to an issuer (i) the bullet loan tranches and the controlled amortisation loan tranches will become pass-through loan tranches, and (ii) on

each monthly payment date thereafter, Funding will be required to apply Funding available principal receipts in the following order of priority:

- (A) *first*, to the extent that monies have previously been drawn from the Funding reserve fund to make Funding reserve principal payments, to replenish the Funding reserve fund up to the Funding reserve required amount;
- (B) *second*, if a Funding liquidity reserve rating event has occurred and is continuing (i) to initially fund the Funding liquidity reserve fund up to the Funding liquidity reserve required amount and (ii) once it has been initially funded, to the extent that Funding available revenue receipts are insufficient to do so, to replenish the Funding liquidity reserve fund up to the Funding liquidity reserve required amount;
- (C) *third*, in no order of priority among them, but in proportion to the respective amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (D) *fourth*, in no order of priority among them, but in proportion to the respective amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (E) *fifth*, in no order of priority among them, but in proportion to the respective amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (F) *sixth*, in no order of priority among them, but in proportion to the respective amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;
- (G) *seventh*, in no order of priority among them but in proportion to the respective amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid; and
- (H) *eighth*, in no order of priority among them but in proportion to the respective amounts due, to repay the Z loan tranches until the Z loan tranches are fully repaid.

**Repayment of loan tranches of each series following the delivery by a note trustee of an issuer enforcement notice to an issuer but prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding**

If an issuer enforcement notice is delivered by a note trustee to an issuer, that will not result in the Funding security becoming enforceable under the Funding deed of charge. However, in those circumstances, any bullet loan tranches and any controlled amortisation loan tranches will become pass-through loan tranches and on each monthly payment date thereafter, Funding will be required to apply Funding available principal receipts in the following order of priority:

- (A) *first*, to the extent that monies have previously been drawn from the Funding reserve fund to make Funding reserve principal payments, to replenish the Funding reserve fund up to the Funding reserve required amount;
- (B) *second*, if a Funding liquidity reserve rating event has occurred and is continuing (i) to initially fund the Funding liquidity reserve fund up to the Funding liquidity reserve required amount and (ii) once it has been initially funded, to the extent that Funding available revenue receipts are insufficient to do so, to replenish the Funding liquidity reserve fund up to the Funding liquidity reserve required amount;
- (C) *third*, in no order of priority among them, but in proportion to the respective amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (D) *fourth*, in no order of priority among them, but in proportion to the respective amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (E) *fifth*, in no order of priority among them, but in proportion to the respective amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (F) *sixth*, in no order of priority among them, but in proportion to the respective amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid;

- (G) *seventh*, in no order of priority among them but in proportion to the respective amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid; and
- (H) *eighth*, in no order of priority among them but in proportion to the respective amounts due, to repay the Z loan tranches until the Z loan tranches are fully repaid.

#### **Repayment of loan tranches when Funding receives the amount outstanding under the global intercompany loan agreement**

If Funding receives the proceeds of a special distribution or of a new loan tranche which is to be used (in whole or in part) to refinance another loan tranche as described in "*The mortgages trust – Cash management of trust property – revenue receipts*" and "*The global intercompany loan agreement – Issuance of loan tranches*" (such proceeds being a "**refinancing repayment amount**"), then Funding will not apply the refinancing repayment amount as described above in "*Distribution of Funding available principal receipts*" and the refinancing repayment amount will not form part of the Funding available principal receipts subject to the proviso set out below. Rather, Funding will apply, on the relevant due date, the refinancing repayment amount towards the repayment of the loan tranche that is to be refinanced. Pending the application of a refinancing repayment amount, as described above, the special distribution and/or the proceeds of a new loan tranche shall be credited to the Funding GIC account and shall not be available for any other purpose provided however, that any such amount shall not be retained for a period greater than 3 calendar months. At the end of any such period, the amount of any such unutilised special distribution proceeds "**excess special distribution proceeds**" and/or unutilised proceeds of a new loan tranche "**excess proceeds of a new loan tranche**" (as applicable) will form part of Funding available principal receipts.

#### **Distribution of issuer available principal receipts prior to the enforcement of the issuer security**

##### ***Definition of issuer available principal receipts***

On each distribution date prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, the issuer cash manager is required to calculate, on behalf of the issuer, the "**issuer available principal receipts**" for the next following monthly payment date in respect of the notes. The issuer available principal receipts will be an amount equal to the sum of:

- all principal amounts to be repaid by Funding to the issuer under the global intercompany loan agreement on that monthly payment date; and
- in so far as needed to make an issuer reserve principal payment (as to which, see "*Credit Structure – Issuer reserve fund*"), any amount available to be drawn under the issuer reserve fund less any amounts to be applied on the relevant monthly payment date in payment of interest or expenses under the issuer pre-enforcement revenue priority of payments, plus any amounts to be credited to the issuer reserve ledger under the issuer pre-enforcement principal priority of payments on the relevant monthly payment date.

On each monthly payment date, all Funding available principal receipts received by the issuer from Funding constituting principal repayments on a loan tranche, will be credited to a sub-ledger (in respect of the related series and class of notes) to the issuer principal ledger.

#### **Issuer pre-enforcement principal priority of payments**

Prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, the issuer, or the issuer cash manager on its behalf, is required to apply issuer available principal receipts on each monthly payment date in the following manner (the "**issuer pre-enforcement principal priority of payments**"):

- (A) to the extent that monies have been drawn from the issuer reserve fund to make issuer reserve principal payments, towards the replenishment of the issuer reserve fund up to the issuer reserve required amount, such amount to be debited to the sub-ledger(s) of the series and class(es) of notes in respect of which such issuer reserve principal payments were made;



(B) The class A notes:

from principal amounts received by the issuer from Funding in respect of each AAA loan tranche (and, in respect of (ii) below, the principal amounts received (if any) from the issuer swap provider(s) under the relevant issuer swap agreement(s) in respect of the related series and class of notes (excluding any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions)):

- (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class A notes in accordance with the terms of the relevant issuer swap agreement(s); and
- (ii) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class A notes;

(C) The class B notes:

from principal amounts received by the issuer from Funding in respect of each AA loan tranche (and, in respect of (ii) below, the principal amounts received (if any) from the issuer swap provider(s) under the relevant issuer swap agreement(s) in respect of the related series and class of notes (excluding any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions)):

- (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class B notes in accordance with the terms of the relevant issuer swap agreement(s); and
- (ii) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class B notes;

(D) The class C notes:

from principal amounts received by the issuer from Funding in respect of each A loan tranche (and, in respect of (ii) below, the principal amounts received (if any) from the issuer swap provider(s) under the relevant issuer swap agreement(s) in respect of the related series and class of notes (excluding any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions)):

- (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class C notes in accordance with the terms of the relevant issuer swap agreement(s); and
- (ii) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class C notes;

(E) The class D notes:

from principal amounts received by the issuer from Funding in respect of each BBB loan tranche (and, in respect of (ii) below, the principal amounts received (if any) from the issuer swap provider(s) under the relevant issuer swap agreement(s) in respect of the related series and class of notes (excluding any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions)):

- (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class D notes in accordance with the terms of the relevant issuer swap agreement(s); and
- (ii) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class D notes; and

(F) The class E notes:

from principal amounts received by the issuer from Funding in respect of each BB loan tranche (and, in respect of (ii) below, the principal amounts received (if any) from the issuer swap provider(s) under the relevant issuer swap agreement(s) in respect of the related series and class of notes (excluding any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions)):

- (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class E notes in accordance with the terms of the relevant issuer swap agreement(s); and
- (ii) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class E notes;

(G) The class Z notes:

from principal amounts received by the issuer from Funding in respect of each Z loan tranche (and, in respect of (ii) below, the principal amounts received (if any) from the issuer swap provider(s) under the relevant issuer swap agreement(s) in respect of the related series and class of notes (excluding any swap collateral and any swap termination payment to be applied by the issuer towards the purchase of one or more replacement hedge transactions)):

- (i) to pay amounts due and payable (in respect of principal) on such monthly payment date to the relevant issuer swap provider(s) in respect of the related series and class of class Z notes in accordance with the terms of the relevant issuer swap agreement(s); and
- (ii) to pay amounts due and payable in respect of principal (if any) on such monthly payment date on the related series and class of class Z notes;

(H) to pay any amount remaining following the application set forth in items (A) through (G) above, to Funding as a Funding intercompany loan surplus amount.

Generally, on each note payment date, the amounts standing to the credit of any sub-ledger of the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer cash manager to pay the principal amounts due (if any) in respect of such series and class of notes under the issuer pre-enforcement principal priority of payments. If, however, on any note payment date, an amount standing to the credit of the issuer reserve ledger is applied to pay principal amounts due in respect of a series and class of notes under the issuer pre-enforcement principal priority of payments, then to the extent that, on a following note payment date in respect of such series and class of notes, there is an amount credited to the sub-ledger to the issuer principal ledger in respect of such series and class of notes, the issuer cash manager will apply such amount towards the replenishment of the issuer reserve fund in accordance with the issuer pre-enforcement principal priority of payments.

**Repayment of a series and class of notes under Condition 5(D) when the issuer receives the amount outstanding under the global intercompany loan agreement**

Where a series and class of notes is to be redeemed under Condition 5(D) of the terms and conditions of the notes on a date other than a note payment date for such notes and the issuer receives the amount outstanding (being the amount of the refinancing repayment amount) under the loan tranche funded by such notes from Funding and the amount of any start-up loan (or the relevant part thereof) made to fund the payment of interest due and payable on such series and class of notes (the aggregate amount being a "**Condition 5(D) note repayment amount**"), then the issuer will not apply the Condition 5(D) note repayment amount as described above in "*- Distribution of issuer available principal receipts prior to enforcement of the issuer security*" and "*- Distribution of issuer available revenue receipts prior to enforcement of the issuer security*" and the Condition 5(D) note repayment amount will not form part of the issuer available principal receipts or the issuer available revenue receipts. Rather, the issuer will apply, on the relevant due date, the Condition 5(D) note repayment amount towards the repayment of the relevant series and class of notes and accrued interest due and payable thereon. Pending the application of a Condition 5(D) note repayment amount, as described above, such amount shall be credited to an issuer bank account and shall not be available for any other purpose.

**Distribution of Funding available principal receipts and Funding available revenue receipts following the delivery by the Funding security trustee of a Funding enforcement notice to Funding**

The Funding deed of charge sets out the order of priority of distribution by or on behalf of the Funding security trustee, following the delivery by the Funding security trustee of a Funding enforcement notice to Funding, of amounts received or recovered by the Funding security trustee or a receiver appointed on its behalf.

On each monthly payment date following the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the Funding security trustee (or the cash manager on its behalf) is required to apply amounts received or recovered (excluding swap collateral (if any) standing to the credit of the Funding swap collateral accounts) in accordance with the following order of priority (known as the "**Funding post-enforcement priority of payments**"):

- (A) *first*, to pay amounts due to the Funding security trustee and any receiver appointed by the Funding security trustee and to provide for any amounts due or to become due to the Funding security trustee and such receiver prior to the next following monthly payment date pursuant to the terms of the Funding deed of charge (together with any VAT on those amounts);
- (B) *second*, to pay amounts due to the issuer in respect of the issuer's obligations specified in items (A) through (D) of the issuer pre-enforcement revenue priority of payments or, as the case may be, items (A) through (C) of the issuer post-enforcement priority of payments as described under "*– Distribution of issuer available revenue receipts prior to enforcement of the issuer security*" and "*– Distribution of issuer available principal receipts and issuer available revenue receipts following the delivery by the trustee of an issuer enforcement notice to the issuer*";
- (C) *third*, to pay amounts due to the cash manager and to provide for any amounts due or to become due to the cash manager prior to the next following monthly payment date pursuant to the terms of the cash management agreement;
- (D) *fourth*, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the account bank to Funding and to the corporate services provider to Funding and to provide for any amounts due or to become due prior to the next following monthly payment date to the account bank to Funding pursuant to the terms of the bank account agreement and to the corporate services provider to Funding pursuant to the terms of the corporate services agreement (together with, in relation to amounts due or to become due to the corporate services provider to Funding, any VAT on those amounts);
- (E) *fifth*, to pay amounts due to the Funding basis rate swap provider pursuant to the terms of the Funding basis rate swap agreement (including any swap termination payment but excluding any Funding basis rate swap excluded termination amount);
- (F) *sixth*, in no order of priority between them but in proportion to the respective amounts due, to pay amounts of interest, principal and fees due on the AAA loan tranches made under the Funding intercompany loan agreements;
- (G) *seventh*, in no order of priority between them but in proportion to the respective amounts due, to pay amounts of interest, principal and fees due on the AA loan tranches made under the Funding intercompany loan agreements;
- (H) *eighth*, in no order of priority between them but in proportion to the respective amounts due, towards payment of amounts of interest, principal and fees due on the A loan tranches made under the Funding intercompany loan agreements;
- (I) *ninth*, in no order of priority between them but in proportion to the respective amounts due, to pay amounts of interest, principal and fees due on the BBB loan tranches made under the Funding intercompany loan agreements;
- (J) *tenth*, in no order of priority between them but in proportion to the respective amounts due, to pay amounts of interest, principal and fees due on the BB loan tranches made under the Funding intercompany loan agreements;

- (K) *eleventh*, in no order of priority between them but in proportion to the respective amounts due, to pay amounts of interest, principal and fees due on the Z loan tranches made under the Funding intercompany loan agreements;
- (L) *twelfth*, to pay amounts due to the issuer in respect of the issuer's obligations to make payments under the start-up loan agreement(s) specified in item (M) of the issuer pre-enforcement revenue priority of payments or, as the case may be, item (Q) of the issuer post-enforcement priority of payments;
- (M) *thirteenth*, to pay amounts due to the issuer in respect of its obligations, if any, to make a swap termination payment to any issuer swap provider (but excluding any issuer swap excluded termination amount);
- (N) *fourteenth*, in no order of priority between them but in proportion to the respective amounts due, to pay of amounts due (without double counting) to:
  - (i) the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount; and
  - (ii) the Funding basis rate swap provider in respect of any Funding basis rate swap excluded termination amount;
- (O) *fifteenth*, in no order of priority among them but in proportion to the respective amounts due or to be retained:
  - (i) to retain an amount rounded up to the nearest penny, equal to the lesser of one-twelfth of (i) £12,000 and (ii) the aggregate of £1,200 per loan tranche outstanding during the course of the previous 11 monthly periods, which amount will be retained by Funding as profit (and which amounts may be distributed to the shareholders of Funding by way of dividend); and
  - (ii) to pay amounts due to the issuer in respect of the issuer's obligations specified in item (K) of the issuer pre-enforcement revenue priority of payments or, as applicable, item (T) of the issuer post-enforcement priority of payments; and
- (P) *sixteenth*, to pay any deferred contribution due to the mortgages trustee under the mortgages trust deed.

**Distribution of issuer available principal receipts and issuer available revenue receipts following the delivery by the note trustee of an issuer enforcement notice to the issuer**

The issuer deed of charge sets out the order of priority of distribution by or on behalf of the issuer security trustee, following the delivery by the note trustee of an issuer enforcement notice to the issuer, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf) pursuant to the issuer deed of charge.

On each monthly payment date following the delivery by the note trustee of an issuer enforcement notice to the issuer, the issuer security trustee (or the issuer cash manager on its behalf) will be required to apply amounts received or recovered (excluding swap collateral (if any) standing to the credit of the issuer swap collateral accounts) in accordance with the following order of priority (known as the "**issuer post-enforcement priority of payments**"):

- (A) *first*, in no order of priority among them but in proportion to the amounts due, to pay amounts due to the note trustee, the issuer security trustee and any receiver appointed by the issuer security trustee and to provide for any amounts then due or to become due and payable to the note trustee, the issuer security trustee and the receiver prior to the next following monthly payment date pursuant to the terms of the issuer trust deed and/or the issuer deed of charge, as applicable (together with any VAT on those amounts);
- (B) *second*, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the agent bank, the paying agents, the transfer agent and/or the registrar and to provide for any amounts then due or to become due prior to the next following monthly

payment date to the agent bank, the paying agents, the transfer agent and/or the registrar pursuant to the terms of the issuer paying agent and agent bank agreement (together with any VAT on those amounts);

- (C) *third*, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer cash manager pursuant to the terms of the issuer cash management agreement, to the issuer corporate services provider pursuant to the terms of the issuer corporate services agreement, to any tender agent under a remarketing agreement and to the issuer account bank pursuant to the terms of the issuer bank account agreement and to provide for any amounts then due or to become due prior to the next following monthly payment date to the issuer cash manager pursuant to the terms of the issuer cash management agreement, to the corporate services provider pursuant to the terms of the corporate services agreement, to any tender agent under a remarketing agreement and to the issuer account bank pursuant to the terms of the issuer bank account agreement (together with, in relation to amounts due or to become due to the issuer corporate services provider and any tender agent, any VAT on those amounts);
- (D) *fourth*, subject to item (E) below, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class A notes (excluding any swap termination payment);
- (E) *fifth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class A notes and to pay any swap termination payment due to the issuer swap provider for each series of class A notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (E) (on the assumption that no amounts are due and payable under item (D) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (E), the shortfall shall be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class A notes under paragraph (D) above shall be reduced by the amount of the shortfall applicable to that series of class A notes;
- (F) *sixth*, subject to item (G) below, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class B notes (excluding any swap termination payment);
- (G) *seventh*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class B notes and to pay any swap termination payment due to the issuer swap provider for each series of class B notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (G) (on the assumption that no amounts are due and payable under item (F) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (G), the shortfall shall be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class B notes under paragraph (F) above shall be reduced by the amount of the shortfall applicable to that series of class B notes;
- (H) *eighth*, subject to item (I) below, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class C notes (excluding any swap termination payment);
- (I) *ninth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class C notes and to pay any swap termination payment due to the issuer swap providers for each series of class C notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (I) (on the assumption that no amounts are due and payable under item (H) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (I), the shortfall shall be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class C notes under paragraph

- (H) above shall be reduced by the amount of the shortfall applicable to that series of class C notes;
- (J) *tenth*, subject to item (K) below, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class D notes (excluding any swap termination payment);
- (K) *eleventh*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class D notes and to pay any swap termination payment due to the issuer swap provider for each series of class D notes (but excluding any issuer swap excluded termination amounts) provided that if the amounts available for distribution under this item (K) (on the assumption that no amounts are due and payable under item (J) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (K), the shortfall shall be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class D notes under paragraph (J) above shall be reduced by the amount of the shortfall applicable to that series of class D notes;
- (L) *twelfth*, subject to item (M) below, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class E notes (excluding any swap termination payment);
- (M) *thirteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class E notes and to pay any swap termination payment due to the issuer swap provider for each series of class E notes (but excluding any issuer swap excluded termination amounts) provided that if the amounts available for distribution under this item (M) (on the assumption that no amounts are due and payable under item (L) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (M), the shortfall shall be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class E notes under paragraph (L) above shall be reduced by the amount of the shortfall applicable to that series of class E notes;
- (N) *fourteenth*, subject to item (O) below, in no order of priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class Z notes (excluding any swap termination payment);
- (O) *fifteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class Z notes and to pay any swap termination payment due to the issuer swap provider for each series of class Z notes (but excluding any issuer swap excluded termination amounts) provided that if the amounts available for distribution under this item (O) (on the assumption that no amounts are due and payable under item (N) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (O), the shortfall shall be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class Z notes under paragraph (N) above shall be reduced by the amount of the shortfall applicable to that series of class Z notes;
- (P) *sixteenth*, on the monthly payment date falling in December of each year, to pay to the issuer account bank an amount equal to the amount of any debit balance in the issuer transaction account as permitted by the issuer account bank and outstanding at such monthly payment date;
- (Q) *seventeenth*, in no order of priority among them but in proportion to the respective amounts due, to pay:
- (i) interest amounts due to the start-up loan provider(s); and

- (ii) principal amounts due to the start-up loan provider(s) (to the extent of issuance fees received from Funding under the global intercompany loan agreement); under the start-up loan agreement(s);
- (R) *eighteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay any issuer swap excluded termination payments to the issuer swap providers;
- (S) *nineteenth*, in no order of priority among them but in proportion to the respective amounts due, to pay principal amounts due to the start-up loan provider(s) under the start-up loan agreements;
- (T) *eighteenth*, an amount equal to the issuer profit amount to be retained by the issuer (which may, subject to applicable laws, be paid to the shareholders of the issuer by way of dividend); and
- (U) *nineteenth*, to pay any amount remaining following the application of principal and revenue set forth in items (A) through (T) above, to Funding as a Funding intercompany loan surplus amount.

Notwithstanding the above, on the date of the delivery by the note trustee of an issuer enforcement notice to the issuer, amounts standing to the credit of any sub-ledger to the issuer revenue ledger and/or the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer security trustee (or the issuer cash manager on its behalf) to pay the interest, principal and other amounts due in respect of such series and class of notes or any shortfall in the amounts available to pay items (A) to (C) under the issuer post-enforcement priority of payments and may not be applied in payment of interest principal and other amounts due in respect of any other series and class of notes.

## CREDIT STRUCTURE

The notes will be the obligations of the issuer only and will not be obligations of, or the responsibility of, or guaranteed by, any other party. However, the following are the main features of the transaction which will enhance the likelihood of timely receipt of payments to noteholders:

- Funding available revenue receipts are expected to exceed interest and fees payable to the issuer under the global intercompany loan agreement and obligations that rank in priority thereto;
- a revenue shortfall in Funding available revenue receipts may be met from Funding available principal receipts provided that this feature cannot be utilised to meet a revenue shortfall in respect of interest due on the class Z notes;
- payments on the class Z notes will be subordinated to payments on the class A notes, the class B notes, the class C notes, the class D notes and the class E notes;
- payments on the class E notes will be subordinated to payments on the class A notes, the class B notes, the class C notes and the class D notes;
- payments on the class D notes will be subordinated to payments on the class A notes, the class B notes and the class C notes;
- payments on the class C notes will be subordinated to payments on the class A notes and the class B notes;
- payments on the class B notes will be subordinated to payments on the class A notes;
- the mortgages trustee GIC account, the Funding GIC account and the issuer sterling account each earn interest at a specified rate;
- a reserve fund will be available to the issuer to meet revenue shortfalls in fees and interest due on the notes (other than the class Z notes) and principal of the original bullet notes that are class A notes;
- a reserve fund will be available to Funding to meet revenue shortfalls in fees and interest due on all outstanding loan tranches (other than the Z loan tranches) and principal of the original bullet loan tranches that are AAA loan tranches;
- Funding will be obliged to establish the Funding liquidity reserve fund if the seller ceases to have a long-term unsecured, unsubordinated and unguaranteed credit rating by Moody's of at least "A3" (unless Moody's confirms that the then current ratings of the notes will not be reduced, withdrawn or qualified by the ratings downgrade of the seller); and
- start-up loans will be provided to the issuer from time to time to fund, among other things, the issuer reserve fund.

Each of these factors is considered more fully in the remainder of this section. Any changes to these features after the programme date will be made in accordance with the provisions of the relevant programme documents, which would in most cases require consent of the Funding security trustee or the issuer security trustee, as applicable, and the rating agencies.

### **Credit support for the notes provided by mortgages trustee available revenue receipts**

The interest rates charged on the BTL loans vary according to product type. It is expected, however, that during the life of the notes issued by the issuer, the Funding share of trust property comprising revenue receipts received from borrowers on the BTL loans in the loan portfolio will, assuming that all of the BTL loans are fully performing, be greater than the sum of the interest which Funding will be required to pay on the loan tranches made under the global intercompany loan agreement and under any other Funding intercompany loan agreement in order to fund (by payment to a swap provider or otherwise) the interest payments due on such notes and the other costs and expenses of the structure.



The actual amount of any revenue receipts will vary during the life of the notes. The key factors determining such variation will be as follows:

- the weighted average interest rate on the BTL loans in the loan portfolio; and
- the level of arrears experienced.

On any distribution date, any excess will be available to meet the payments referred to in the mortgages trust allocation of revenue receipts and the payment of amounts of deferred contribution to the mortgages trustee which, in turn, will fund the payment of deferred purchase price to the seller. It will not be possible for any deferred contribution so paid to the mortgages trustee to be subsequently reclaimed by Funding.

#### **Interest rate on the loan portfolio**

The weighted average interest rate on the loan portfolio will depend on:

- the standard variable rate or other interest rate payable on, and the aggregate current principal balance of, the standard variable rate BTL loans and the variable rate BTL loans in the loan portfolio from time to time; and
- the fixed rates of interest payable on, and the aggregate current principal balance of, the fixed rate BTL loans in the loan portfolio from time to time.

Funding has entered into the Funding basis rate swap agreement to hedge against the variances on the rates payable on the BTL loans in the loan portfolio. See "*The swap agreements*".

Scheduled and unscheduled repayments will also affect the weighted average interest rate on the BTL loans in the loan portfolio. For historical data on the level of scheduled and unscheduled repayments in the UK housing market, see "*Certain characteristics of the United Kingdom residential mortgage market – CPR rates*".

#### ***Level of arrears experienced***

If the level of arrears of interest payments made by the borrowers will, on any loan payment date, result in Funding experiencing an income deficit on any loan payment date, then the Funding will be entitled to utilise the Funding reserve fund and the Funding liquidity reserve fund, if any, to make payments of interest (or, in limited circumstances, repayments of principal) on that loan payment date to the issuer on loan tranches made under the global intercompany loan agreement (other than the Z loan tranches). If the level of arrears of interest payments made by borrowers will, on any note payment date, result in the issuer experiencing an income deficit on any note payment date, then the issuer will be entitled to utilise the issuer reserve fund to make payments of interest (or in limited circumstances, payments of principal) on that note payment date to noteholders under the notes (other than the class Z notes).

#### **Issuer reserve fund**

The "**issuer reserve fund**" has been established in the name of the issuer:

- to help meet any deficit in issuer available revenue receipts available for interest and fees due under the notes (other than interest due under the class Z notes);
- to help meet expenses in connection with the issuance of notes by the issuer; and
- to help meet any deficit in issuer available principal receipts available for:
  - (a) prior to the occurrence of a trigger event, repayment of principal due and payable in respect of the original bullet notes (which are class A notes); and
  - (b) on or after the occurrence of a trigger event, repayment of principal due and payable in respect of the original bullet notes (which are class A notes) on their respective final maturity dates only,

(each an "**issuer reserve principal payment**"),

in each case, prior to the delivery by the note trustee of an issuer enforcement notice to the issuer.

On each monthly payment date, funds standing to the credit of the issuer reserve fund will be added to certain other funds of the issuer in calculating issuer available revenue receipts and issuer available principal receipts.

The issuer reserve fund is required to be funded and replenished from:

- issuer available revenue receipts in accordance with item (J) of the issuer pre-enforcement revenue priority of payments up to an amount equal to the issuer reserve required amount;
- issuer available principal receipts, to the extent applied in making issuer reserve principal payments, in accordance with the issuer pre-enforcement principal priority of payments up to an amount equal to such issuer reserve principal payments; and
- all or part of the proceeds of a start-up loan made to the issuer by a start-up loan provider pursuant to the terms of a start-up loan agreement.

The "**issuer reserve required amount**", on any date, will be the greater of:

- (a) the issuer reserve minimum amount; and
- (b) the programme reserve required amount less the amount standing to the credit of the Funding reserve fund on such date (after taking account of amounts to be debited from and credited to the Funding reserve fund on such date).

The "**issuer reserve minimum amount**", on any date and except as described below, will be calculated by the issuer cash manager as the product of (a) 1 per cent. and (b) the aggregate principal amount outstanding of the notes (including the principal amount outstanding of notes issued on such date, but excluding the aggregate principal amount outstanding of the class Z notes).

The issuer may adjust, at any time, the issuer reserve minimum amount or the method of computing the issuer reserve minimum amount, without the consent of any noteholders, so long as:

- the issuer has an opinion of counsel that for US federal income tax purposes (i) the change will not adversely affect the tax characterisation as debt of any outstanding series and class of notes that were characterised as debt for US tax purposes at the time of their issuance and (ii) such change will not cause or constitute an event in which gain or loss would be recognised by any holder of such notes;
- unless such change has been approved in writing by the issuer security trustee, the change will not cause a reduction, qualification or withdrawal of the ratings of any of the outstanding notes.

The "**programme reserve required amount**", on any date, will be calculated as the product of (a) the programme reserve required percentage and (b) the aggregate principal amount outstanding of all loan tranches (including the principal amount outstanding of any loan tranche (or the increase in the principal amount outstanding of any existing loan tranche) that is made on such date, but excluding the aggregate principal amount outstanding of the Z loan tranches).

The "**programme reserve required percentage**", on any date and subject to amendment as described below, will be the percentage specified as such in the final terms relating to the most recent issuance of notes by the issuer.

The issuer is entitled to adjust, at any time, the programme reserve required percentage or the method of computing the programme reserve required amount, at any time without the consent of any noteholders, so long as the issuer security trustee and the issuer obtain a ratings confirmation with respect thereto.

If, on any monthly payment date prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, the amount in the issuer reserve fund exceeds an amount (not to be less than zero) equal to (a) the programme reserve required amount less (b) the amount standing to the credit of the Funding reserve fund, then the issuer will apply such excess (which will constitute issuer available revenue receipts), in no order of priority but in proportion to the respective outstanding amounts, in repayment of

principal under the start-up loans under item (P) of the issuer pre-enforcement revenue priority of payments.

Following the delivery by the note trustee of an issuer enforcement notice to the issuer, the issuer reserve fund may be utilised by the issuer in payment of any of its other liabilities, subject to and in accordance with the relevant issuer priority of payments.

Following enforcement of the issuer security, amounts standing to the credit of the issuer reserve ledger may be applied in making payments of principal due under all classes of the notes.

A separate ledger (the "**issuer reserve ledger**") is maintained by the issuer cash manager in the name of the issuer to record amounts standing to the credit of the issuer reserve fund from time to time and withdrawals from and deposits into the issuer reserve fund.

### **Funding reserve fund**

The "**Funding reserve fund**" will be established in the name of Funding:

- to help meet any deficit in Funding available revenue receipts available for payment of interest and fees due pursuant to the terms of the global intercompany loan agreement and any other Funding intercompany loan agreement (other than the payment of interest due on the Z loan tranches) and to help meet any deficit recorded on the Funding principal deficiency ledger (other than any deficit caused by a debit balance on the Z principal deficiency sub-ledger); and
- to help meet any deficit in Funding available principal receipts available for:
  - (a) prior to the occurrence of a trigger event, repayment of principal due in respect of the original bullet loan tranches (which are AAA loan tranches); and
  - (b) on or after the occurrence of a trigger event, repayment of principal due in respect of the original bullet loan tranches (which are AAA loan tranches) on their respective final maturity dates only(each a "**Funding reserve principal payment**"),

in each case, prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding.

On each monthly payment date, funds standing to the credit of the Funding reserve fund will be added to certain other income of Funding in calculating Funding available revenue receipts and Funding available principal receipts.

The Funding reserve fund is required to be funded and replenished from:

- Funding available revenue receipts in accordance with item (R) of the Funding pre-enforcement revenue priority of payments up to an amount equal to the Funding reserve required amount and:
  - (a) if an arrears or step-up trigger event has occurred under item (i) only of the definition of the arrears or step-up trigger event, the amount specified in relation to such event in the final terms relating to the most recent issuance of notes by an issuer;
  - (b) if an arrears or step-up trigger event has occurred under item (ii) only of the definition of the arrears or step-up trigger event, the amount specified in relation to such event in the final terms relating to the most recent issuance of notes by an issuer;
  - (c) if an arrears or step-up trigger event has occurred under both items (i) and (ii) of the definition of the arrears or step-up trigger event, the amount specified in relation to such event in the final terms relating to the most recent issuance of notes by an issuer; and
- Funding available principal receipts, to the extent applied in making Funding reserve principal payments, in accordance with the Funding pre-enforcement principal priority of payments up to an amount equal to such Funding reserve principal payments.

If an arrears or step-up trigger event has occurred under item (i), item (ii) or items (i) and (ii) of the definition of the arrears or step-up trigger event and such event(s) have been cured, the Funding reserve fund will be reduced by the applicable amount specified in relation to such event(s) in the final terms relating to the most recent issuance of notes by the issuer and the amount by which the Funding reserve fund is reduced will constitute Funding available revenue receipts;

An "**arrears or step-up trigger event**" will occur when (i) the current principal balance of the BTL loans in the loan portfolio in arrears for more than 90 days divided by the current principal balance of all of the BTL loans in the loan portfolio (expressed as a percentage) exceeds 2 per cent. or (ii) if any issuer fails to exercise its option to redeem any of its notes on the relevant step-up date pursuant to the terms and conditions of such notes.

The "**Funding reserve required amount**" will be calculated, on any date, as the amount (if any) by which the target reserve required amount exceeds the issuer reserve minimum amount.

The "**target reserve required amount**", as at any date and subject to amendment as described below, will be the amount specified as such in the final terms relating to the most recent issuance of notes by the issuer.

Following the delivery by the Funding security trustee of a Funding enforcement notice to Funding, to the extent not applied as summarised above, the Funding reserve fund may only be applied in making repayments of principal under the Funding intercompany loan agreements.

Funding may adjust, at any time, the target reserve required amount, the Funding reserve required amount and/or the additional amounts as described above, at any time without the consent of the issuer or any noteholders, so long as the Funding security trustee and Funding obtain a ratings confirmation with respect thereto.

The monies credited to the Funding reserve fund will be deposited into the Funding GIC account. The Funding reserve ledger is maintained by the cash manager in the name of Funding to record amounts standing to the credit of the Funding reserve fund from time to time and withdrawals from and deposits into the Funding reserve fund.

Following the repayment in full of all loan tranches made under the global intercompany loan agreement, the Funding reserve fund may be utilised by Funding in paying any other liability of Funding, subject to and in accordance with the relevant Funding priority of payments.

### **Funding liquidity reserve fund**

Funding will be required to establish a liquidity reserve fund if the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least "A3" by Moody's (unless Moody's confirms that the then current ratings of the notes will not be reduced, withdrawn or qualified by such change in the rating of the seller) (a "**Funding liquidity reserve rating event**").

Prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the Funding liquidity reserve fund may be used:

- to help meet any deficit in Funding available revenue receipts available for payment of interest and fees due on the relevant monthly payment date pursuant to the terms of the global intercompany loan agreement and any other Funding intercompany loan agreement in respect of the AAA loan tranches and the AA loan tranches and to help meet any deficit recorded on the AAA principal deficiency sub-ledger in respect of the AAA loan tranches;
- (provided that there are no AAA loan tranches and AA loan tranches outstanding) to help meet any deficit in Funding available revenue receipts available for payment of interest and fees due on the other loan tranches; and
- to help meet any deficit in Funding available principal receipts available for payment of:
  - (a) prior to the occurrence of a trigger event, repayment of principal due and payable in respect of original bullet loan tranches (which are AAA loan tranches); and

- (b) on or after the occurrence of a trigger event, repayment of principal due and payable in respect of original bullet loan tranches (which are AAA loan tranches) on their respective final maturity dates,

(each a "**Funding liquidity reserve principal payment**").

The Funding liquidity reserve fund, if any, will be funded initially from Funding available principal receipts to be paid in accordance with item (B) of the Funding pre-enforcement principal priority of payments. The Funding liquidity reserve fund will be funded up to the "**Funding liquidity reserve required amount**", being (i) prior to the repayment in full of the AAA loan tranches and the AA loan tranches made under the funding intercompany loan agreements, an amount as of any monthly payment date equal to the excess, if any, of 3 per cent. of the aggregate principal amount outstanding of the notes on that monthly payment date (other than the class Z notes) over the aggregate of the amounts standing to the credit of the Funding reserve fund and the issuer reserve fund on that monthly payment date (after taking into account the payments and provisions to be made by the issuer and Funding on such monthly payment date) and (ii) following the repayment in full of the AAA loan tranches and the AA loan tranches made under the Funding intercompany loan agreements zero and any monies credited to the Funding liquidity reserve fund will constitute Funding available revenue receipts.

The monies credited to the Funding liquidity reserve fund will be deposited into the Funding GIC account. All interest or income accrued on the amount of the Funding liquidity reserve fund while on deposit in the Funding GIC account will belong to Funding. The cash manager will maintain a separate Funding liquidity reserve ledger to record the balance from time to time of the Funding liquidity reserve fund.

On each monthly payment date prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, funds standing to the credit of the Funding liquidity reserve fund will be added to certain other funds of Funding in calculating Funding available revenue receipts and Funding available principal receipts to make payments then due on the loan tranches.

Once it has been initially funded and prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, the Funding liquidity reserve fund will be replenished from any Funding available revenue receipts or Funding available principal receipts. Funding available revenue receipts will only be applied to replenish the Funding liquidity reserve fund after paying amounts due on the loan tranches to the extent that such amounts will fund the payment of interest due on the AAA loan tranches and the AA loan tranches and the reduction of any deficiency on the principal deficiency sub-ledger for the AAA loan tranches (but not to fund any payment which would reduce any deficiency on the principal deficiency sub-ledgers for the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches or the Z loan tranches) as described under "*Cashflows – Distribution of Funding available revenue receipts prior to enforcement of the Funding security*". Funding available principal receipts will be applied, if necessary, on any monthly payment date to replenish the Funding liquidity reserve fund as described under "*Cashflows – Distribution of Funding available principal receipts prior to enforcement of the Funding security*".

Following the delivery by the Funding security trustee of a Funding enforcement notice to Funding, to the extent not applied as summarised above, the Funding liquidity reserve fund may only be applied in making payments of principal due on the loan tranches.

In the event that Funding is required to establish a liquidity reserve fund, the Funding liquidity reserve ledger will be established and maintained by the cash manager in the name of Funding to record amounts standing to the credit of the Funding liquidity reserve fund from time to time and withdrawals from and deposits into the Funding reserve fund.

#### **Funding principal deficiency ledger**

The Funding principal deficiency ledger is maintained in the name of Funding to record:

- any principal losses on the BTL loans allocated to Funding;
- the application of Funding available principal receipts to meet any deficiency in Funding available revenue receipts as described under "*– Use of Funding available principal receipts to pay Funding income deficiency*"; and

- the application of Funding available principal receipts to fund the Funding liquidity reserve fund as described under "*Cashflows – Distribution of Funding available principal receipts prior to enforcement of the Funding security*".

The Funding principal deficiency ledger is divided into six sub-ledgers which will correspond to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and the Z loan tranches respectively.

Losses on the BTL loans in the loan portfolio or the application of principal receipts to pay interest then due on the loan tranches made under the Funding intercompany loan agreements or the application by Funding of Funding available principal receipts to fund the liquidity reserve fund are required to be recorded as follows:

- first*, on the Z principal deficiency sub-ledger, until the balance of that sub-ledger is equal to the aggregate principal amount outstanding of all Z loan tranches;
- second*, on the BB principal deficiency sub-ledger, until the balance of that sub-ledger is equal to the aggregate principal amount outstanding of all BB loan tranches;
- third*, on the BBB principal deficiency sub-ledger, until the balance of that sub-ledger is equal to the aggregate principal amount outstanding of all BBB loan tranches;
- fourth*, on the A principal deficiency sub-ledger, until the balance of that sub-ledger is equal to the aggregate principal amount outstanding of all A loan tranches;
- fifth*, on the AA principal deficiency sub-ledger, until the balance of that sub-ledger is equal to the aggregate principal amount outstanding of all AA loan tranches; and
- sixth*, on the AAA principal deficiency sub-ledger, at which point there will be an asset trigger event.

As described under "*Cashflows – Distribution of Funding available revenue receipts prior to enforcement of the Funding security*", Funding available revenue receipts may, on each monthly payment date, be applied as follows:

- first*, on the AAA principal deficiency sub-ledger;
- second*, on the AA principal deficiency sub-ledger;
- third*, on the A principal deficiency sub-ledger;
- fourth*, on the BBB principal deficiency sub-ledger;
- fifth*, on the BB principal deficiency sub-ledger; and
- last*, on the Z principal deficiency sub-ledger.

#### **Use of Funding available principal receipts to pay Funding income deficiency**

On the distribution date immediately preceding each monthly payment date, the cash manager is required to calculate whether there will be an excess or a deficit of Funding available revenue receipts to pay items (A) through (P) of the Funding pre-enforcement revenue priority of payments.

If, after the application of the Funding reserve fund and the Funding liquidity reserve fund (if any), there is a deficit in the amount of Funding available revenue receipts to pay items (A) through (G) and items (I), (L), (N) and/or (P) of the Funding pre-enforcement revenue priority of payments, then the cash manager is required to pay or provide for that deficit by the application of funds which constitute Funding available principal receipts, if any, and the cash manager shall make a corresponding debit entry in the relevant principal deficiency sub-ledger, as described under "*Funding principal deficiency ledger*" provided that the amount of Funding available principal receipts that may be applied to any deficit of Funding available revenue receipts will be reduced by the amount that would be available to be drawn from the issuer reserve fund to cover any deficit in issuer available revenue receipts to pay items (A)

through (I) of the issuer pre-enforcement revenue priority of payments, if no Funding available principal receipts were to be applied to such deficit in Funding available revenue receipts.

Funding available principal receipts will not be used to pay interest on any loan tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a higher ranking loan tranche, and may not be used to make up any deficit other than in respect of items (A) through (G) and items (I), (L), (N) and/or (P) of the Funding pre-enforcement revenue priority of payments. Principal therefore will not be used to pay interest on a loan tranche made under any Funding intercompany loan agreement if the balance on the relevant principal deficiency sub-ledger for such loan tranche is equal to the principal amount outstanding on such loan tranche.

The cash manager is required to apply any Funding available revenue receipts to extinguish any balance on the Funding principal deficiency ledger, as described under "*Funding principal deficiency ledger*".

**Priority of payments among the class A notes, the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes**

The order of payments of interest to be made on the classes of notes is prioritised so that that interest payments due on the class Z notes on any note payment date will be subordinated to interest payments on the class E notes, the class D notes, the class C notes, the class B notes and the class A notes due on the same note payment date, interest payments due on the class E notes on any note payment date will be subordinated to interest payments on the class D notes, the class C notes, the class B notes and the class A notes due on the same note payment date, interest payments due on the class D notes on any note payment date will be subordinated to interest payments on the class C notes, the class B notes and the class A notes due on the same note payment date, interest payments due on the class C notes on any note payment date will be subordinated to interest payments on the class B notes and the class A notes due on the same note payment date and interest payments due on the class B notes on any note payment date will be subordinated to interest payments on the class A notes due on the same note payment date, in each case in accordance with the issuer priority of payments.

Prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, the payment of interest due on any note payment date in respect of the class Z notes of any series is also subordinated to the replenishment of the issuer reserve fund up to the issuer reserve required amount.

Any revenue shortfall in payments of interest due on any series of the class B notes, the class C notes, the class D notes, the class E notes or the class Z notes on any note payment date in respect of such notes will be deferred until the immediately succeeding note payment date in respect of such notes. On that immediately succeeding note payment date, the amount of interest due on the relevant class of notes will be increased to take account of any deferred interest. If on that note payment date there is still a revenue shortfall, that revenue shortfall will be deferred again. This deferral process will continue until the final maturity date of the notes, at which point if there is insufficient money available to the issuer to pay interest on the class B notes, the class C notes, the class D notes, the class E notes or the class Z notes, then you may not receive all interest amounts payable on those classes of notes.

The issuer will not be able to defer payments of interest due on any note payment date in respect of the most senior class of notes then outstanding. The failure to pay interest on such notes will be a note event of default.

The class A notes, the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes will be constituted by the issuer trust deed and will share the same security pursuant to the issuer deed of charge. Following the delivery by the note trustee of an issuer enforcement notice to the issuer, enforcement of that security or the occurrence of a trigger event, the class A notes of each series will rank in priority to each the class B notes, of each series, the class C notes of each series, the class D notes of each series, the class E notes of each series and the class Z notes of each series; the class B notes of each series will rank in priority to the class C notes of each series, the class D notes of each series, the class E notes of each series and the class Z notes of each series; the class C notes of each series will rank in priority to the class D notes of each series, the class E notes of each series and the class Z notes of each series; the class D notes of each series will rank in priority to the class E notes of each series and the class Z notes of each series; and the class E notes of each series will rank in priority to the class Z notes of each series.

### **Mortgages trustee GIC account, Funding GIC account and issuer sterling account**

All amounts held by the mortgages trustee which are not invested in authorised investments will be deposited in the mortgages trustee GIC account with the account bank to the mortgages trustee. The account bank will agree to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.15 per cent. per annum below LIBOR for three-month sterling deposits.

All amounts held by Funding which are not invested in authorised investments will be deposited in the Funding GIC account. The Funding GIC account will be maintained with the account bank to Funding. The account bank will agree to pay a variable rate of interest on funds in the Funding GIC account of 0.15 per cent. per annum below LIBOR for one-month sterling deposits.

All amounts held by the issuer which are not invested in authorised investments will be deposited in the issuer sterling account. The issuer sterling account will be maintained with the issuer account bank. The issuer account bank will agree to pay a variable rate of interest on funds in the issuer sterling account of 0.15 per cent. per annum below LIBOR for one-month sterling deposits. Whilst the issuer account bank maintains the issuer sterling account, it will be paid a fee on each monthly payment date equal to the amount calculated by the issuer cash manager as the excess of the issuer available revenue receipts on any monthly payment date available to pay or provide for items (A) through (P) of the issuer pre-enforcement revenue priority of payments on such monthly payment date.

### **Start-up loans**

The following section contains a summary of the material terms of the start-up loan agreement to be entered into on or about the programme date, among the issuer, Clydesdale Bank and the issuer security trustee (as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, the "**Clydesdale start-up loan agreement**"). The summary does not purport to be complete and is subject to the provisions of the Clydesdale start-up loan agreement.

#### ***General description***

Pursuant to the Clydesdale start-up loan agreement, Clydesdale Bank PLC, in its capacity as "**start-up loan provider**", has agreed to make available to the issuer a loan (a "**start-up loan**") on each closing date (or on such other date as the issuer, the start-up loan provider and the issuer security trustee may agree).

At any time after the programme date, the issuer may, with the prior written consent of the issuer security trustee, enter into new start-up loan agreements with other start-up loan providers, under which start-up loan agreements such start-up loan providers will also agree to make available to the issuer a start-up loan on each closing date.

Each start-up loan will be used to (i) fund (in whole or in part) the issuer reserve fund, (ii) meet the costs and expenses incurred by Funding and the issuer in connection with the issuance of notes, the making of loan tranches under the global intercompany loan agreement and the acquisition by Funding of any additional Funding share of the trust property, and/or (iii) to fund the payment of interest due and payable on a series and class of notes on the redemption of such notes pursuant to Condition 5(D) or Condition 5(E) of the terms and conditions of the notes.

The amount of each start-up loan to be made to the issuer on any closing date will be described in the final terms relating to the issuance of notes to be made on such closing date.

Each start-up loan will constitute a separate debt, due from the issuer to the relevant start-up loan provider.

#### ***Payment of interest and principal on start-up loans***

The issuer will be obliged to pay interest and repay principal on the start-up loans only to the extent that it has Funding available revenue receipts after making payments ranking in priority to payments to the start-up loan provider(s) as described under "*Cashflows – Distribution of issuer available revenue receipts prior to enforcement of the issuer security*" or "*Cashflows – Distribution of issuer available principal receipts and issuer available revenue receipts following the delivery by the note trustee of an issuer enforcement notice to the issuer*". Amounts due to the start-up loan provider(s) will be payable on any



monthly payment date (and in no order of priority among them, but in proportion to the amounts due) after amounts of interest due to the noteholders.

To the extent that there will not be sufficient funds available to the issuer to pay interest on the start-up loans, after making payments ranking in priority to payments to the start-up loan provider(s), such interest will not fall due but will instead be due on the next following monthly payment date on which sufficient funds are available to pay such unpaid amount and pending such payment will itself bear interest.

***Event of default***

It is an event of default under any start-up loan agreement if the issuer has available funds to pay amounts due to the start-up loan provider(s) and does not pay them.

***Acceleration***

Subject to the issuer deed of charge, the start-up loan will become immediately due and payable following the delivery by the note trustee of an issuer enforcement notice to the issuer.

***Governing law***

The Clydesdale start-up loan agreement and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

## THE SWAP AGREEMENTS

The following section describes, in summary, the material terms of the Funding basis rate swap agreement and the issuer swap agreements (together, the "**swap agreements**"). The description does not purport to be complete and is subject to the provisions of each of the swap agreements.

### **The Funding basis rate swaps**

Some of the BTL loans in the loan portfolio will pay a variable rate of interest for a period of time, which may be either linked to the seller's standard variable BTL rate or linked to an interest rate other than the relevant seller's standard variable BTL rate, such as an interest rate that tracks the Bank of England base rate. Other BTL loans in the loan portfolio will pay a fixed rate of interest for a period of time.

The amount of revenue receipts that Funding will receive from the Mortgages Trustee will fluctuate according to the interest rates applicable to the BTL loans in the loan portfolio. The interest payable by Funding to the issuer on the loan tranches, from which the issuer will fund, among other things, its payment obligations under the issuer swaps and the notes, will generally be calculated by reference to an interest rate based upon three-month LIBOR, but will be payable in monthly instalments. In the light of this, on or about the programme date, Funding and Clydesdale Bank, as Funding basis rate swap provider, will enter into a swap agreement (the "**Funding basis rate swap agreement**" and the transaction thereunder, the "**Funding basis rate swap**"), which comprise certain hedging arrangements.

The Funding basis rate swap will be entered into to enable Funding to receive from the Funding basis swap provider amounts equal to the interest payments due on the loan tranches. Funding will in turn pay to the Funding basis rate swap provider amounts based on the rates of interest on the BTL loans in the loan portfolio applied to the Funding share of the trust property. In computing the rates of interest on the BTL loans in the loan portfolio, the hedging arrangements will assume that on variable rate BTL loans in the loan portfolio, the variable rate payable by the borrowers will be determined by reference to the average of the standard variable mortgage rates or their equivalent charged to borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of HSBC Bank plc, Northern Rock plc, Barclays Bank PLC (trading as Woolwich), the Royal Bank of Scotland plc, Santander UK plc, Lloyds TSB Bank plc, Bank of Scotland plc (trading as Halifax) or such other lenders as may replace such lenders in accordance with the terms and conditions of the hedging arrangements.

If a payment is to be made by the Funding basis rate swap provider to Funding pursuant to the terms of the Funding basis rate swap agreement, such payment will be included in the Funding available revenue receipts on its receipt from the Funding basis rate swap provider and will be applied on the relevant monthly payment date according to the relevant Funding priority of payments. If a payment is to be made by Funding to the Funding basis rate swap provider pursuant to the terms of the Funding basis rate swap agreement, such payments will be made in accordance with the relevant Funding priority of payments.

In the event that the Funding basis rate swap terminates prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding or the latest occurring final maturity date of any loan tranche, Funding will be required to use its reasonable efforts to enter into a replacement swap transaction on terms acceptable to the rating agencies and with a swap provider in respect of whose appointment a ratings confirmation is obtained.

Pursuant to the terms of the Funding basis rate swap agreement, in the event that the relevant rating of the Funding basis rate swap provider (or any guarantor or co-obligor of the Funding basis rate swap provider) is downgraded by a rating agency below the rating(s) specified in the Funding basis rate swap agreement (in accordance with the requirements of the rating agencies) and, where applicable, the then-current ratings of the notes would or may, as applicable, be adversely affected as a result of the downgrade, the Funding basis rate swap provider will, as a result of the downgrade, be required to take certain remedial measures. Such measures may include providing collateral for its obligations under the Funding basis rate swaps, arranging for its rights and obligations under the Funding basis rate swap agreement to be transferred to an entity with the ratings required by the relevant rating agency, procuring another entity with the ratings required by the relevant rating agency to become a co-obligor in respect of or guarantor of its obligations under the Funding basis rate swap agreement or taking such other remedial action as it may agree with the relevant rating agency. A failure to take such steps will entitle Funding to terminate the Funding basis rate swaps, provided that in the event that Funding elects to designate an early termination date (as defined in the Funding basis rate swap agreement) and there is a payment due to the

Funding basis rate swap provider, Funding may only designate such an early termination date if it has found a replacement swap provider.

### **The issuer swaps**

To protect the issuer against certain interest rate and/or currency risks in respect of amounts received by the issuer from Funding in respect of loan tranches and amounts payable by the issuer under each series and class of notes, the issuer will, on or about the closing date for a series and class of notes (and where it is required to hedge such risks) enter into an issuer swap agreement with an issuer swap provider (each, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, an "issuer swap agreement" and each transaction thereunder, an "issuer swap").

Pursuant to the terms of an issuer swap agreement entered into in respect of a series and class of notes:

- (a) the issuer will be scheduled to pay to the issuer swap provider:
  - (i) where such notes have been issued in a specified currency other than sterling:
    - on the applicable closing date, an amount in the specified currency equal to the proceeds of the issue of such notes; and
    - on each note payment date in respect of such notes, an amount in sterling equal to the principal payment (in the specified currency) to be made on such series and class of notes on that note payment date, such amount to be calculated by reference to the relevant specified currency swap rate; and/or
  - (ii) on each monthly payment date, an amount in sterling calculated by applying a three-month sterling LIBOR rate (or an interpolated sterling LIBOR rate, as applicable) to the principal amount outstanding of such of notes; and
- (b) the issuer swap provider will be scheduled to pay to the issuer:
  - (i) where such notes have been issued in a specified currency other than sterling
    - on the applicable closing date, an amount in sterling equal to the proceeds of the issue of such notes, converted from the specified currency into sterling at the specified currency swap rate;
    - on each note payment date in respect of such notes, an amount in the specified currency equal to the principal payments to be made on the relevant series and class of notes on that note payment date; and/or
  - (ii) on each note payment date in respect of such notes, an amount in the specified currency equal to the interest to be paid in the specified currency on such notes on that note payment date.

On the earlier to occur of a step-up-date in respect of a series and class of notes and a pass-through trigger event, the issuer swap agreement in respect of such notes will be adjusted to provide for payments under the issuer swap agreement to be made monthly in order to reflect the monthly payments of interest on such notes.

In the event that an issuer swap is terminated prior to the delivery by the note trustee of an issuer enforcement notice to the issuer and the issuer security trustee or the final maturity date in respect of the applicable series and class of notes (and where such notes have not been repaid in full), the issuer shall be required to use its reasonable efforts to enter into a replacement issuer swap agreement in respect of such notes. Any replacement issuer swap agreement must be entered into on terms acceptable to the rating agencies and with a replacement issuer swap provider in respect of whose appointment a ratings confirmation is obtained.

Pursuant to the terms of each issuer swap agreement, in the event that the relevant rating of any issuer swap provider (or any guarantor of the issuer swap provider) is downgraded by a rating agency below the rating(s) specified in the relevant issuer swap agreement (in accordance with the requirements of the

rating agencies) (a "**swap downgrade event**") and, where applicable, the then-current ratings of the notes would or may, as applicable, be adversely affected as a result of the downgrade, such issuer swap provider will be required to take certain remedial measures. Such measures may include providing collateral for its rights and obligations under the relevant issuer swap agreement, arranging for its obligations under the relevant issuer swap agreement to be transferred to an entity with the ratings required by the relevant rating agency, procuring another entity with the ratings required by the relevant rating agency to become a co-obligor in respect of, or guarantor of, its obligations under the relevant issuer swap agreement or taking such other action as it may agree with the relevant rating agency. A failure to take such steps will entitle the issuer to terminate the relevant issuer swap, provided that in the event that the issuer elects to designate an early termination date (as defined in the relevant issuer swap agreement) and there is a payment due to the relevant issuer swap provider, the issuer may only designate such an early termination date if it has found a replacement swap provider.

#### **Termination of the swap transactions**

A swap transaction may also be terminated on the occurrence of certain other events set out in the relevant swap agreement (each event being a "**swap early termination event**" which events may include, but will not be limited to, the following:

- at the option of one party to the swap transaction, if there is a failure by the other party to pay any amounts due and payable pursuant to the terms of the swap agreement. Certain amounts may be due but not payable pursuant to the terms of the swap agreement as described below under "*Limited recourse and swap payment obligation*";
- in the case of the issuer swaps, the delivery by the note trustee of an issuer enforcement notice to the issuer and the issuer security trustee and, in the case of the Funding basis rate swaps, the delivery by the Funding security trustee of a Funding enforcement notice to Funding;
- if withholding taxes are imposed on payments under the relevant swap transaction due to a change in law; and
- upon the occurrence of certain insolvency events in relation to any of the parties to a swap agreement (or, in the case of the swap provider, its credit support provider, if applicable) or the merger of the relevant swap provider (or its credit support provider, if applicable) without an assumption of the obligations under the swap transactions or the relevant credit support document (as the case may be), or changes in law resulting in the obligations of one of the parties to a swap agreement or (or, in the case of the swap provider, its credit support provider, if applicable) becoming illegal.

Upon the occurrence of a swap early termination event pursuant to the terms of the Funding basis rate swap agreement, Funding or the Funding basis rate swap provider may be liable to make a swap termination payment to the other. Upon the occurrence of a swap early termination event in relation to an issuer swap agreement, the issuer or the relevant swap provider may be liable to make a swap termination payment to the other. This swap termination payment will be calculated and made in sterling. The amount of any swap termination payment is expected to 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 no market quotation can be obtained). Any such swap termination payment could be substantial.

If any swap termination payment is due by the issuer to an issuer swap provider, then pursuant to its obligations under the global intercompany loan agreement, Funding shall pay to the issuer the amount required by the issuer to pay the swap termination payment due to the relevant swap provider. Following the termination of an issuer swap, as a result of a swap provider default with respect to the relevant issuer swap provider, any such swap termination payment will be made by the issuer to the issuer swap provider only after paying interest amounts due on the notes. However, if the issuer causes a default to occur that results in a swap termination payment becoming due from the issuer to an issuer swap provider, such payment will be made by it in the same priority as the issuer pays the relevant interest amounts due on that series and class of notes. The issuer shall apply amounts received from Funding pursuant to the terms of the global intercompany loan agreement in respect of swap termination payments in accordance with the issuer pre-enforcement revenue priority of payments, the issuer pre-enforcement principal

priority of payments or, as the case may be, the issuer post-enforcement priority of payments. The payment by the issuer of swap termination payments due to a swap provider may affect the funds available to pay amounts due to the noteholders (see "*Risk factors – You may be subject to exchange rate and interest rate risks*").

Following termination of a Funding basis rate swap, as a result of a swap provider default with respect to the Funding basis rate swap provider, where a swap termination payment becomes due from Funding to the Funding basis rate swap provider, such payment will be made by Funding only after paying interest amounts due on loan tranches and after satisfying any debit balance on the Funding principal deficiency ledger. However, if Funding causes a default to occur that results in a swap termination payment becoming due from Funding to the Funding basis rate swap provider, such payment will be made by Funding in priority to the payment of interest amounts due on loan tranches. The payment by Funding of swap termination payments due to the Funding basis rate swap provider may affect the funds available to pay amounts due to noteholders (see "*Risk factors – Swap termination payments may adversely affect the funds available to make payments on the notes*").

If Funding receives a swap termination payment from the Funding basis rate swap provider, then Funding shall use those funds towards meeting its costs in effecting applicable hedging transactions to mitigate its exposure to interest rate risks in relation to the BTL loans in the loan portfolio until a replacement swap transaction is entered into and/or to acquire a replacement swap transaction. The issuer will not receive extra amounts (over and above interest and principal payable on loan tranches) as a result of Funding receiving a swap termination payment.

If the issuer receives a swap termination payment from an issuer swap provider, then the issuer will be required to use those funds towards meeting its costs in effecting any applicable hedging transactions to mitigate its exposure interest rate and/or currency risks until a new issuer swap agreement is entered into and/or to acquire a new issuer swap.

#### **Taxation**

Neither the issuer nor Funding will be obliged under any of the swap transactions to gross up any payments made by the issuer or by Funding (as applicable) if withholding taxes are imposed on payments to be made pursuant to the swap agreements. The Funding basis rate swap provider will be obliged under the Funding basis rate swap agreement to gross up any payments made by the Funding basis rate swap provider if withholding taxes are imposed on payments to be made pursuant to the Funding basis rate swap agreement.

An issuer swap provider will always be obliged to gross up payments made by it to the issuer (as applicable) if withholding taxes are imposed on payments made under the applicable swap transaction. If such withholding taxes are imposed due to a change in tax law, an issuer swap provider may have the right to terminate the applicable swap transaction.

#### **Limited recourse and swap payment obligation**

On any scheduled payment date under the Funding basis rate swaps, Funding will only be obliged to pay an amount to the Funding basis rate swap provider to the extent that Funding has received sufficient funds in respect of the Funding share of the trust property to pay that amount to the Funding basis rate swap provider, subject to and in accordance with the relevant Funding priority of payments.

Prior to the delivery by the note trustee of an issuer enforcement notice to the issuer, on any scheduled payment date under the issuer swaps, the issuer will only be obliged to pay an amount to an issuer swap provider in respect of an issuer swap agreement relating to a series and class of notes to the extent that it has received from Funding sufficient funds pursuant to the loan tranche related to such series and class of notes to pay that amount to that issuer swap provider, subject to and in accordance with the relevant issuer priority of payments. On any scheduled payment date under the issuer swaps, each issuer swap provider will only be obliged to pay to the issuer an amount that is proportionate to the amount of the payment that it has received from the issuer on or prior to that date.

## CASH MANAGEMENT FOR THE MORTGAGES TRUSTEE AND FUNDING

The material terms of the cash management agreement and bank account agreement are summarised in this section. The summary does not purport to be complete and it is subject to the provisions of the cash management agreement and bank account agreement.

On or about the programme date, Clydesdale Bank will be appointed to provide cash management services in relation to the mortgages trustee and Funding.

### Cash management services to be provided in relation to the mortgages trust

The cash manager's duties in relation to the mortgages trust include, but are not limited to:

- (A) determining the current shares and share percentages of Funding and the seller in the trust property (including the relevant weighted average Funding share percentage and the relevant weighted average seller share percentage, as applicable) in accordance with the terms of the mortgages trust deed;
- (B) maintaining the following ledgers on behalf of the mortgages trustee:
- the Funding share/seller share ledger, which will record the current Funding share, the current seller share, the current Funding share percentage and the current seller share percentage of the trust property;
  - the losses ledger, which will record losses in relation to the BTL loans in the loan portfolio;
  - the mortgages trustee principal ledger, which will record principal receipts received by the mortgages trustee and any mortgages trustee retained principal receipts and distribution of the same to Funding and the seller (the "**mortgages trustee principal ledger**");
  - the "**mortgages trustee revenue ledger**", which will record revenue receipts received by the mortgages trustee and distribution of the same to Funding and the seller;
  - the cash re-draws ledger, which will record cash re-draws on the flexible BTL loans;
  - the contributions ledger, which will record the making by Funding and the seller of contributions to the mortgages trustee and the application of the proceeds of such contributions pursuant to the provisions of the mortgages trust deed;
  - the offset benefit ledger, which will record the making by the seller of offset rebate amounts and the application of the proceeds of such amounts pursuant to the provisions of the mortgages sale agreement.
- (C) distributing the mortgages trustee available revenue receipts and the mortgages trustee available principal receipts to Funding and the seller pursuant to the terms of the mortgages trust deed;
- (D) providing the mortgages trustee, Funding, the Funding security trustee and the rating agencies with a quarterly report in relation to the trust property; and
- (E) providing the mortgages trustee and Funding with quarterly management accounts.

### Cash management services to be provided to Funding

The cash manager's duties in relation to Funding include, but are not limited to:

- (a) determining no later than the distribution date immediately preceding the relevant monthly payment date:
- the amount of Funding available revenue receipts to be applied on that monthly payment date to pay interest and fees then due on the loan tranches made under the global intercompany loan agreement and each other Funding intercompany loan agreement; and

- the amount of Funding available principal receipts to be applied on that monthly payment date to repay principal then due on the loan tranches made under the global intercompany loan agreement and each other Funding intercompany loan agreement;
- (b) maintaining the following ledgers on behalf of Funding:
- the Funding cash accumulation ledger which will record the principal receipts accumulated by Funding to repay bullet loan amounts;
  - the Funding principal ledger, which will record the all other principal receipts received by Funding on each distribution date;
  - the Funding profit ledger, which will record all amounts retained by Funding as profit on each distribution date;
  - the Funding revenue ledger, which will record all other amounts received by Funding on each distribution date;
  - the Funding reserve ledger, which will record the amount credited to the Funding reserve fund from time to time, and subsequent withdrawals from and deposits into respect of the Funding reserve fund;
  - the Funding liquidity reserve ledger, which will record the amount credited to the Funding liquidity reserve fund from time to time, if any, and subsequent withdrawals from and deposits into respect of the Funding liquidity reserve fund;
  - the Funding intercompany loan ledger, which will record payments of interest and repayments of principal on each of the loan tranches made under the global intercompany loan agreement;
  - the Funding principal deficiency ledger which will record the principal losses on the BTL loans allocated to Funding; and
  - the Funding swap collateral ledger which will record all payments, deliveries, transfers and receipts in connection with swap collateral;
- (c) investing sums standing to the credit of the Funding GIC account or any other Funding bank account in short-term authorised investments on behalf of Funding or the Funding security trustee (as the case may be);
- (d) making withdrawals from the Funding reserve account as and when required;
- (e) making any required withdrawals under the Funding liquidity reserve fund(s), if any;
- (f) applying the Funding available revenue receipts and Funding available principal receipts in accordance with the relevant Funding priority of payments;
- (g) providing Funding, the issuer, the Funding security trustee and the rating agencies with a monthly report in relation to Funding; and
- (h) making all returns and filings in relation to Funding and the mortgages trustee and providing or procuring the provision of company secretarial and administration services to them.

For the definitions of Funding available revenue receipts, Funding available principal receipts and the Funding pre-enforcement priorities of payments, see "*Cashflows*".

#### **Compensation of cash manager**

The cash manager will be paid an annual fee of £100,000 (or such other fee as may be agreed between the cash manager and Funding on or around the date of any issuance of notes by an issuer) for its services which is required to be paid in equal instalments monthly in arrear on a monthly payment date. The fee is inclusive of VAT.

In addition, the cash manager is entitled to be indemnified for any expenses or other amounts properly incurred by it in carrying out its duties.

The fees, expenses and other amounts are required to be paid by the mortgages trustee and Funding in accordance with and subject to the terms of the mortgages trust deed and the relevant Funding priority of payments, prior to the payment of amounts due to the issuer on the loan tranches made under the global intercompany loan agreement. If the cash manager determines in its sole discretion that any such expenses and other amounts cannot be considered to be incurred solely in respect of the mortgages trustee or of Funding, it shall be entitled to allocate such costs, expenses and charges between the mortgages trustee and Funding in a manner considered by it to be fair and reasonable.

### **Resignation of cash manager**

The cash manager is entitled to resign only on giving 12 months' prior written notice to the Funding security trustee, Funding and the mortgages trustee provided that:

- the Funding security trustee, Funding and the mortgages trustee each consent in writing to the cash manager's resignation;
- a substitute cash manager has been appointed and a new cash management agreement is entered into on terms substantially the same as the cash management agreement; and
- the then current ratings of the notes of the issuer and of the other issuers would not be reduced, withdrawn or qualified as a result of that replacement.

### **Termination of appointment of cash manager**

Each of Funding and the mortgages trustee (in each case, with the prior written consent of the Funding security trustee) or the Funding security trustee is entitled, upon written notice to the cash manager, to terminate its appointment as cash manager immediately on, or at any time after, the occurrence of certain events, including:

- the cash manager defaults in the payment of any amount due and such default is not waived by the mortgages trustee or Funding (in each case, with the prior written consent of the Funding security trustee) or the Funding security trustee, and the cash manager fails to remedy such default for a period of five London business days after the earlier of the cash manager becoming aware of the default and receiving a written notice of such default from Funding, the mortgages trustee or the Funding security trustee, as applicable;
- the cash manager fails to comply with any of its other obligations under the cash management agreement, and such failure to comply is not waived by the mortgages trustee or Funding (in each case, with the prior written consent of the Funding security trustee) or the Funding security trustee, and in the opinion of the Funding security trustee, are materially prejudicial to the interests of the holders of the notes issued by the issuers and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure and receiving written notice from Funding, the mortgages trustee or the Funding security trustee, as applicable; or
- the cash manager suffers an insolvency event.

Upon termination of the appointment of the cash manager, Funding is required to use its reasonable endeavours to procure the appointment of a substitute cash manager. Any such substitute cash manager will be required to enter into an agreement on substantially the same terms as the provisions of the cash management agreement and any appointment is conditional upon the receipt of a ratings confirmation with respect to such appointment.

If the appointment of the cash manager is terminated or it resigns, the cash manager is required to deliver its books of account relating to the BTL loans in the loan portfolio to or at the direction of the mortgages trustee, Funding or the Funding security trustee, as the case may be. The cash management agreement will terminate automatically when Funding has no further interest in the trust property and all amounts outstanding under the global intercompany loan agreement and each other Funding intercompany loan agreement have been repaid or otherwise discharged.



## **Governing law**

The cash management agreement and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

## **Mortgages trust bank accounts**

Pursuant to the terms of the bank account agreement, the mortgages trustee will maintain in its name with the account bank to the mortgages trustee:

- a bank account (the "**mortgages trustee GIC account**"). The mortgages trustee GIC account will hold, among other things, any cash that is part of the trust property until it is distributed to the beneficiaries pursuant to the terms of the mortgages trust deed; and
- two further bank accounts (respectively, the "**mortgages trustee CB transaction account**" and the "**mortgages trustee YB transaction account**" and, together, the "**mortgages trustee transaction accounts**").

Amounts standing to the credit of the collection accounts that represent amounts collected in respect of BTL loans in the loan portfolio (other than the proceeds of the enforcement of an all moneys mortgage subject to an all moneys mortgage trust)(i) that were originated by Clydesdale Bank will be transferred to the mortgages trustee CB transaction account every London business day, and (ii) that were originated by YBHL are required to be transferred to the mortgages trustee YB transaction account every London business day. Amounts standing to the credit of the mortgages trustee transaction accounts are required to be transferred (subject to retaining a minimum balance of £1 in each account) on a weekly basis by the cash manager to the mortgages trustee GIC account or, at the cash manager's option, invested in authorised investments, provided that the yield on those authorised investments expressed as an annual percentage rate of return is not less than the interest rate on the mortgages trustee GIC account at the time the investment decision is made.

On each distribution date, the amounts required to be distributed to Funding and the seller will be applied from the mortgages trustee GIC account by the cash manager in accordance with the orders of priority described in "*The mortgages trust – Cash management of trust property – revenue receipts*" the "*The mortgages trust – Cash management of trust property – principal receipts*".

The cash manager will direct and monitor the deposits and withdrawals to and from the mortgages trustee bank accounts.

The mortgages trustee GIC account and the mortgages trustee transaction accounts are, together with any other account (if any) opened in the name of the mortgages trustee, referred to as the "**mortgages trustee bank accounts**".

Pursuant to the terms of the bank account agreement, the mortgages trustee maintains in its name, but in its capacity as all moneys mortgages trustee, with the account bank to the mortgages trustee a further bank account (the "**all moneys mortgage trust account**"). Amounts (if any) standing to the credit of the collection accounts that represent the proceeds of the enforcement of an all moneys mortgage subject to an all moneys mortgage trust are required to be transferred to the all moneys mortgage trust account every London business day. Amounts standing to the credit of the all moneys mortgage trust account which are available to be distributed to the mortgages trustee (in its capacity as a beneficiary of an all moneys mortgage trust) are required to be transferred by the cash manager to the mortgages trustee GIC account.

The cash manager is required to direct and monitor the deposits and withdrawals to and from the all moneys mortgage trust account.

## **Funding bank accounts**

Pursuant to the terms of the bank account agreement and the Funding deed of charge, Funding will maintain in its name with the account bank to Funding a bank account (the "**Funding GIC account**"). The Funding GIC account will hold, among other things, mortgages trustee available revenue receipts and mortgages trustee available principal receipts distributed to Funding pursuant to the terms of the mortgages trust deed, until such funds are required to be distributed by Funding in accordance with the programme documents.

On each distribution date the Funding share of each of the mortgages trustee available revenue receipts and mortgages trustee available principal receipts distributed to Funding pursuant to the terms of the mortgages trust deed are required to be deposited in the Funding GIC account.

On each monthly payment date, the amounts required to meet Funding's obligations to its various creditors on such date are required to be applied from the Funding GIC account by the cash manager in accordance with the relevant Funding priority of payments. Amounts representing Funding's profits will be retained in the Funding GIC account.

The cash manager is required to direct and monitor the deposits and withdrawals to and from the Funding bank accounts.

The Funding GIC account is, together with any other account (if any) opened in the name of Funding, referred to as the "**Funding bank accounts**".

The bank account agreement will be governed by and construed in accordance with English law.

### **Replacement of account bank**

Pursuant to the terms of the bank account agreement, the mortgages trustee bank accounts and the Funding bank accounts may be required to be transferred from the account bank to another bank in certain circumstances, including where the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the account bank cease to be rated at least "P-1" by Moody's or "F1" by Fitch (or, if the account bank is on "rating watch negative", "F1+") or the long-term issuer default rating of the account bank by Fitch ceases to be at least "A" (or, if the account bank is on "rating watch negative", "A+").

### **Governing law**

The bank account agreement and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

## **CASH MANAGEMENT FOR THE ISSUER**

The material terms of the issuer cash management agreement and the issuer bank account agreement are summarised in this section. The summary does not purport to be complete and it is subject to the terms of the issuer cash management agreement and the issuer bank account agreement.

On the programme date, Clydesdale Bank will be appointed to provide cash management services to the issuer.

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

The issuer cash manager's duties include, but are not limited to:

- (a) determining no later than the distribution date immediately preceding the relevant monthly payment date:
  - the issuer available revenue receipts to be applied to pay interest on the notes on that monthly payment date to the applicable issuer swap provider or to the noteholders, as applicable, and to pay amounts due to other creditors of the issuer;
  - the issuer available principal receipts to be applied to pay the applicable swap provider and to repay principal of the notes on that monthly payment date; and
  - such other amounts as are expressed to be calculations and determinations made by the issuer cash manager under the conditions of the notes;
- (b) applying issuer available revenue receipts and issuer available principal receipts in accordance with the relevant issuer priority of payments;
- (c) providing the issuer, Funding, the note trustee, the issuer security trustee and the rating agencies with quarterly reports in relation to the issuer;
- (d) making all returns and filings required of the issuer and procuring the provision of company secretarial and administration services to the issuer;
- (e) arranging payment of all fees to the London Stock Exchange plc or, as applicable, the FSA;
- (f) performing, if necessary, all currency and interest rate conversions free of charge, cost or expense at the relevant exchange rate; and
- (g) calculating required subordinated amounts and determining whether issuance tests and conditions to the repayment of notes have been met.

### **Compensation of issuer cash manager**

The issuer cash manager is paid for its services an annual fee of £100,000 (or such other fee as may be agreed between the issuer cash manager and the issuer on or around the date of any issuance of notes by the issuer) which is required to be paid in equal instalments monthly in arrear on a monthly payment date. The fee is inclusive of VAT.

In addition, the issuer cash manager is entitled to reimbursement for any expenses or other amounts properly incurred by it in carrying out its duties. The fees, expenses and such other amounts are required to be paid by the issuer subject to the terms of the relevant issuer priority of payments prior to amounts due on the notes.

### **Resignation of issuer cash manager**

The issuer cash manager is entitled to resign only on giving 12 months' prior written notice to the issuer security trustee and the issuer provided that:

- the issuer security trustee and the issuer have consented in writing to the issuer cash manager's resignation;

- a substitute issuer cash manager has been appointed and a new issuer cash management agreement is entered into on terms substantially the same as the issuer cash management agreement; and
- that replacement would not cause the then current ratings of the notes to be reduced, withdrawn or qualified.

#### **Termination of appointment of issuer cash manager**

The issuer (with the consent of the issuer security trustee) or the issuer security trustee is entitled, upon written notice to the issuer cash manager, to terminate its appointment as issuer cash manager immediately on, or at any time after, the occurrence of certain events including:

- the issuer cash manager defaults in the payment of any amount due and such default is not waived by the issuer (with the prior written consent of the issuer security trustee) or the issuer security trustee, and the issuer cash manager fails to remedy such default for a period of five London business days after the earlier of the issuer cash manager becoming aware of the default and receiving written notice of such default from the issuer or the issuer security trustee;
- the issuer cash manager fails to comply with any of its other obligations under the issuer cash management agreement which in the opinion of the issuer security trustee is materially prejudicial to the noteholders and such default is not waived by the issuer (with the prior written consent of the issuer security trustee) or the issuer security trustee, and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure and receiving a notice from the issuer security trustee; or
- the issuer cash manager suffers an insolvency event.

Upon termination of the appointment of the issuer cash manager, the issuer will agree to use its reasonable endeavours to appoint a substitute issuer cash manager. Any such substitute issuer cash manager will be required to enter into an agreement on substantially the same terms as the provisions of the issuer cash management agreement and any appointment is conditional upon the receipt of a ratings confirmation with respect to such appointment.

If the appointment of the issuer cash manager is terminated or the issuer cash manager resigns, the issuer cash manager is required to deliver its books of account relating to the notes to the substitute issuer cash manager at the direction of the issuer security trustee. The issuer cash management agreement will terminate automatically when the notes have been fully redeemed.

#### **Governing law**

The issuer cash management agreement and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

#### **Issuer bank accounts**

Pursuant to the terms of the issuer bank account agreement and the issuer deed of charge, the issuer maintains in its name with the issuer account bank:

- a sterling bank account (the "**issuer sterling account**"). The issuer sterling account will hold, among other things, the monies credited to the issuer reserve fund, until such funds are required to be distributed by the issuer in accordance with the programme documents and the issuer profit amounts (provided that such amounts shall be credited to a separate ledger (the "**issuer profit ledger**")); and
- a US dollars bank account (the "**issuer dollar account**"), a euro bank account (the "**issuer euro account**") and further bank accounts (each, an "**issuer bank account**" and, together with the issuer sterling account, the issuer dollar account and the issuer euro account, the "**issuer bank accounts**") for each currency in which notes issued by the issuer are denominated and for any other purpose.

All amounts applied by the issuer cash manager in accordance with the relevant issuer priority of payments to meet the obligations of issuer to its various creditors are required to be paid from the issuer bank accounts.

**Replacement of issuer account bank**

Pursuant to the terms of the issuer bank account agreement, the issuer bank accounts may be required to be transferred from the issuer account bank to another bank in certain circumstances, including where the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the issuer account bank cease to be rated at least "P-1" by Moody's or "F1" by Fitch (or, if the issuer account bank is on "rating watch negative", "F1+") or the long-term issuer default rating of the account bank by Fitch ceases to be at least "A" (or, if the issuer account bank is on "rating watch negative", "A+").

**Governing law**

The issuer bank account agreement and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

## SECURITY FOR FUNDING'S OBLIGATIONS

To provide security for its obligations under the global intercompany loan agreement and the other programme documents, Funding will enter into the Funding deed of charge with the Funding security trustee and the Funding secured creditors. A summary of the material terms of the Funding deed of charge is set out below. The summary does not purport to be complete and is subject to the provisions of the Funding deed of charge.

Subject as provided in the following paragraph, Funding will grant the following security to be held by the Funding security trustee for itself and on trust for the benefit of the Funding secured creditors:

- an assignment by way of first fixed security of the Funding share of the trust property;
- an assignment by way of first fixed security of all of Funding's right, title, interest and benefit in the programme documents (including for the avoidance of doubt rights against the mortgages trustee under the mortgages trust deed, but excluding all of Funding's right, title, interest and benefit in the Funding deed of charge) to which Funding is a party from time to time;
- a first fixed charge of Funding's right, title, interest and benefit in the Funding GIC account, any Funding swap collateral account and each other account (if any) of Funding and all amounts or securities standing to the credit of those accounts (including all interest or other income or distributions earned on such amounts or securities);
- a first fixed charge of Funding's right, title, interest and benefit in all authorised investments made by or on behalf of Funding (including all interest and other income or distributions paid or payable on such investments); and
- a first floating charge over all the assets and the undertaking of Funding which are not otherwise effectively subject to a fixed charge or assignment by way of security as described in the preceding paragraphs (and also extending over all of Funding's Scottish assets whether or not effectively charged or assigned by way of security as aforesaid).

Security which is expressed to be fixed in nature may take effect as floating security depending on the degree of control which the secured party is given over the relevant assets and the degree to which the secured party actually exercises such control.

Scots law does not recognise any equivalent concept of fixed charges taking effect as floating charges, as described above in relation to English law.

### **Funding pre-enforcement and post-enforcement priority of payments**

The Funding deed of charge sets out the order of priority for the application by the cash manager, prior to the delivery by the Funding security trustee of a Funding enforcement notice to Funding, of amounts standing to the credit of the Funding GIC account on each monthly payment date. This order of priority is described under "*Cashflows – Distribution of Funding available revenue receipts prior to the enforcement of the Funding security*" and "*Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security*".

The Funding deed of charge sets out the order or priority for the application by the Funding security trustee (or the cash manager on behalf of the Funding security trustee), following the delivery by the Funding security trustee of a Funding enforcement notice to Funding, of amounts received or recovered by the Funding security trustee or a receiver appointed on its behalf. This order of priority is described under "*Cashflows – Distribution of monies following enforcement of the Funding security*".

If any other issuers are established to issue notes and accordingly to make advances to Funding, such issuers and other applicable creditors of Funding will enter into deeds of accession or supplemental deeds in relation to the Funding deed of charge which may, depending on the type of notes to be issued, require amendment to, among other things, any of the Funding pre-enforcement revenue priority of payments, the Funding pre-enforcement principal priority of payments and the Funding post-enforcement priority of payments.

## **Enforcement**

The Funding deed of charge sets out the circumstances upon which and the procedures by which the Funding security trustee may take steps to enforce the Funding security. The Funding security will become enforceable following the delivery by the Funding security trustee of a Funding enforcement notice to Funding (see "*The global intercompany loan agreement – Funding intercompany loan events of default*") provided that, if the Funding security has become enforceable otherwise than by reason of a default in payment of any amount due in respect of the AAA loan tranches, the Funding security trustee will not be entitled to dispose of all or part of the assets comprised in the Funding security unless:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding in accordance with the Funding post-enforcement priority of payments; and/or
- the Funding security trustee is of the opinion (which opinion shall be binding on the Funding secured creditors), reached after considering the advice of any financial or professional advisers selected by the Funding security trustee (and if the Funding security trustee is unable to obtain such advice having made reasonable efforts to do so, this condition will not apply), that the cash flow expected to be received by Funding will not, or that there is a significant risk that it will not, be sufficient (as certified to it by Funding), having regard to any other relevant actual, contingent or prospective liabilities of Funding to discharge in full over time all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding in accordance with the Funding post-enforcement priority of payments.

The Funding security trustee will not be bound to make the determinations set out above unless it shall have been indemnified 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.

## **Conflicts**

The Funding deed of charge provides that, when exercising its discretion and/or when exercising the rights, benefits, powers, trusts, authorities, directions and obligations expressed to be granted to it by the Funding deed of charge and the other programme documents, the Funding security trustee shall act only at the request or direction of the issuer security trustee. The authority of the issuer security trustee to direct the Funding security trustee to act derives from the issuer's assignment to the issuer security trustee of its rights under the Funding deed of charge. This provision may be amended in the event that Funding enters into a new Funding intercompany loan agreement with a new issuer.

## **Delegation by the Funding security trustee to an authorised third party**

Pursuant to the terms of the servicing agreement, and subject to certain conditions, the Funding security trustee is entitled to delegate certain of its functions and rights under the programme documents to one or more authorised third parties. In the event of any such appointment, the Funding security trustee shall not be required to monitor or supervise the third party's performance and shall not be responsible for any act or omission of such third party or for any loss caused thereby.

## **No enforcement by Funding secured creditors**

Pursuant to the terms of the Funding deed of charge, each of the Funding secured creditors (other than the Funding security trustee and any receiver) will agree that only the Funding security trustee may enforce the security created by the Funding deed of charge.

## **Modification and waiver**

Without the consent of any of the Funding secured creditors, the Funding security trustee is permitted to:

- agree to modifications to the programme documents provided that the Funding security trustee is of the opinion that (a) any such modification would not be materially prejudicial to the interests of the Funding secured creditors or (b) such modification is of a formal, minor or technical nature or is necessary or required by the rating agencies in respect of any other issuer or other person who accedes to the Funding deed of charge; and

- authorise or waive a proposed or actual breach of any provisions of the programme documents provided that the Funding security trustee is of the opinion that such breach would not be materially prejudicial to the interests of the Funding secured creditors.

Any such modification, authorisation or waiver will be binding on the Funding secured creditors.

When formulating its opinion and/or when exercising the rights, benefits, trusts, authorities, directions and obligations under the programme documents to which it is a party, the Funding security trustee shall as a result of the operation of the provisions of the Funding deed of charge and the issuer deed of charge and the assignment by the issuer of its rights under the Funding deed of charge to the issuer security trustee, act only at the request or direction of the issuer security trustee. This provision may be amended in the event that Funding enters into a new Funding intercompany loan agreement with a new issuer.

### **Fees, expenses and indemnity**

Funding is required to:

- pay to the Funding security trustee a fee of such amount and on such dates as will be agreed from time to time by the Funding security trustee and Funding;
- reimburse the Funding security trustee for all its costs and expenses properly incurred by it in acting as Funding security trustee; and
- indemnify the Funding security trustee, its directors, officers, agents and employees from and against all proceedings, claims, demands, losses, costs, charges, expenses and liabilities incurred by it or to which it may become liable in connection with the exercise of its trusts, powers, authorities and discretions, or otherwise in respect of any matter done or not done relating to the programme documents, except where the same is caused by the fraud, gross negligence or wilful default of the Funding security trustee or any of its directors, officers, agents or employees.

### **Retirement and removal**

Subject to the appointment of a successor security trustee, the Funding security trustee is entitled to retire after giving three months' notice in writing to Funding. If within 60 days of having given notice of its intention to retire, Funding has failed to appoint a replacement security trustee, the outgoing Funding security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the Funding deed of charge). Funding may remove the Funding security trustee or appoint a new Funding security trustee at any time provided that it has the approval, which must not be unreasonably withheld or delayed, of the issuer security trustee (who may consult with the Funding secured creditors but is under no obligation to follow their direction). If the Funding security trustee retires or is removed then the issuer security trustee must retire at the same time in accordance with the provisions of the Funding deed of charge and issuer deed of charge. In each case the successor Funding security trustee and each successor issuer security trustee shall be the same person or persons. In addition, the Funding security trustee may subject to conditions specified in the Funding deed of charge, appoint a co-trustee to act jointly with it.

### **Additional provisions of the Funding deed of charge**

The Funding deed of charge contains a range of provisions limiting the scope of the Funding security trustee's duties and liabilities. These provisions include, among others, that the Funding security trustee:

- may rely on instructions or directions given to it by the issuer security trustee and on the advice of any lawyer, banker, accountant or other expert;
- is not responsible for the legality, admissibility in evidence, adequacy or enforceability of the Funding deed of charge or any other programme document;
- may rely on documents believed by it to be genuine provided by any of the mortgages trustee, Funding or the cash manager;
- may assume that no Funding intercompany loan event of default has occurred unless it has received notice from a Funding secured creditor or the issuer security trustee stating that a



Funding intercompany loan event of default has occurred and describing that Funding intercompany loan event of default;

- is not required to monitor or supervise the functions of the account bank or of any other person under any programme document;
- has the power to determine all questions arising in relation to the Funding deed of charge or other programme document and every determination made shall bind all of the Funding secured creditors;
- each Funding secured creditor must make its own independent appraisal, without reliance on the Funding security trustee, as to the financial condition and affairs of Funding;
- the Funding security trustee will not be liable for any loss, cost, damage or expense which may be caused by anything done or not done by it under the Funding deed of charge or any other programme document unless caused by the Funding security trustee's fraud, gross negligence, wilful default or breach of the terms of the Funding deed of charge;
- the Funding security trustee may accept such title as Funding has to the Funding charged property and will not be required to investigate or make inquiry into Funding's title to such property; and
- the Funding security trustee will not be responsible for any shortfall which may arise because it is liable to tax in respect of the Funding charged property or the proceeds of the enforcement of such property.

#### **Governing law**

The Funding deed of charge and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law, except for any terms or non-contractual obligations of the Funding deed of charge which are particular to the law of Scotland, which shall be construed in accordance with Scots law.

## SECURITY FOR THE ISSUER'S OBLIGATIONS

To provide security for its obligations under the notes and the other programme documents, the issuer will enter into the issuer deed of charge with the issuer security trustee and the issuer secured creditors. A summary of the material terms of the issuer deed of charge is set out below. The summary does not purport to be complete and is subject to the provisions of the issuer deed of charge.

### Issuer security

The issuer will grant the following security to be held by the issuer security trustee for itself and on trust for the benefit of the issuer secured creditors (which definition includes the noteholders):

- an assignment by way of first fixed security of the issuer's rights and claims in respect of all security and other rights held on trust by the Funding security trustee pursuant to the Funding deed of charge;
- an assignment by way of first fixed security of the issuer's right, title, interest and benefit in the programme documents to which it is a party (but excluding all of the issuer's right, title, interest and benefit in the issuer deed of charge);
- a first fixed charge of the issuer's right, title, interest and benefit in the issuer sterling account, any issuer swap collateral account and each other account (if any) of the issuer and all amounts or securities standing to the credit of those accounts (including all interest or other income or distributions earned on such amounts or securities);
- a first fixed charge of the issuer's right, title, interest and benefit in all authorised investments made by or on behalf of the issuer (including all interest and other income or distributions paid or payable on such investments); and
- a first floating charge over all the assets and undertaking of the issuer which are not otherwise effectively subject to a fixed charge or assignment by way of security as described in the preceding paragraphs (and also extending over all of the issuer's Scottish assets whether or not effectively charged or assigned by way of security as aforesaid).

Security which is expressed to be fixed in nature may take effect as floating security depending on the degree of control which the secured party is given over the relevant assets and the degree to which such secured party exercises such control.

Scots law does not recognise any equivalent concept of fixed charges taking effect as floating charges, as described above in relation to English law.

### Issuer pre-enforcement and post-enforcement priority of payments

The issuer deed of charge sets out the order of priority for the application of cash by the issuer cash manager prior to the delivery by the note trustee of an issuer enforcement notice to the issuer. This payment order of priority is described under "*Cashflows*".

The issuer deed of charge sets out the order of priority for the application by the issuer security trustee (or the issuer cash manager on its behalf), following the delivery by the note trustee of an issuer enforcement notice to the issuer, of amounts received or recovered by the issuer security trustee or a receiver appointed on its behalf. This order of priority is described under "*Cashflows*".

On the issuance of any series and class of notes, the new issuer swap providers and start-up loan provider may be required to enter into deeds of accession or supplemental deeds in relation to the issuer deed of charge which may, depending on the type of notes to be issued, require amendments, amongst other things, to any of the issuer pre-enforcement revenue priority of payments, the issuer pre-enforcement principal priority of payments, and the issuer post-enforcement priority of payments.

### Enforcement

The issuer security will become enforceable following the delivery by the note trustee of an issuer enforcement notice to the issuer.

## **Conflicts**

The issuer deed of charge contains provisions which require the issuer security trustee, whilst any notes issued by the issuer are outstanding, to act only at the direction of the note trustee. If, in the sole opinion of the note trustee, there may be a conflict as among noteholders, the note trustee is required to have regard to the interests of the class of noteholders with the highest-ranking notes only. If there is a conflict between the interests of the class A noteholders of one series and class and the class A noteholders of another series or group of series, or conflict between the class B noteholders of one series and the class B noteholders of another series or group of series, or conflict between the class C noteholders of one series and the class C noteholders of another series or group of series, or conflict between the class D noteholders of one series and the class D noteholders of another series or group of series, or conflict between the class E noteholders of one series and the class E noteholders of another series or group of series, or conflict between the class Z noteholders of one series and the class Z noteholders of another series or group of series then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of the class A notes or, as applicable, each series of the class B notes, each series of the class C notes, each series of the class D notes, each series of the class E notes or each series of the class Z notes subject to the conflict.

If there is a conflict of interest between the interests of the noteholders of one sub-class of notes of a series and the noteholders of another sub-class of notes of the same class and series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of such sub-classes of notes.

In all cases, the issuer security trustee will only be obliged to act if it is indemnified, secured to and/or prefunded its satisfaction against all liabilities to which it may thereby become liable or which it may incur by doing so.

For more information on how conflicts between noteholders are resolved, see Condition 11 (*Meetings of noteholders, modifications and waiver*) of the terms and conditions of the notes.

## **No enforcement by issuer secured creditors**

Pursuant to the terms of the issuer deed of charge, each of the issuer secured creditors (other than the issuer security trustee and the note trustee acting on behalf of the noteholders) will agree that (i) only the issuer security trustee may enforce the security created by the issuer deed of charge, and (ii) it will not take steps directly against the issuer to recover amounts owing to it by the issuer unless the issuer security trustee has become bound to enforce the issuer security but has failed to do so within 30 days of becoming so bound.

## **Modification and waiver**

Without the consent of any of the noteholders or any of the other issuer secured creditors, the issuer security trustee is permitted to:

- agree to modifications to the programme documents provided that the issuer security trustee is of the opinion that (a) such modification will not be materially prejudicial to the interests of the issuer secured creditors or (b) that such modification is of a formal, minor or technical nature or is necessary or is required by the rating agencies in respect of any person who accedes to the issuer deed of charge; and
- authorise or waive a proposed or actual breach of any provisions of any of the programme documents provided that the issuer security trustee is of the opinion that such breach will not be materially prejudicial to the interests of the issuer secured creditors.

Any such modification, authorisation or waiver will be binding on the issuer secured creditors.

As a result of the operation of the provisions of the issuer deed of charge, when formulating its opinion and/or when exercising the rights, benefits, trusts, authorities, directions and obligations under the programme documents to which it is a party, the issuer security trustee shall, whilst any of the notes are outstanding, act only at the request or direction of the note trustee.

## **Fees, expenses and indemnity**

The issuer is required to:

- pay to the issuer security trustee a fee of such amount and on such dates as will be agreed from time to time by the issuer security trustee and the issuer;
- reimburse the issuer security trustee for all costs and expenses properly incurred by it in acting as issuer security trustee; and
- indemnify the issuer security trustee, its directors, officers, agents and employees from and against all proceedings, claims, demands, losses, costs, charges, expenses and liabilities incurred by it or to which it may become liable in connection with the exercise of its trusts, powers, authorities and discretions, or otherwise in respect of any matter done or not done relating to the programme documents, except where the same is caused by the fraud, gross negligence or wilful default of the issuer security trustee or any of its directors, officers, agents or employees.

## **Retirement and removal**

Subject to the appointment of a successor issuer security trustee, the issuer security trustee may retire after giving three months' notice in writing to the issuer. If within 60 days of having given notice of its intention to retire, the issuer has failed to appoint a replacement issuer security trustee, the outgoing issuer security trustee will be entitled to appoint a successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the issuer deed of charge). The issuer may remove the issuer security trustee or appoint a new issuer security trustee at any time provided that it has the approval, which must not be unreasonably withheld or delayed, of the issuer secured creditors. If the issuer security trustee retires or is removed then the Funding security trustee must retire at the same time in accordance with the provisions of the Funding deed of charge and issuer deed of charge. In each case the successor Funding security trustee and each successor issuer security trustee shall be the same person or persons. In addition, the issuer security trustee may, subject to the conditions specified in the issuer deed of charge, appoint a co-trustee to act jointly with it.

## **Additional provisions of the issuer deed of charge**

The issuer deed of charge contains a range of provisions regulating the scope of the issuer security trustee's duties and liabilities. These include the following:

- the issuer security trustee is not responsible for the legality, admissibility in evidence, adequacy or enforceability of the issuer deed of charge or any other programme document;
- the issuer security trustee may assume that no note event of default has occurred unless the issuer security trustee has received express notice from an issuer secured creditor stating that a note event of default has occurred and describing that note event of default;
- the issuer security trustee is not required to monitor or supervise the functions of the issuer account bank or of any other person under any programme document;
- the issuer security trustee has the power to determine all questions arising in relation to the issuer deed of charge or other programme document entered into by the issuer and every determination made shall bind the noteholders and all of the other issuer secured creditors;
- each noteholder and each other issuer secured creditor must make its own independent appraisal, without reliance on the issuer security trustee, as to the financial condition and affairs of the issuer;
- the issuer security trustee will not be liable for any loss, cost, damage or expense which may be caused by anything done or not done by it under the issuer deed of charge or any other programme document unless caused by the issuer security trustee's fraud, gross negligence, wilful default or breach of the terms of the issuer deed of charge;
- the issuer security trustee may accept such title as the issuer has to the issuer charged property and will not be required to investigate or make inquiry into the issuer's title to such property;

- the issuer security trustee will not be responsible for any shortfall which may arise because it is liable to tax in respect of the issuer charged property or the proceeds of such property; and
- the issuer security trustee is not required to take steps or action in connection with the programme documents (including enforcing the issuer security) unless (1) whilst the notes are outstanding it has been directed or instructed to do so the noteholders in accordance with Condition 10 (Enforcement of Notes) and Condition 11 (Meetings of noteholders, modifications and waiver) of the terms and conditions of the notes or (2) following the redemption of the notes, by any other issuer secured creditor provided that, in each case, it has been indemnified and/or secured to its satisfaction against all costs, liabilities and claims which it may incur or in respect of which it may become liable.

**Governing law**

The issuer deed of charge and all non-contractual obligations arising out of or in connection with it are governed by and construed in accordance with English law.

## DESCRIPTION OF THE ISSUER TRUST DEED AND THE NOTES

The principal agreement governing the notes is the issuer trust deed. A summary of the material terms of the issuer trust deed and the global note certificates is set out below. The summary does not purport to be complete and it is subject to the provisions of the issuer trust deed.

The issuer trust deed sets out the forms of the global note certificates and the individual note certificates. It also sets out the conditions for the issue of individual note certificates and/or the cancellation of any notes. The issuer paying agent and agent bank agreement contains the detailed provisions as to the appointment of the paying agents and other agents and will regulate how payments will be made on the notes and how determinations and notifications will be made.

The issuer trust deed also contains covenants to be made by the issuer in favour of the note trustee and the noteholders. The main covenants are that the issuer will pay interest on, and repay the principal of, each of the notes when due. Some of the covenants also appear in the terms and conditions of the notes.

The issuer also covenants that it will (i) do all things necessary to maintain the listing of the notes issued by it on the official list and to maintain trading of such notes on the Market, (ii) keep in place a common depositary, a common safekeeper, paying agents and an agent bank, and (iii) comply with and perform and observe all its obligations in the issuer trust deed. The issuer trust deed provides for delivery to the note trustee of an annual statement signed by two directors of the issuer to the effect that no note event of default exists or has existed since the date of the previous annual statement and that the issuer has complied with all its obligations under the issuer transaction documents (to which it is a party) throughout the preceding financial year, except to the extent specified in such statement.

The issuer trust deed provides that the interests of the class A noteholders' will take precedence for so long as class A notes of any series are outstanding and thereafter the interests of class B noteholders take precedence for so long as the class B notes of any series are outstanding and thereafter the interests of class C noteholders take precedence for so long as the class C notes of any series are outstanding and thereafter the interests of the class D noteholders take precedence for so long as the class D notes of any series are outstanding and thereafter the interests of the class E noteholders take precedence for so long as the class E notes of any series are outstanding and thereafter the interests of the class Z noteholders take precedence for so long as the class Z notes of any series are outstanding. Certain basic terms of each class of notes will not be able to be amended without the consent of the majority of the holders of that class of note and the consent of the majority of the holders of the other classes of affected notes outstanding (see Condition 11 (*Meetings of Noteholders, Modifications and Waiver*) of the terms and conditions of the notes).

The issuer trust deed also sets out the terms under which the note trustee is appointed, the indemnification of the note trustee, the payments it will be entitled to receive and the extent of the note trustee's authority to act beyond its statutory powers under English law. The note trustee is also given the ability to appoint a delegate or agent in the execution of any of its duties under the issuer trust deed. The issuer trust deed also sets out the circumstances in which the note trustee may resign or retire.

Finally, the issuer trust deed provides that until the notes have been paid in full, they are entitled to the benefit of and be bound by the terms and conditions of the issuer trust deed. The issuer trust deed will be discharged upon the delivery to the note trustee for cancellation of all the notes or, with certain limitations, upon deposit with the note trustee of funds sufficient for the payment in full of all the notes.

### **The notes**

Each issuance of notes by the issuer will be authorised by a resolution of the board of directors of the issuer prior to the relevant closing date. Each issue of notes will be constituted by a deed or deeds supplemental to the issuer trust deed between the issuer and the note trustee. The issuer trust deed includes provisions which enable it to be modified or supplemented and any reference to the issuer trust deed will be a reference also to the issuer trust deed as modified or supplemented in accordance with its terms.

### ***Form of the notes***

The notes of each class sold in reliance on Regulation S (other than the class Z notes of any series) 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 "**Reg S global note certificate**"), which will be deposited on behalf of the beneficial owners of those notes with a common depository or common safekeeper, as the case may be, for Euroclear and Clearstream, Luxembourg, and registered in the name of a nominee of a common depository for Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Reg S global note certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. On confirmation from the common depository or, as applicable, the common safekeeper that it holds the Reg S global note certificates, Euroclear or Clearstream, Luxembourg, as applicable, will record book-entry interests in the beneficial owner's account or the participant account through which the beneficial owner holds its interests in the Reg S notes. These book-entry interests will represent the beneficial owner's beneficial interest in the relevant Reg S global note certificates.

The notes of each class sold in reliance on Rule 144A will be represented on issue by one or more permanent global notes of such class, in fully registered form without interest coupons or principal receipts attached (the "**Rule 144A global note certificates**"). Rule 144A global note certificates representing Rule 144A notes denominated in a currency other than US dollars will be deposited with a common depository or common safekeeper for Euroclear and Clearstream, Luxembourg. Rule 144A global note certificates representing Rule 144A notes denominated in dollars will be deposited with Citibank, N.A., London Branch, as custodian for, and registered in the name of, Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A global note certificate may only be held through Euroclear, Clearstream, Luxembourg (in the case of Rule 144A notes denominated in a currency other than US dollars) or DTC (in the case of Rule 144A notes denominated in dollars) or their participants at any time. Beneficial interests in a Rule 144A global note certificate may only be held by persons who are QIBs holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in a Rule 144A global note certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A global note certificates (see "*Transfer restrictions*"). On confirmation from the common depository or, as applicable, common safekeeper that it holds the Rule 144A global note certificates (in the case of Rule 144A notes denominated in a currency other than US dollars) or the custodian that it holds the Rule 144A global note certificates (in the case of Rule 144A notes denominated in dollars), Euroclear, Clearstream, Luxembourg or DTC, as the case may be, will record book-entry interests in the beneficial owner's account or the participant account through which the beneficial owner holds its interests in the notes. These book-entry interests will represent the beneficial owner's beneficial interest in the relevant Rule 144A global note certificates.

Beneficial interests in a Reg S note may be exchanged for beneficial interests in a Rule 144A note only if such exchange occurs in connection with a transfer of the notes pursuant to Rule 144A and, prior to the first business day that is 40 calendar days after the later of the commencement of the offering and the closing date (the "**release date**"), the transferring noteholder first delivers to the transfer agent and the registrar (i) instructions given in accordance with the procedures of Euroclear, Clearstream, Luxembourg and/or DTC, as applicable, directing the transfer agent and the registrar to credit or cause to be credited a beneficial interest in the Rule 144A note in an amount equal to the beneficial interest in the Reg S note to be exchanged or transferred, (ii) a written order given in accordance with the procedures of Euroclear, Clearstream, Luxembourg and/or DTC, as applicable, containing information regarding the account to be credited with such increase and the name of such account and (iii) a written certificate in the form required by the issuer trust deed to the effect that the transfer is being made to a person who the transferor reasonably believes is a QIB, purchasing for its own account or the account of a QIB in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A note may be transferred to a person who takes delivery in the form of an interest in a Reg S note, whether before or after the release date, only if the transferring noteholder first delivers to the transfer agent and the registrar (i) instructions given in accordance with the procedures of Euroclear, Clearstream, Luxembourg and/or DTC, as applicable, from or on behalf of a beneficial owner of the Rule 144A note, directing the transfer agent and registrar to credit or cause to be credited a beneficial interest in the Reg S note in an amount equal to the beneficial interest in the Rule 144A note to be exchanged or transferred, (ii) a written order in accordance with the clearing agency's procedures containing information regarding the Euroclear or Clearstream, Luxembourg account to be credited with such increase and the name of such account and (iii) a written certificate in the form required by the issuer

trust deed to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S.

Transfers involving an exchange of a beneficial interest in a Reg S note for a beneficial interest in a Rule 144A note denominated in dollars or vice versa will be effected in DTC by means of an instruction originated by the transfer agent and registrar through the facilities of DTC, Euroclear or Clearstream, Luxembourg (as applicable). Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global notes will, upon transfer, cease to be an interest in such global note and will become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to a beneficial interest in such other global note for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of notes, but the note trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

The amount of notes represented by each global note certificate will be evidenced by the register maintained for that purpose by the registrar. Together, the notes represented by the global note certificates and any outstanding individual note certificates will equal the aggregate principal amount of the notes outstanding at any time. Except in the limited circumstances described under "*Individual note certificates*" below, owners of beneficial interests in global notes will not be entitled to receive physical delivery of certificated notes. The notes are not issued in bearer form.

Beneficial owners may hold their interests in the global note certificates only through DTC, Clearstream, Luxembourg or Euroclear, as applicable, or indirectly through organisations that are participants in any of those systems. Ownership of these beneficial interests in a global note certificate will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC, Clearstream, Luxembourg or Euroclear (with respect to interests of their participants) and the records of their participants (with respect to interests of persons other than their participants). By contrast, ownership of direct interests in a global note certificate will be shown on, and the transfer of that ownership will be effected through, the register maintained by the registrar. Because of this holding structure of the notes, beneficial owners of notes may look only to DTC, Clearstream, Luxembourg or Euroclear, as applicable, or their respective participants for their beneficial entitlement to those notes. The issuer expects that DTC, Clearstream, Luxembourg or Euroclear will take any action permitted to be taken by a beneficial owner of notes only at the direction of one or more participants to whose account the interests in a global note certificate is credited and only in respect of that portion of the aggregate principal amount of notes as to which that participant or those participants has or have given that direction. See "*Book-entry clearance procedures*" for more information about DTC, Clearstream, Luxembourg and Euroclear.

Beneficial owners will be entitled to the benefit of, will be bound by and will be deemed to have notice of, all the provisions of the issuer trust deed and the issuer paying agent and agent bank agreement. Beneficial owners can see copies of these agreements at the principal office for the time being of the note trustee, which is, as of the date of this document, Citigroup Centre, Canada Square, Canary Wharf London E14 5LB and at the specified office for the time being of each of the paying agents.

The class Z notes of any series which are Reg S notes may be represented on issue by a Reg S global note certificate or by an individual note certificate.

#### ***Individual note certificates***

Owners of beneficial interests in global notes will only be entitled to receive individual note certificates under the following limited circumstances:

- if, 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 or administration of such laws or regulations which becomes effective on or after the relevant closing date, the issuer or any paying agent is or will be required to make any deduction or withholding from any payment on the notes that would not be required if the notes were represented by individual note certificates;
- if, in relation to Rule 144A notes denominated in dollars, DTC notifies the issuer that it is unwilling or unable to hold the Rule 144A global note certificates or is unwilling or unable to



continue as, or has ceased to be, a clearing agency registered under the Exchange Act and, in each case, the issuer cannot appoint a successor to DTC within 90 days of such notification; or

- if, in relation to Rule 144A notes denominated in a currency other than US dollars and Reg S notes, Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announce an intention to cease business permanently or do in fact do so and no alternative clearing system satisfactory to the note trustee is available.

In no event will individual note certificates in bearer form be issued. Any individual note certificate will be issued in registered form in minimum denominations as specified for such notes in the applicable final terms. Any individual note certificates will be registered in that name or those names as the registrar shall be instructed by DTC, Clearstream, Luxembourg and Euroclear, as applicable. It is expected that these instructions will be based upon directions received by DTC, Clearstream, Luxembourg and Euroclear from their participants reflecting the ownership of book-entry interests. To the extent permitted by law, the issuer, the note trustee and any paying agent shall be entitled to treat the person in whose names any individual note certificate is registered as the absolute owner thereof. The issuer paying agent and agent bank agreement contains provisions relating to the maintenance by a registrar of a register reflecting ownership of the notes and other provisions customary for a registered debt security.

Whenever a global note certificate is to be exchanged for individual note certificates relating to a series and class of notes, such individual note certificates will be issued in an aggregate principal amount equal to the principal amount of the relevant global note certificate within five business days of the delivery, by or on behalf of the registered holder of the relevant global note certificate, Euroclear and/or Clearstream, Luxembourg and/or DTC, as applicable, to the registrar of such information as is required to complete and deliver such individual note certificates (including, without limitation, the names and addresses of the persons in whose names the individual note certificates are to be registered and the principal amount of each such person's holding) against the surrender of the relevant global note certificate at the specified office of the registrar. Such exchange will be effected in accordance with the provisions of the issuer paying agent and agent bank agreement and the regulations concerning the transfer and registration of notes scheduled thereto and, in particular, shall be effected without charge to any holder or the note trustee, but against such indemnity as the registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Any person receiving individual note certificates will not be obligated to pay or otherwise bear the cost of any tax or governmental charge or any cost or expense relating to insurance, postage, transportation or any similar charge, which will be solely the responsibility of the issuer. No service charge will be made for any registration of transfer or exchange of any individual note certificates.

### **Governing law**

The issuer trust deed and any non-contractual obligations arising out of or in connection with it, and the notes will be, governed by and construed in accordance with English law.

### **Money market notes**

The issuer may, from time to time, issue a series and class of notes which are intended to be "eligible securities" for purchase by money market funds under Rule 2a-7 ("**Rule 2a-7**") of the United States Investment Company Act of 1940, as amended ("**money market notes**").

However, the determination as to whether any applicable series and class of notes will qualify as "eligible securities" under Rule 2a-7 will involve investment determinations and interpretive questions that, as with qualification and compliance with other aspects of Rule 2a-7, will be solely the responsibility of each money market fund and its investment adviser. None of the issuer, Funding, the mortgages trustee, Clydesdale Bank, the arranger, the managers, the note trustee, the issuer security trustee, the Funding security trustee, each remarketing agent, each tender agent, each paying agent, the agent bank, the registrar, the transfer agent each conditional note purchaser or any other party to the programme documents will make any representation as to the suitability of such notes as "money market notes" for investment by money market funds subject to Rule 2a-7.

The final maturity date of any money market notes will always be less than 397 days from the closing date on which such notes were issued, unless the money market notes are issued subject to the following remarketing arrangements.

### ***Remarketing arrangements***

If specified in relation to a series and class of money market notes as being applicable to such notes in the applicable final terms, such notes will be issued subject to the mandatory transfer arrangements referred to in Condition 5(G) (*Money Market Note Mandatory Transfer Arrangements*) of the terms and conditions of the notes, the remarketing agreement and the conditional note purchase agreement entered into in relation to such notes, and the issuer trust deed (the "**money market note mandatory transfer**") under which:

- the applicable remarketing agent will agree, pursuant to the terms of the remarketing agreement, to seek purchasers of such money market notes on the monthly payment dates specified for such purpose in relation to such notes in the applicable final terms, prior to the occurrence of a remarketing termination event (each such date a "**money market note mandatory transfer date**") until the final maturity date or earlier redemption in full of such notes; and
- the applicable conditional note purchaser will agree, pursuant to the terms of the conditional note purchase agreement, to purchase some or all of such money market notes on the money market note mandatory transfer date for such notes to the extent that purchasers for such notes have not been found, provided that certain events have not then occurred.

You should note, in particular, that the money market note mandatory transfer would be likely to be deemed to be a "conditional demand feature" (as such term is defined in Rule 2a-7). One of the conditions of determination by the board of directors of the relevant money market fund of the eligibility of a money market note for investment by such money market fund will be the determination that, where such note is issued with a final maturity date that is more than 397 days from the closing date on which such notes were issued, there is minimal risk that the circumstances would occur that would result in such money market note not being able to be transferred on a money market note mandatory transfer date for such note. Each series and class of money market notes, to which the money market note mandatory transfer arrangements are expressed to be applicable, will be sold subject to Condition 5(G) (*Money Market Note Mandatory Transfer Arrangements*) of the terms and conditions of the notes, which will provide for mandatory transfer of such notes on each money market note mandatory transfer date for such notes. However, failure by the issuer to make or procure any payment required under Condition 5(G) (*Money Market Note Mandatory Transfer Arrangements*) of the terms and conditions of the notes in relation to a series and class of money market notes, by reason of any failure on the part of the applicable remarketing agent or the applicable conditional note purchaser to perform their respective obligations under the relevant programme documents will not constitute a note event of default under the terms and conditions of the notes.

In relation to series and class of money market notes, to which the money market note mandatory transfer arrangements are expressed to be applicable, Condition 5(G) (*Money Market Note Mandatory Transfer Arrangements*) of the terms and conditions of the notes will provide for the applicable remarketing agent to have the ability, in order to effect the remarketing, to increase or decrease the margin on such notes from that payable as at the closing date for such notes or the previous money market note mandatory transfer date (as appropriate) in accordance with the applicable remarketing agreement and, in each case, subject to the maximum reset margin for such notes. Pursuant to the terms of the applicable conditional note purchase agreement, on each money market note mandatory transfer date for such notes, the applicable conditional note purchaser will be obliged to purchase, at the maximum reset margin for such notes, some or all of such notes to the extent not purchased by investors and, in the event of the occurrence of an optional remarketing termination event in relation to such notes (and, following which, the termination by the remarketing agent of its appointment under the remarketing agreement) all of such notes. If some or all of such notes are purchased by the conditional note purchaser, the relevant margin in respect of the next interest period for all such notes that are outstanding will be the applicable maximum reset margin for such notes.

For the avoidance of doubt, all notes comprising a series and class of money market notes, to which the money market note mandatory transfer arrangements are expressed to be applicable, will be transferred on the money market note mandatory transfer date for such notes. However, existing holders of such notes may, prior to their final maturity date or earlier redemption in full, repurchase such notes on each money market note mandatory transfer date for such notes.

### ***Remarketing agreements***

Under the terms of the remarketing agreement to be entered into in relation to a series and class of money market notes, the issuer will appoint the applicable remarketing agent to act as its agent and use all reasonable endeavours to identify investors for such notes on each money market note mandatory transfer date for such notes prior to the occurrence of either an optional remarketing termination event in relation to such notes (and, following which, the termination by the remarketing agent of its appointment under the remarketing agreement) or an automatic remarketing termination event in relation to such notes, (each, a "**remarketing termination event**").

Subject to there being no remarketing termination event then outstanding in relation to a series and class of money market notes, the applicable remarketing agent will be required to approach potential investors with a view to procuring investors for such notes on the money market note mandatory transfer date for such notes.

The remarketing agent for a series and class of money market notes will be required to seek bids from investors for the margin to apply to such notes as from the money market note mandatory transfer date. If there are one or more investors willing to purchase in aggregate all of such notes, the margin on all of such notes will be reset to an amount (not greater than the maximum reset margin for such notes) being the lowest margin at which all of such notes will be purchased at par by investors, as determined by the remarketing agent. If all of such notes cannot be placed with investors, the applicable conditional note purchaser will be required to purchase the unplaced notes pursuant to the terms of the applicable conditional note purchase agreement and the margin on all the such notes that are outstanding will be reset to the maximum reset margin for such notes.

The remarketing agent for a series and class of money market notes will be required to notify details of the money market note reset margin applicable to such notes to the principal paying agent no later than three business days prior to each money market note mandatory transfer date for such notes.

The remarketing agent for a series and class of money market notes will be required to procure the payment of the money market note mandatory transfer price for such notes in respect of the investors' firm bids for such notes, so as to enable settlement of such notes on the money market note mandatory transfer date for such notes. (See "*Book-entry clearance procedures - Transfer and settlement of money market notes under remarketing agreements and conditional note purchase agreements*"). The remarketing agent will be required to hold any amounts paid to the applicable remarketing agent by any investor or the applicable conditional note purchaser for such notes as part of the relevant money market note mandatory transfer as fiduciary for the relevant purchaser or the conditional note purchaser, as applicable.

To the extent that, no later than three business days prior to the money market note mandatory transfer date for a series and class of money market notes, the applicable remarketing agent is unable to obtain firm bids for all of the outstanding notes, and to procure the payment of the related purchase funds to enable settlement of all of such notes, the remarketing agent (failing whom, the issuer or the issuer cash manager on its behalf) will be required to serve on the applicable conditional note purchaser a notice in respect of the unplaced notes in the manner set out in the applicable conditional note purchase agreement. Such notice will be required to specify the interests in such notes that are to be purchased by the conditional note purchaser on the money market note mandatory transfer date; the amount representing the money market note mandatory transfer price payable (if any) to the relevant noteholders; and either (i) the principal amount outstanding of such notes which cannot be placed with investors pursuant to the applicable remarketing agreement, or (ii) that an optional remarketing termination event in relation to such notes has occurred on or before the money market note mandatory transfer date.

Under the terms of a remarketing agreement for a series and class of money market notes, the issuer will be permitted to terminate the appointment of the applicable remarketing agent broadly where: (a) the remarketing agent becomes insolvent; (b) the remarketing agent no longer has the requisite authority or ability to act in accordance with the terms of the remarketing agreement; or (c) the remarketing agent is in material breach of any warranty or covenant given by it pursuant to the terms of the remarketing agreement. Following the termination of the appointment of the remarketing agent, the issuer may require the remarketing agent to use all reasonable endeavours to appoint an alternative remarketing bank.

An optional remarketing termination event in relation to a series and class of money market notes will occur, broadly, where: (a) an event has occurred which is beyond the control of the applicable remarketing agent or the issuer and, as a consequence of which, the remarketing agent will be unable to perform its obligations under the applicable remarketing agreement or which in the remarketing agent's reasonable opinion represents a material market change affecting the such notes; (b) the remarketing agent reasonably determines, following consultation with the applicable conditional note purchaser that the enactment or amendment of any law or regulation or any form of banking, fiscal, monetary or regulatory control which is mandatory or customarily adopted in the banking, securities or broker/dealer industries would cause the remarketing agent to incur increased costs in carrying out its remarketing obligations or make it unlawful or impossible to carry out those obligations; or (c) the issuer is in material breach of any representations and warranties given by it in the applicable conditional note purchase agreement as at the closing date for such notes. Following the occurrence of an optional remarketing termination event in relation to such notes, the remarketing agent will have the option to terminate its remarketing obligations under the remarketing agreement. Following termination of its remarketing obligations, in the absence of an automatic remarketing termination event in relation to such notes, the remarketing agent will still be obliged under the remarketing agreement, if required by the issuer, to facilitate the transfer and settlement of such notes. For the avoidance of doubt, the occurrence of an optional remarketing termination event in relation to such notes will not affect the obligations of the conditional note purchaser under the terms of the conditional note purchase agreement.

An automatic remarketing termination event in relation to a series and class of money market notes will occur, broadly, where: (a) a note event of default has occurred which has not been remedied or waived; (b) the applicable conditional note purchaser has purchased all such notes which are outstanding and a notice to this effect has been delivered by the applicable remarketing agent or the applicable tender agent to the issuer and the principal paying agent; or (c) upon redemption in full of the such notes. Following the occurrence of an automatic remarketing termination event in relation to a such notes, the appointment of the remarketing agent will automatically terminate and the remarketing agent will have no further obligations in respect of the such notes. For the avoidance of doubt, following the occurrence of an automatic remarketing termination event in relation to a series and class of money market notes, the conditional note purchaser will have no obligation to purchase such notes.

Each remarketing agent will be required to make the representations required of managers as described in "*Subscription and sale*".

#### ***Conditional note purchase agreements***

Under the terms of the conditional note purchase agreement to be entered into in relation to a series and class of money market notes, provided that a note event of default has not occurred, the applicable conditional note purchaser will be obliged, on any money market note mandatory transfer date for such notes prior to the occurrence of an automatic remarketing termination event in relation to such notes, to purchase at the maximum reset margin for such notes the outstanding notes which the applicable remarketing agent is unable to place with investors pursuant to the applicable remarketing agreement.

Under the terms of the conditional note purchase agreement to be entered into in relation to a series and class of money market notes if, on or before a money market note mandatory transfer date for such notes, the applicable remarketing agent terminates its appointment following an optional remarketing termination event in relation to such notes, the applicable conditional note purchaser will, pursuant to the terms of the conditional note purchase agreement, be obliged to purchase on such money market note mandatory transfer date all of the notes at the maximum reset margin for such notes. If an automatic remarketing termination event occurs in relation to such notes, the issuer will not be obliged to procure any subsequent purchase of such notes, the remarketing agent will not be obliged to remarket any of such notes and the conditional note purchaser will not be obliged to purchase any of such notes. For the avoidance of doubt, following the occurrence of a note event of default, the margin payable on a series

and class of money market notes will be the margin applicable immediately prior to such note event of default.

In the event of a downgrade of the short term unsecured, unsubordinated and unguaranteed credit rating of the conditional note purchaser for a series and class of money market notes to a level which is below that sufficient to support the then current short term rating applicable to such notes, the issuer will, subject to certain conditions, have the right to terminate the appointment of such conditional note purchaser provided that it is able, prior to any such termination, taking effect to appoint a successor conditional note purchaser for such notes which has a short term rating at least equal to that sufficient to support the short term ratings that were applicable to such notes immediately prior to the downgrade of the conditional note purchaser.

The remarketing agent and the conditional note purchaser for a series and class of money market notes will not have any recourse to the issuer in respect of such arrangements.

No assurance can be given that any remarketing agent or conditional note purchaser for a series and class of money market notes will comply with and perform their respective obligations under the remarketing arrangements. In addition, if you purchase such notes, you will have no recourse against the issuer, the conditional note purchaser or the remarketing agent for any default or failure to purchase by the conditional note purchaser under the terms of the applicable conditional note purchase agreement or default or failure to remarket by the remarketing agent under the terms of the applicable remarketing agreement. Although the other parties to these agreements may be able to enforce their respective terms, they will not be under any obligation to do so.

### **Maturity purchase notes**

The issuer may issue maturity purchase notes (the "**maturity purchase notes**") which are subject to (i) the purchase arrangements referred to in Condition 5(G); (ii) the conditional maturity purchase note deed entered into by the issuer with the maturity purchaser specified in the applicable final terms (the "**maturity purchaser**") (the "**conditional maturity purchase note deed**"); and (iii) the issuer trust deed.

The maturity purchase notes will be redeemable in full (to the extent, if applicable, not previously redeemed in part) on and from the date which is the stated anticipated date for redemption in full (to the extent, if applicable, not previously redeemed in part) of the relevant maturity purchase notes as specified in the applicable final terms (the "**expected maturity date**").

If the issuer fails to have redeemed the maturity purchase notes in full on the expected maturity date (or within 3 business days thereof) then, under the purchase arrangements referred to in Condition 5(G) and the conditional maturity purchase note deed, the maturity purchaser agrees to purchase on the transfer date (defined below), at the then maturity purchase price all, but not some only, of the outstanding maturity purchase notes in respect of which a valid transfer instruction (defined below) or tender instruction (defined below), as the case may be, has been delivered to the relevant clearing system or registrar (as relevant), provided that no note event of default has occurred which is continuing on the transfer date (the "**maturity purchase commitment**").

The "**maturity purchase price**" will be the then remaining principal amount outstanding of the maturity purchase notes on the expected maturity date (plus any interest accrued from and including the expected maturity date to but excluding the transfer date at the rate of interest applicable on such notes on the basis that such rate of interest shall not be subject to any downward adjustment (including any reduction to the margin scheduled to apply on any step-up date) on or following the expected maturity date until (and including) the transfer date) after taking into account any principal repayments made by the issuer on or after the expected maturity date to (and including) the transfer date minus the principal deficiency losses.

The "**principal deficiency losses**" will be the outstanding balance on the principal deficiency ledger attributable on a pro rata basis according to the principal amount outstanding of all notes of such class of maturity purchase notes then outstanding as calculated by the cash manager on the date specified in the applicable final terms as the loss calculation date (the "**loss calculation date**").

The "**transfer date**" will be the later of (i) the date specified in the applicable final terms as the scheduled transfer date (the "**scheduled transfer date**") and (ii) the deferred transfer date (defined below).

Upon payment of the then maturity purchase price all rights in respect of such maturity purchase notes will be transferred to or for the account of the maturity purchaser or as designated by the maturity purchaser.

On the business day following the loss calculation date in relation to the maturity purchase notes the issuer will (i) give notice (which notices shall be irrevocable) to the holder(s) of any maturity purchase notes held in Euroclear or Clearstream, Luxembourg via Euroclear and Clearstream, Luxembourg of the principal deficiency losses and of the maturity purchaser's intention to purchase the maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (the "**EC/CS notice to purchase**"), (ii) instruct the agent appointed to coordinate the purchase of any maturity purchase notes by the maturity purchaser held in DTC (the "**DTC tender agent**") to give notice (which notices shall be irrevocable) to the holder(s) of any maturity purchase notes held in DTC via DTC of the principal deficiency losses and of the maturity purchaser's intention to purchase the maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (the DTC notice to purchase) and (iii) make a corresponding announcement via the London Stock Exchange and Bloomberg.

A holder of maturity purchase notes has the right (but not the obligation) to elect to have its maturity purchase notes purchased by the maturity purchaser on the transfer date. A holder of maturity purchase notes may exercise its right to have its maturity purchase notes purchased by the maturity purchaser on the transfer date (i) in the case of maturity purchase notes held in Euroclear and Clearstream, Luxembourg, by giving an electronic transfer and blocking instruction (which notice shall be irrevocable) in accordance with the usual procedures of Euroclear or Clearstream, Luxembourg (as applicable) (a "**transfer instruction**") no later than 4:00 p.m. (London time) on the business day that is 5 business days prior to (but excluding) the transfer date (or such earlier deadline set by any relevant intermediary or clearing system) and (ii) in the case of maturity purchase notes held in DTC, by instructing the DTC tender agent to deliver instructions to DTC in accordance with the usual procedures of DTC acknowledging acceptance of the maturity purchaser's offer to buy the maturity purchase notes (a "**tender instruction**") (which shall be irrevocable) no later than 4:00 p.m. (New York time) on the business day that is 5 business days prior to (but excluding) the transfer date (or such earlier deadline set by any relevant intermediary or clearing system).

If maturity purchase notes in definitive form are issued in accordance with the issuer trust deed or if the relevant clearing system ceases to offer the relevant mechanisms to enable the purchase and settlement of the maturity purchase notes as contemplated in the conditional maturity purchase note deed, then the parties to the conditional maturity purchase note deed will make reasonable efforts to enter into alternative arrangements to give effect to the arrangements contemplated by the conditional maturity purchase note deed and the maturity purchaser will purchase the relevant maturity purchase notes on the later of (i) the relevant scheduled transfer date and (ii) the date (the "**deferred transfer date**") which is the earlier of (A) the date that is 5 business days after the date on which the parties to the conditional maturity purchase note deed agree a procedure by which the purchase can occur and (B) 60 days after the scheduled transfer date.

The maturity purchase commitment relating to the maturity purchase notes shall terminate upon the earlier of (i) the redemption in full of all of the maturity purchase notes (ii) the purchase by the maturity purchaser of the maturity purchase notes and (iii) in the case of the insolvency of the maturity purchaser, the payment of a liquidated damages amount in respect of all of the maturity purchase notes. The maturity purchase commitment relating to the maturity purchase notes will not terminate upon the occurrence of a non-asset trigger event.

If, on or prior to the transfer date, insolvency proceedings have been commenced against the maturity purchaser, then the maturity purchaser will procure the payment to the holders of the maturity purchase notes of the amount (in the currency in which the relevant maturity purchase notes are denominated) as liquidated damages, equal to the amount that a third party would be required to be paid as an upfront amount (in the currency in which the relevant maturity purchase notes are denominated) in order to assume the maturity purchaser's obligations in respect of the full amount of the maturity purchase notes outstanding (the "**liquidated damages amount**"). Such amount will be determined as the arithmetic average of the price quoted to assume such obligations by three independent dealers selected by the maturity purchaser in accordance with the provisions of the conditional maturity purchase note deed.

Regardless of whether the maturity purchaser purchases any or all of the maturity purchase notes on the transfer date, the maturity purchase notes will remain outstanding until such time as they are redeemed in

full or until their final maturity date. Therefore, if the maturity purchaser fails to purchase the maturity purchase notes, the relevant noteholders will remain noteholders with all related rights and their priority, standing and relationship with the issuer (as set out in this base prospectus and the relevant final terms) will not be affected.

Please consider carefully the section entitled "*Risk factors - Additional risks related to the maturity purchase notes*".

## **BOOK-ENTRY CLEARANCE PROCEDURES**

The information set out below has been obtained from Euroclear, Clearstream, Luxembourg and DTC (each with respect to itself), and the issuer believes that such sources are reliable. However, prospective investors are advised to make their own enquiries as to the procedures described below. The issuer accepts responsibility for the accurate reproduction of such information from publicly available information. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or DTC currently in effect and investors wishing to use the facilities of any of Euroclear, Clearstream, Luxembourg or DTC are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the issuer, the directors of the issuer, Funding, the mortgages trustee, Clydesdale Bank, the managers, the note trustee, the issuer security trustee, the Funding security trustee, the basis rate swap provider, any issuer swap provider, the paying agents, the agent bank, any of their respective affiliates or any other party to the programme documents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg and DTC or their respective direct and indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.

### **Euroclear, Clearstream, Luxembourg and DTC**

Custodial and depository links have been established between Euroclear and Clearstream, Luxembourg and DTC to facilitate the initial issue of the notes and cross-market transfers of the notes associated with secondary market trading. See "*– Initial settlement*" and "*– Secondary trading*" below.

### **Euroclear and Clearstream, Luxembourg**

Euroclear and Clearstream, Luxembourg each hold securities for their participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of those participants, thereby eliminating the need for physical movement of securities. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships.

Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other. Transactions may be settled in Euroclear and Clearstream, Luxembourg in any of numerous currencies, including pounds sterling, US dollars and euro. Clearstream, Luxembourg is incorporated under the laws of Luxembourg as a professional depository. Clearstream, Luxembourg participants are financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to Clearstream, Luxembourg is also available to others, including banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant, either directly or indirectly.

The Euroclear system was created in 1968 to hold securities for its participants and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment. The Euroclear system is operated by Euroclear Bank S.A./N.V. (the "**Euroclear operator**"). All operations are conducted by the Euroclear operator. All Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator. Euroclear participants include banks – including central banks – securities brokers and dealers and other professional financial intermediaries. Indirect access to the Euroclear system is also available to other firms that maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing use of Euroclear and the related Operating Procedures of the Euroclear system. These terms and conditions govern transfers of securities and cash within the Euroclear system, withdrawal of securities and cash from the Euroclear system, and receipts of payments for securities in the Euroclear system. All securities in the Euroclear system are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under these terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.



## DTC

DTC has advised the issuer and the managers that it intends to follow the following procedures:

DTC will act as securities depository for the Rule 144A global note certificates representing Rule 144A notes denominated in dollars. These Rule 144A global note certificates will be issued as securities registered in the name of Cede & Co. as DTC's nominee.

DTC has advised the issuer that it is:

- a limited-purpose trust company organised under New York Banking Law;
- a "banking organisation" within the meaning of New York Banking Law;
- a member of the Federal Reserve System;
- a "clearing corporation" within the meaning of the New York Uniform Commercial Code; and
- a "clearing agency" registered under the provisions of Section 17A of the United States Securities and Exchange Act of 1934, as amended (the "**Exchange Act**").

DTC holds securities for its participants and facilitates the clearance and settlement among its participants of securities transactions, including transfers and pledges, in deposited securities through electronic book-entry changes in its participants' accounts. This eliminates the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and other organisations. Indirect access to the DTC system is also available to others including securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

Transfers between participants on the DTC system will occur under DTC rules. Transfers between participants on the Clearstream, Luxembourg system and participants in the Euroclear system will occur under their rules and operating procedures.

Purchases of notes under the DTC system must be made by or through DTC participants, which will receive a credit for the notes on DTC's records. The ownership interest of each actual beneficial owner is in turn to be recorded on the DTC participants' and indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase. However, beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the DTC participant or indirect participant through which the beneficial owner entered into the transaction. Transfer of ownership interests in the Rule 144A notes deposited with DTC are to be accomplished by entries made on the books of DTC participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interest in notes unless use of the book-entry system for the notes described in this section is discontinued.

To facilitate subsequent transfers, all offered global note certificates deposited with DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of these offered global note certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the ultimate beneficial owners of the notes. DTC's records reflect only the identity of the DTC participants to whose accounts the beneficial interests are credited, which may or may not be the actual beneficial owners of the notes. The DTC participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC participants, by DTC participants to indirect participants, and by DTC participants and indirect participants to beneficial owners will be governed by arrangements among them and by any statutory or regulatory requirements in effect from time to time.

Redemption notices for the Rule 144A notes represented by Rule 144A global note certificates deposited with DTC will be sent to DTC. If less than all of those notes are being redeemed by investors, DTC's practice is to determine by lot the amount of the interest of each participant in those notes to be redeemed.

Neither DTC nor Cede & Co. will consent or vote on behalf of the Rule 144A noteholders. Under its usual procedures, DTC will mail an omnibus proxy to the issuer as soon as possible after the record date, which assigns the consenting or voting rights of Cede & Co. to those DTC participants to whose accounts the book-entry interests are credited on the record date, identified in a list attached to the proxy.

The issuer understands that under existing industry practices, when the issuer requests any action of noteholders or when a beneficial owner desires to give or take any action which a noteholder is entitled to give or take under the issuer trust deed, DTC generally will give or take that action, or authorise the relevant participants to give or take that action, and those participants would authorise beneficial owners owning through those participants to give or take that action or would otherwise act upon the instructions of beneficial owners through them.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the issuer believes to be reliable, but the issuer takes no responsibility for the accuracy thereof.

### **Book-entry ownership**

Each Reg S global note certificate will have an ISIN and a Common Code and will be delivered at initial settlement to a common depository or common safekeeper, as specified in the applicable final terms, for Euroclear and Clearstream, Luxembourg and registered in the name of a nominee of a common depository for Euroclear and Clearstream, Luxembourg or in the name of a nominee of a common safekeeper for Euroclear and Clearstream, Luxembourg.

Each Rule 144A global note certificate representing Rule 144A notes denominated in a currency other than US dollars will have an ISIN and a Common Code and will be delivered at initial settlement to a common depository on behalf of Euroclear and Clearstream, Luxembourg or to a common safekeeper on behalf of Euroclear and Clearstream, Luxembourg, as specified in the applicable final terms.

Each Rule 144A global note certificate representing Rule 144A notes denominated in dollars will have a CUSIP number and will be deposited with Citibank, N.A., London Branch, as custodian for, and registered in the name of Cede & Co. as nominee of, DTC. The custodian and DTC will electronically record the principal amount of the Rule 144A notes held within the DTC system.

As the holders of book-entry interests, beneficial owners will not have the right under the issuer trust deed to act on solicitations by the issuer for action by noteholders. Beneficial owners will only be able to act to the extent they receive the appropriate proxies to do so from DTC, Clearstream, Luxembourg or Euroclear or, if applicable, their respective participants. No assurances are made about these procedures or their adequacy for ensuring timely exercise of remedies under the issuer trust deed.

No beneficial owner of an interest in a note represented by a global note certificate will be able to transfer that interest except in accordance with applicable procedures, in addition to those provided for under the issuer trust deed, of DTC, Clearstream, Luxembourg and Euroclear, as applicable.

### **Payment and relationship of participants with clearing systems**

Principal and interest payments on the Rule 144A notes accepted for clearance through DTC will be made via the paying agents to DTC or its nominee, as the registered holder of the Rule 144A global note certificates. DTC's practice is to credit its participants' accounts on the applicable note payment date according to their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on that note payment date.

Principal and interest payments on the Reg S notes and Rule 144A notes accepted for clearance through Euroclear and/or Clearstream, Luxembourg will be made to the principal paying agent and then credited by the principal paying agent to the cash accounts of Euroclear, Clearstream, Luxembourg or, in the case of notes represented by a global note, the common depository by whom such note is held or a nominee in whose name it is registered or, in the case of Reg S global notes to be held under the NSS, the common safekeeper by whom such note is held, or nominee in whose name it is registered. After receipt of any payment from the principal paying agent to the common depository or, as applicable, common safekeeper (or, in either case, its nominee), Euroclear and Clearstream, Luxembourg, as the case may be, will credit their respective participants' accounts in proportion to those participants' holdings as shown on the records of Euroclear and Clearstream, Luxembourg, respectively.

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note represented by a global note certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the issuer to the holder of such global note and in relation to all other rights arising under the global notes, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The issuer expects that, upon receipt of any payment in respect of notes represented by a global note certificate, the common depositary or common safekeeper, as the case may be, by whom such note is held, or nominee in whose name it is registered, will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant global note as shown on the records of the relevant clearing system or its nominee. The issuer also expects that payments by direct participants in any clearing system to owners of beneficial interests in any global note held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the issuer in respect of payments due on the notes for so long as the notes are represented by such global note certificates and the obligations of the issuer will be discharged by payment to the registered holder, as the case may be, of such global note in respect of each amount so paid. None of the issuer, the note trustee, any manager nor any paying agent will have any responsibility or liability for any aspect of the records of DTC, Clearstream, Luxembourg or Euroclear relating to or payments made by DTC, Clearstream, Luxembourg or Euroclear on account of beneficial interests in the global note certificates or for maintaining, supervising or reviewing any records of DTC, Clearstream, Luxembourg or Euroclear relating to those beneficial interests.

#### **Initial settlement**

The global note certificates for each series and class of notes will be delivered on the relevant closing date to Citibank, N.A., London Branch, as custodian for DTC, and to the common depositary or, as applicable, common safekeeper for Euroclear and Clearstream, Luxembourg, as applicable. Customary settlement procedures will be followed for participants of each system on that closing date. Notes will be credited to investors' securities accounts on the relevant closing date against payment in same-day funds.

#### **Secondary trading**

Subject to the rules and procedures of each applicable clearing system, purchases of notes held within a clearing system must be made by or through direct participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each beneficial owner of each such note 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 they 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 certificates representing their ownership interests in such notes, unless and until interests in any global note held within a clearing system are exchanged for individual certificates.

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

The laws of some jurisdictions (including some states of the United States) require that certain purchasers of securities take physical delivery of those securities in definitive form. These laws may impair the ability to transfer beneficial interests in a note represented by a global note certificate. DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, so the ability of a person having an interest in a global note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical

certificate in respect of such interest. See "*Risk Factors – You will not receive physical notes, which may cause delays in distributions and hamper your ability to pledge or resell the notes*".

#### **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 U.S. dollar denominated bonds.

#### **Trading between DTC participants**

Secondary market sales of book-entry interests in the notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

#### **Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser**

When book-entry interests in notes are to be transferred from the account of a DTC participant holding a beneficial interest in a global note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that global note (subject to the certification procedures provided in the issuer paying agent and agent bank agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the global note will instruct the registrar to (i) decrease the amount of notes registered in the name of Cede & Co., and evidenced by the relevant global note and (ii) increase the amount of notes registered in the name of the nominee of the common depositary or, as applicable, common safekeeper for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

#### **Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser**

When book-entry interests in the notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a global note (subject to the certification procedures provided in the issuer trust deed and any issuer trust deed supplement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary or the common service provider, as the case may be, for Euroclear and Clearstream, Luxembourg and the registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary or, as applicable, the common service provider for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the global note who will in turn deliver evidence of such book-entry interests in the notes free of payment to the relevant account of the DTC participant and (b) instruct the registrar to (i) decrease the amount of notes registered in the name of the nominee of the common depositary or, as applicable, the common safekeeper for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global note and (ii) increase the amount of notes registered in the name of Cede & Co. and evidenced by the relevant global note.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in global notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the issuer, the directors of the issuer, Funding, the mortgages trustee, Clydesdale Bank, the managers, the note trustee, the issuer security trustee, the Funding security trustee, the basis rate swap provider, any issuer swap provider, the paying agents or the agent bank will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations.

#### **Pre-issue trades settlement**

It is expected that delivery of each series of notes will be made against payment therefor on the closing date for such series of notes, which could be more than three business days following the date of pricing for such series of notes. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until three days prior to the closing date of a series of notes will be required, by virtue of the fact that the notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices and purchasers of notes who wish to trade notes between the date of pricing and the closing date for such series of notes should consult their own adviser.

#### **Transfer and settlement of money market notes under the remarketing agreements and conditional note purchase agreements**

A series and class of money market notes will initially be represented by a Reg S global note certificate and/or a Rule 144A global note certificate. Each global note certificate will in turn be exchangeable for certificates in individual certificated form only in the circumstances described under "*Description of the issuer trust deed and the notes – The notes – Individual note certificates*".

Three business days before the money market note mandatory transfer date for a series and class of money market notes, the applicable remarketing agent will be required to deliver to Euroclear and/or Clearstream, Luxembourg a written notice (such notice being a "**Euroclear/Clearstream money market note call notice**") in respect of such notes which are represented by a registered Reg S global note certificate (the "**Euroclear/Clearstream money market notes**", and holders thereof, the "**Euroclear/Clearstream money market noteholders**") that will specify, among other things, the applicable remarketing agent's account details with Euroclear or Clearstream, Luxembourg (as the case may be) and the principal amount outstanding in respect of such notes on such money market note mandatory transfer date (after giving effect to the payment of any note principal payments (or any part thereof) that will be made on such date in respect of such notes) (the "**Euroclear/Clearstream money market note mandatory transfer price**").

Prior to the money market note mandatory transfer date for a series and class of money market notes, the applicable remarketing agent will be required to deliver to Euroclear and/or Clearstream, Luxembourg a second written notice in respect of the Euroclear/Clearstream money market notes (such notice being a "**Euroclear/Clearstream money market note transfer notice**"), which will specify, among other things, the account details with Euroclear and/or Clearstream, Luxembourg (as the case may be) of any purchaser of the Euroclear/Clearstream money market notes, on such money market note mandatory transfer date (which will include the applicable conditional note purchaser in respect of such Euroclear/Clearstream money market notes if the remarketing agent is unable to identify investors for some or all of such notes pursuant to the terms of the applicable remarketing agreement) (each such purchaser of the Euroclear/Clearstream money market notes being an "**Incoming Euroclear/Clearstream money market noteholder**") and the Euroclear/Clearstream money market note mandatory transfer price payable on such money market note mandatory transfer date.

No further action will be required of the Euroclear/Clearstream money market noteholders in connection with the transfer of the Euroclear/Clearstream money market notes to the applicable remarketing agent (as contemplated by the Euroclear/Clearstream money market note call notice) or the transfer from the

remarketing agent to the Incoming Euroclear/Clearstream money market noteholders (as contemplated by the Euroclear/Clearstream money market note transfer notice).

To facilitate the transfer of interests in a series and class of money market notes held through DTC (the "**DTC money market notes**", and holders thereof, the "**DTC money market noteholders**") as part of the money market note mandatory transfer arrangements, the tender agent appointed in respect of such series and class of notes will be required to arrange delivery and payment by and to the DTC money market noteholders on the money market note mandatory transfer date for such notes. The remarketing agent appointed in respect of such series and class of notes will be required to provide a suitable securities account to be used for the purposes of settlement of the DTC money market notes on each money market note mandatory transfer date for such notes.

The remarketing agent for a series and class of money market notes will be required (to the extent that any DTC money market notes are held in global form) to notify DTC no later than three business days prior to a money market note mandatory transfer date for such notes of (i) the principal amount outstanding on such money market note mandatory transfer date (after giving effect to the payment of any note principal payments (or any part thereof) that will be made on such date in respect of such notes), being the amount payable by the investors wishing to purchase the DTC money market notes (the "**DTC money market note mandatory transfer price**"), (ii) the account details with DTC of any purchaser of the DTC money market notes, on such money market note mandatory transfer date (which will include the related applicable conditional note purchaser in respect of such DTC money market notes if the remarketing agent is unable to identify investors for some or all of such notes pursuant to the terms of the applicable remarketing agreement) (each such purchaser of the DTC money market notes being an "**incoming DTC money market noteholder**"), the money market note reset margin applicable to such notes after that money market note mandatory transfer date, and (iv) the next reset period (which will be defined in the applicable remarketing agreement or the applicable conditional note purchase agreement) in respect of such notes. The applicable remarketing agent will arrange delivery of the relevant DTC money market notes to the incoming DTC money market noteholders on each money market note mandatory transfer date for such notes (including, without limitation, specifying details of the accounts of such incoming DTC money market noteholders to DTC).

No further action will be required of the incoming DTC money market noteholders for the transfer of DTC money market notes to or for the account of a remarketing agent.

Upon payment on the money market note mandatory transfer date of the DTC money market note mandatory transfer price by the incoming DTC money market noteholders for a series and class of money market notes, all rights in respect of the DTC money market notes will be transferred to or for the account of the applicable remarketing agent and then will be transferred that same day to the incoming DTC money market noteholders on the same day.

If an existing holder of money market notes wishes to repurchase such notes on the money market note mandatory transfer date for such notes, the transfer and settlement process is as described above except that there will be no cash payment of the applicable DTC money market note mandatory transfer price to or from such holder.

## TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions (the "**Conditions**", and any reference to a "*Condition*" shall be construed accordingly) of the notes in the form (subject to amendment) which will be incorporated by reference into each global note certificate and each individual note certificate, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the issuer and the relevant manager(s) at the time of issue but, if not so permitted and agreed, such individual note certificate will have endorsed thereon or attached thereto such Conditions. The final terms in relation to each series and class of notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such notes. The applicable final terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each global note certificate and individual note certificate.

The notes are constituted by a deed or deeds supplemental to the issuer trust deed. The security for the notes is created pursuant to, and on the terms set out in, the issuer deed of charge. By the issuer paying agent and agent bank agreement, provision is made for, *inter alia*, the payment of principal and interest in respect of the notes.

References herein to the "*notes*" shall, unless the context otherwise requires, be references to all the notes issued by the issuer and constituted by the issuer trust deed and shall mean:

- (i) in relation to any notes of a series and class represented by a global note certificate, units of the lowest specified denomination in the specified currency in each case of such series and class;
- (ii) any global note certificates; and
- (iii) any individual note certificates issued in exchange for a global note certificate.

Notes constituted by the issuer trust deed are issued in series (each a "**series**") and each series comprises one or more classes (each a "**class**") of notes. Each class of notes of any series may comprise one or more sub-classes of notes (each a "**sub-class**"). Each series of notes is subject to final terms. The final terms in relation to each series and class of notes (or the relevant provisions thereof) will be endorsed upon, or attached to, such notes and will supplement these Conditions in respect of such notes and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such notes. References to the "*applicable final terms*" are, in relation to a series and class of notes, to the final terms (or the relevant provisions thereof) attached to or endorsed on such notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the issuer trust deed, the issuer deed of charge and the issuer paying agent and agent bank agreement.

Copies of the issuer trust deed, the issuer deed of charge, the issuer paying agent and agent bank agreement and each of the other programme documents are available for inspection during normal business hours at the registered office of the issuer, being 35 Great St. Helen's, London EC3A 6AP, the specified office for the time being of the principal paying agent, being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB. Copies of the final terms of each series of notes are obtainable by noteholders during normal business hours at the registered office of the issuer and the specified office for the time being of the principal paying agent and any noteholder must produce evidence satisfactory to the principal paying agent as to its holding of notes and identity.

The holders of any series and class of notes are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of, and definitions contained or incorporated in, the issuer trust deed, the issuer deed of charge, the issuer paying agent and agent bank agreement, each of the other programme documents and the applicable final terms and to have notice of each other final terms relating to each other series and class of notes.

A glossary of definitions appears in Condition 18 of these Conditions.

References herein to the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and the class Z noteholders shall, in each case and unless specified otherwise, be references to the holders of the notes of all series of the applicable class and of all sub-classes of the applicable class.

References herein to the class A notes, the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes shall, in each case and unless specified otherwise, be references to the notes of all series of the applicable class and of all sub-classes of the applicable class.

The notes are not issuable in bearer form.

1. **Form, denomination, register, title and transfers**

(A) *Form and denomination*

The Rule 144A notes have not been and will not be registered under the Securities Act and may not be offered and sold within the United States or to, or for the account or benefit of, U.S. persons, except to "qualified institutional buyers" (within the meaning of Rule 144A under the Securities Act) in reliance on exemption from registration provided by Rule 144A under the Securities Act.

The Reg S notes will initially be offered and sold outside the United States to non-US persons pursuant to Reg S.

Each series and class of notes will be issued in registered form and be denominated in the specified currency and in the specified denomination. Each series and class of Rule 144A notes will be initially represented by a Rule 144A global note certificate, which, in the aggregate, will represent the principal amount outstanding from time to time of such series and class of Rule 144A notes. Each series and class of Reg S notes will be initially represented by a Reg S global note certificate which, in the aggregate, will represent the principal amount outstanding from time to time of such series and class of the Reg S notes.

Each series and class of notes may be fixed rate notes or floating rate notes or a combination of the foregoing, depending upon the interest basis specified for such notes in the applicable final terms.

Each series and class of notes may be bullet notes, controlled amortisation notes, pass-through notes or a combination of any of the foregoing, depending upon the redemption/payment basis specified for such notes in the applicable final terms.

Global note certificates will be exchanged for individual note certificates in definitive registered form only under certain limited circumstances (as described in the relevant global note certificate). If individual note certificates are issued, they will be serially numbered and issued in an aggregate principal amount equal to the principal amount outstanding of the relevant global note certificates and in registered form only.

In the case of a series and class of notes with more than one specified denomination, notes of one specified denomination may not be exchanged for notes of such series and class of another specified denomination.

(B) *Register*

The registrar will maintain the register in respect of the notes in accordance with the provisions of the issuer paying agent and agent bank agreement. In these Conditions, the "**holder**" of a note means the person in whose name such note is for the time being registered in the register (or, in the case of a joint holding, the first named thereof). A note certificate will be issued to each noteholder in respect of its registered holding. Each note certificate will be numbered serially with an identifying number which will be recorded in the register.

(C) *Title*

The holder of each note shall (except as otherwise required by law) be treated by the issuer, the note trustee, the issuer security trustee, the agent bank and any agent as the absolute owner of such note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the note certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such note certificate) and no person shall be liable for so treating such holder.



(D) *Transfers*

Subject as provided otherwise in this Condition 1(D), a note may be transferred upon surrender of the relevant note certificate, with the endorsed form of transfer duly completed, at the specified office of the registrar or the transfer agent, together with such evidence as the registrar or (as the case may be) the transfer agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided** however, that a note may not be transferred unless the principal amount of notes transferred and (where not all of the notes held by a holder are being transferred) the principal amount of the balance of notes not transferred are each in the minimum denominations specified for such notes in the applicable final terms. Where not all the notes represented by the surrendered note certificate are the subject of the transfer, a new note certificate in respect of the balance of the notes will be issued to the transferor.

Within five business days of such surrender of a note certificate, the registrar will register the transfer in question and deliver a new note certificate of a like principal amount to the notes transferred to each relevant holder at its specified office or (as the case may be) the specified office of the transfer agent or (at the request and risk of any such relevant holder) by uninsured first class mail (and by airmail if the holder is overseas) to the address specified for such purpose by such relevant holder.

The transfer of a note will be effected without charge by or on behalf of the issuer, the registrar or the transfer agent but against such indemnity as the registrar or (as the case may be) such transfer agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

Noteholders may not require transfers of notes to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the notes.

All transfers of notes and entries on the register are subject to the detailed regulations concerning the transfer of notes scheduled to the issuer paying agent and agent bank agreement. The regulations may be changed by the issuer with the prior written approval of the note trustee and the registrar. A copy of the current regulations will be mailed (free of charge) by the registrar to any noteholder who requests in writing a copy of such regulations.

2. **Status, priority and security**

(A) *Status*

The notes of each series and class are direct, secured and, subject to the limited recourse provisions in Condition 10 of these Conditions unconditional obligations of the issuer.

Subject to the provisions of Conditions 4 and 5 and subject to the other payment conditions set out in the applicable final terms and the other programme documents:

- (i) the class A notes of each series will rank *pari passu* and *pro rata* without any preference or priority among the class A notes of each series but in priority to the class B notes, the class C notes, the class D notes, the class E notes and the class Z notes of any series;
- (ii) the class B notes of each series will rank *pari passu* and *pro rata* without any preference or priority among the class B notes of each series but in priority to the class C notes, the class D notes, the class E notes and the class Z notes of any series;
- (iii) the class C notes of each series will rank *pari passu* and *pro rata* without any preference or priority among the class C notes of each series but in priority to the class D notes, the class E notes and the class Z notes of any series;
- (iv) the class D notes of each series will rank *pari passu* and *pro rata* without any preference or priority among the class D notes of each series but in priority to the class E notes and the class Z notes of any series;

- (v) the class E notes of each series will rank *pari passu* and *pro rata* without any preference or priority among the class E notes of each series but in priority to the class Z notes of any series; and
- (vi) the class Z notes of each series will rank *pari passu* and *pro rata* without any preference or priority among the class Z notes of each series.

(B) *Conflict between the classes of notes*

The issuer trust deed contains provisions requiring the note trustee to have regard to the interests of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and the class Z noteholders equally as regards all powers, trusts, authorities, duties and discretions of the note trustee under these Conditions or any of the programme documents (except where expressly provided otherwise), but requiring the note trustee to have regard (except as expressly provided otherwise):

- (i) for so long as there are any class A notes outstanding (of any series), only to the interests of the class A noteholders if, in the opinion of the note trustee, there is or may be a conflict between the interests of the class A noteholders and the interests of the class B noteholders and/or the interests of the class C noteholders and/or the interests of the class D noteholders and/or the interests of the class E noteholders and/or the interests of the class Z noteholders (of that series or of any other series);
- (ii) subject to (i) above and for so long as there are any class B notes outstanding (of any series), only to the interests of the class B noteholders if, in the opinion of the note trustee there is or may be a conflict between the interests of the class B noteholders and the interest of the class C noteholders and/or the interests of the class D noteholders and/or the interests of the class E noteholders and/or the interests of the class Z noteholders (of that series or of any other series);
- (iii) subject to (i) and (ii) above and for so long as there are any class C notes outstanding (of any series), only to the interests of the class C noteholders if, in the opinion of the note trustee, there is or may be a conflict between the interests of the class C noteholders and the interests of the class D noteholders and/or the interests of the class E noteholders and/or the interests of the class Z noteholders (of that series or of any other series);
- (iv) subject to (i), (ii) and (iii) above and for so long as there are any class D notes outstanding (of any series), only to the interests of the class D noteholders if, in the opinion of the note trustee, there is or may be a conflict between the interests of the class D noteholders and/or the class E noteholders and/or the interests of the class Z noteholders (of that series or of any other series); and
- (v) subject to (i), (ii), (iii) and (iv) above and for so long as there are any class E notes outstanding (of any series), only to the interests of the class E noteholders if, in the opinion of the note trustee, there is or may be a conflict between the interests of the class E noteholders and the class Z noteholders (of that series or of any other series).

The issuer trust deed also contains provisions:

- (a) limiting the powers of the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and the class Z noteholders (in each case, of any series), *inter alia*, to request or direct the note trustee to take any action or to pass an effective extraordinary resolution according to the effect thereof on the interests of the class A noteholders (of that series or of any other series). Except in certain circumstances described in Condition 11, the issuer trust deed contains no such limitation on the powers of the class A noteholders, the exercise of which will be binding on the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and the class Z noteholders respectively, irrespective of the effect thereof on their respective interests;

- (b) limiting the powers of the class C noteholders, the class D noteholders, the class E noteholders and the class Z noteholders (in each case, of any series), *inter alia*, to request or direct the note trustee to take any action or to pass an effective extraordinary resolution according to the effect thereof on the interests of the class B noteholders (of that series or of any other series). Except in certain circumstances described above and in Condition 11, the issuer trust deed contains no such limitation on the powers of the class B noteholders, the exercise of which will be binding on the class C noteholders, the class D noteholders, the class E noteholders and the class Z noteholders, respectively, irrespective of the effect thereof on their respective interests;
- (c) limiting the powers of the class D noteholders, the class E noteholders and the class Z noteholders (in each case, of any series), *inter alia*, to request or direct the note trustee to take any action or to pass an effective extraordinary resolution according to the effect thereof on the interests of the class C noteholders (of that series or of any other series). Except in certain circumstances described above and in Condition 11, the issuer trust deed contains no such limitation on the powers of the class C noteholders, the exercise of which will be binding on the class D noteholders, the class E noteholders and the class Z noteholders irrespective of the effect thereof on their respective interests; and
- (d) limiting the powers of the class E noteholders and the class Z noteholders (of any series), *inter alia*, to request or direct the note trustee to take any action or to pass an effective extraordinary resolution according to the effect thereof on the interests of the class D noteholders (of that series or of any other series). Except in certain circumstances described above and in Condition 11, the issuer trust deed contains no such limitation on the powers of the class D noteholders, the exercise of which will be binding on the class E noteholders and the class Z noteholders irrespective of the effect thereof on their respective interests; and
- (e) limiting the powers of the class Z noteholders (of any series), *inter alia*, to request or direct the note trustee to take any action or to pass an effective extraordinary resolution according to the effect thereof on the interests of the class E noteholders (of that series or of any other series). Except in certain circumstances described above and in Condition 11, the issuer trust deed contains no such limitation on the powers of the class E noteholders, the exercise of which will be binding on the class Z noteholders irrespective of the effect thereof on their respective interests.

The note trustee, in determining whether the exercise by it of any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the transaction documents will not be materially prejudicial to the interests of the noteholders (or any series and class thereof), will have regard to any ratings confirmation obtained and any other confirmation which it considers, in its sole and absolute discretion, is appropriate.

(C) *Security*

As security for, *inter alia*, the payment of all monies payable in respect of the notes, the issuer has entered into the issuer deed of charge creating the issuer security in favour of the issuer security trustee for itself and on trust for, *inter alios*, the note trustee and the noteholders.

3. **Covenants**

Save with the prior written consent of the note trustee or unless provided in or contemplated under these Conditions or any of the programme documents to which the issuer is a party, the issuer shall not, so long as any note remains outstanding:

(A) *Negative pledge*

create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future;

- (B) *Disposal of assets*
- sell, assign, transfer, lease or otherwise dispose of, or deal with, or grant any option or present or future right to acquire all or any of its properties, assets, or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do any of the foregoing;
- (C) *Equitable interest*
- permit any person other than itself and the issuer security trustee (as to itself and on behalf of the issuer secured creditors) to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;
- (D) *Bank accounts*
- have an interest in any bank account, other than an issuer bank account or an issuer swap collateral account;
- (E) *Restrictions on activities*
- carry on any business other than as described in the base prospectus (as revised, supplemented and/or amended from time to time) relating to the issue of the notes and the related activities described therein or as contemplated in the programme documents relating to the issue of the notes;
- (F) *Borrowings*
- incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or obligation of any person other than as contemplated in the programme documents;
- (G) *Merger*
- consolidate or merge with any other person or convey or transfer substantially all of its properties or assets to any other person;
- (H) *Waiver or consent*
- permit the validity or effectiveness of any of the issuer trust deed or the issuer deed of charge or the priority of the security interests created thereby to be amended, terminated, postponed, waived or discharged, or permit any other person whose obligations form part of the issuer security to be released from such obligations;
- (I) *Employees or premises*
- have any employees or premises or subsidiaries;
- (J) *Dividends and distributions*
- pay any dividend or make any other distribution to its shareholders or issue any further shares or alter any rights attaching to its shares as at the date of the issuer deed of charge other than any dividends to be paid to Holdings so as to enable Holdings to repay the issuer capitalisation loan;
- (K) *Purchase notes*
- purchase or otherwise acquire any note or notes; or
- (L) *United States activities*
- engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

4. **Interest**

(A) ***Interest on fixed rate notes***

Each fixed rate note bears interest on its principal amount outstanding from (and including) the interest commencement date at the rate(s) per annum equal to the rate(s) of interest payable, subject as provided in these Conditions, in arrear on the note payment date(s) in each year specified for such note in the applicable final terms up to (and including) the final maturity date.

Except as provided in the applicable final terms, the amount of interest payable in respect of any fixed rate note on each note payment date for a fixed interest period ending on (but excluding) such date will amount to the fixed coupon amount. Payments of interest on any note payment date will, if so specified for such note in the applicable final terms, amount to the broken amount so specified.

If interest is required to be calculated in respect of any fixed rate note for a period other than a fixed interest period, such interest shall be calculated by applying the rate of interest specified for such note in the applicable final terms to the principal amount outstanding on such note, multiplying such sum by the applicable day count fraction, and rounding the resultant figure to the nearest sub-unit of the relevant specified currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

"**Day count fraction**" means, in respect of the calculation of an amount of interest for any fixed rate note in accordance with this Condition 4(A):

- (i) if "**actual/actual (ISMA)**" is specified for such note in the applicable final terms:
  - (a) in the case of notes where the number of days in the relevant period from (and including) the most recent note payment date for such notes (or, if none, the interest commencement date for such notes) to (but excluding) the relevant note payment date for such notes (the "**accrual period**") is equal to or shorter than the determination period for such notes during which the accrual period ends, the number of days in such accrual period divided by the product of (1) the number of days in such determination period and (2) the number of determination dates (as specified for such notes in the applicable final terms) that would occur in one calendar year; or
  - (b) in the case of notes where the accrual period is longer than the determination period for such notes during which the accrual period ends, the sum of:
    - (1) the number of days in such accrual period falling in the determination period for such notes in which the accrual period begins divided by the product of (x) the number of days in such determination period and (y) the number of determination dates that would occur in one calendar year; and
    - (2) the number of days in such accrual period falling in the next determination period divided by the product of (x) the number of days in such determination period and (y) the number of determination dates (as specified for such notes in the applicable final terms) that would occur in one calendar year; and
- (ii) if "**30/360**" is specified for such note in the applicable final terms, the number of days in the period from (and including) the most recent note payment date for such note (or, if none, the interest commencement date for such note) to (but excluding) the relevant note payment date for such note (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

(B) ***Interest on floating rate notes***

(i) *Note payment dates*

Each floating rate note bears interest on its principal amount outstanding from (and including) the interest commencement date and such interest will be payable in arrear on the note payment date(s) in each year specified for such note in the applicable final terms. Such interest will be payable in respect of each floating interest period.

If a business day convention is specified for a floating rate note in the applicable final terms and (x) if there is no numerically corresponding day in the calendar month in which a note payment date should occur or (y) if any note payment date would otherwise fall on a day which is not a business day, then, if the business day convention specified is:

- (a) the "following business day convention", the note payment date for such note shall be postponed to the next day which is a business day; or
- (b) the "modified following business day convention", the note payment date for such note shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month, in which event such note payment date shall be brought forward to the immediately preceding business day; or
- (c) the "preceding business day convention", the note payment date for such note shall be brought forward to the immediately preceding business day.

(ii) *Rate of interest*

The rate of interest payable from time to time in respect of a floating rate note will be determined in the manner specified for such note in the applicable final terms.

(a) *ISDA determination for floating rate notes*

Where "**ISDA determination**" is specified for such note in the applicable final terms as the manner in which the rate of interest is to be determined, the rate of interest for each interest period will be the relevant ISDA rate plus or minus (as indicated for such note in the applicable final terms) the margin (if any). For the purposes of this sub-paragraph (a), "**ISDA rate**" for an interest period means a rate equal to the floating rate that would be determined by the agent bank or other person specified in the applicable final terms under an interest rate swap transaction if the agent bank or that other person were acting as calculation agent for that swap transaction under the terms of an agreement incorporating the ISDA definitions and under which:

- (1) the floating rate option is as specified for such note in the applicable final terms;
- (2) the designated maturity is the period specified for such note in the applicable final terms; and
- (3) the relevant reset date is either (i) if the applicable floating rate option is based on LIBOR or EURIBOR for a currency, the first day of that interest period, or (ii) in any other case, as specified for such note in the applicable final terms.

For the purposes of this sub-paragraph (a), "**floating rate**", "**calculation agent**", "**floating rate option**", "**designated maturity**" and "**reset date**" have the meanings given to those terms in the ISDA definitions.

(b) *Screen rate determination for floating rate notes*

Where "**screen rate determination**" is specified for a floating rate note in the applicable final terms as the manner in which the rate of interest is to be determined for such note, the rate of interest for each interest period will, subject as provided below, be either:

- (1) the offered quotation (if there is only one quotation on the relevant screen page); or
- (2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the reference rate which appears or appear, as the case may be, on the relevant screen page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the interest determination date in question, as determined by the agent bank, plus or minus the margin (if any). If five or more of such offered quotations are available on the relevant screen page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the agent bank for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The issuer paying agent and agent bank agreement contains provisions for determining the rate of interest pursuant to this sub-paragraph (b) in the event that the relevant screen page is not available or if, in the case of (1) above, no such offered quotation appears or, in the case of (2) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the reference rate from time to time in respect of a floating rate note is specified for such note in the applicable final terms as being other than LIBOR or EURIBOR, the rate of interest in respect of such note will be determined as provided for such note in the applicable final terms.

(iii) *Minimum rate of interest and/or maximum rate of interest*

If the applicable final terms specifies a minimum rate of interest for a floating rate note for any floating interest period, then, in the event that the rate of interest for such note in respect of such floating interest period determined in accordance with the provisions of paragraph (ii) above is less than such minimum rate of interest, the rate of interest for such note for such floating interest period shall be such minimum rate of interest.

If the applicable final terms specifies a maximum rate of interest for such note for any interest period, then, in the event that the rate of interest for such note in respect of such interest period determined in accordance with the provisions of paragraph (ii) above is greater than such maximum rate of interest, the rate of interest for such note for such interest period shall be such maximum rate of interest.

(iv) *Determination of rate of interest and calculation of interest amounts*

The agent bank will at or as soon as practicable after each time at which the rate of interest is to be determined, determine the rate of interest for the relevant interest period.

The agent bank will calculate the amount of interest payable on the floating rate notes in respect of each specified denomination (each a "**floating interest amount**") for the relevant floating interest period. Each floating interest amount shall be calculated by applying the rate of interest to the principal amount outstanding of each note, multiplying such sum by the applicable day count fraction, and rounding the resultant figure to the nearest sub-unit of the relevant specified currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

**"Day count fraction"** means, in respect of the calculation of an amount of interest for a floating rate note in accordance with this Condition 4(B)(iv) for any floating interest period:

- (a) if "**actual/365**" or "**actual/actual (ISDA)**" is specified for such note in the applicable final terms, the actual number of days in the floating interest period divided by 365 (or, if any portion of that floating interest period falls in a leap year, the sum of (A) the actual number of days in that portion of the floating interest period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the floating interest period falling in a non-leap year divided by 365);
  - (b) if "**actual/365 (fixed)**" is specified for such note in the applicable final terms, the actual number of days in the floating interest period divided by 365;
  - (c) if "**actual/365 (sterling)**" is specified for such note in the applicable final terms, the actual number of days in the floating interest period divided by 365 or, in the case of a note payment date falling in a leap year, 366;
  - (d) if "**actual/360**" is specified for such note in the applicable final terms, the actual number of days in the floating interest period divided by 360;
  - (e) if "**30/360**", "**360/360**" or "**bond basis**" is specified for such note in the applicable final terms, the number of days in the floating interest period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (a) the last day of the floating interest period is the 31st day of a month but the first day of the floating interest period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the floating interest period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
  - (f) if "**30E/360**" or "**Eurobond basis**" is specified for such note in the applicable final terms, the number of days in the floating interest period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, without regard to the date of the first day or last day of the floating interest period unless, in the case of the final interest period, the final maturity date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).
- (v) *Notification of rate of interest and interest amounts*

The agent bank will cause the rate of interest and each floating interest amount for each floating interest period and the relevant note payment date to be notified to the note trustee, the issuer security trustee, the issuer cash manager, the paying agents, the registrar and to any stock exchange or other relevant competent authority or quotation system on which the relevant floating rate notes are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with Condition 14 as soon as possible after their determination but in no event later than the fourth business day thereafter. Each floating interest amount and note payment date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the interest period. Any such amendment or alternative arrangements will be promptly notified to the note trustee and each stock exchange or other relevant authority on which the relevant floating rate notes are for the time being listed or by which they have been admitted to listing and to noteholders in accordance with Condition 14.



(vi) *Determination or calculation by note trustee*

If for any reason at any relevant time, the agent bank or, as the case may be, the calculation agent defaults in its obligation to determine the rate of interest for a floating rate note or the agent bank defaults in its obligation to calculate any floating interest amount for such note in accordance with sub-paragraph (ii) above or as otherwise specified for such note in the applicable final terms, as the case may be, and in each case in accordance with paragraph (iv) above, the note trustee may determine the rate of interest at such rate as, in its absolute discretion (having such regard as it shall think fit to the foregoing provisions of this Condition, but subject always to any minimum rate of interest or maximum rate of interest specified for such note in the applicable final terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the note trustee may calculate the interest amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the agent bank or the calculation agent, as the case may be. The note trustee shall incur no liability in making such determination.

(vii) *Certificates to be final*

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4(B), whether by the agent bank or the calculation agent or the note trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the issuer, the issuer cash manager, the principal paying agent, the calculation agent, the other paying agents, the note trustee and all noteholders and (in the absence of wilful default or bad faith) no liability to the issuer or the noteholders shall attach to the agent bank or the calculation agent or the note trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

(C) *Accrual of interest*

Interest (if any) will cease to accrue on each note (or in the case of the redemption of part only of a note, that part only of such note) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue as provided in the issuer trust deed.

(D) *Deferred interest*

To the extent that, subject to and in accordance with the relevant issuer priority of payments, the funds available to the issuer to pay interest on any series and class of notes (other than each series and class of notes that is then the most senior class of notes then outstanding) on a note payment date (after discharging the issuer's liabilities of a higher priority and subject to and in accordance with the relevant issuer priority of payments) are insufficient to pay the full amount of such interest, payment of the shortfall attributable to such series and class of notes ("**deferred interest**") will not then fall due but will instead be deferred until the first note payment date for such notes thereafter on which sufficient funds are available (after allowing for the issuer's liabilities of a higher priority and subject to and in accordance with the relevant issuer priority of payments) to fund the payment of such deferred interest to the extent of such available funds.

Such deferred interest will accrue interest ("**additional interest**") at the rate of interest applicable from time to time to the applicable series and class of notes and payment of any additional interest will also be deferred until the first note payment date for such notes thereafter on which funds are available (after allowing for the issuer's liabilities of a higher priority subject to and in accordance with the relevant issuer priority of payments) to the issuer to pay such additional interest to the extent of such available funds.

Amounts of deferred interest and additional interest shall not be deferred beyond the final maturity date of the applicable series and class of notes, when such amounts will become due and payable.

Payments of interest due on a note payment date in respect of each series and class of notes that is then the most senior class of notes then outstanding will not be deferred. In the event of the delivery of an issuer enforcement notice (as described in Condition 9), the amount of interest in respect of such notes that was due but not paid on such note payment date will itself bear interest at the rate of interest applicable from time to time to such notes until both the unpaid interest and the interest on that interest are paid as provided in the issuer trust deed.

5. **Redemption, purchase and cancellation**

(A) ***Final redemption***

Unless previously redeemed in full as provided in this Condition 5, the issuer shall redeem a series and class of notes at their then principal amount outstanding together with all accrued interest on the final maturity date in respect of such notes.

The issuer may not redeem such notes in whole or in part prior to their final maturity date except as provided in Conditions 5(B), (D) or (E) below, but without prejudice to Condition 9.

(B) ***Mandatory redemption of the notes in part***

On each note payment date, other than a note payment date on which a series and class of notes are to be redeemed under Conditions 5(A), (D) or (E), the issuer shall repay principal in respect of such notes in an amount equal to:

- (i)
  - (a) prior to the earlier to occur of the step-up date (if any) in respect of such notes and a pass-through trigger event (and subject to the terms of the issuer deed of charge regarding the funding, replenishment and application of the issuer reserve fund) the lower of:
    - (1) the amount due to be paid on such note payment date as specified for such notes in the applicable final terms; and
    - (2) the amount (if any) repaid in respect of the related loan tranche pursuant to the terms of the global intercompany loan agreement and which is available, pursuant to the terms of the issuer deed of charge and the issuer cash management agreement to repay principal in respect of such notes converted, where the specified currency for such notes is not sterling, into the specified currency at the specified currency exchange rate for such notes;provided that, in the case of any series and class of pass-through notes, the amount of principal to be repaid by the issuer in respect of such notes on the applicable note payment date shall be calculated in accordance with sub-paragraph (2) above; or
  - (b) following the earlier to occur of the step-up date (if any) in respect of such notes and a pass-through trigger event (whereupon each following monthly payment date shall constitute a note payment date) and subject to the terms of the issuer deed of charge regarding the funding, replenishment and application of the issuer Reserve Fund, the amount (if any) repaid on the corresponding loan payment date in respect of the related loan tranche pursuant to the terms of the global intercompany loan agreement and which is available, pursuant to the terms of the issuer deed of charge and the issuer cash management agreement converted, where the specified currency for such notes is not sterling, into the specified currency at the specified currency exchange rate for such notes; and
- (ii) the amount standing to the credit of the issuer reserve fund which is available (subject to the terms of the issuer deed of charge) to repay principal in respect of such notes converted, where the specified currency for such notes is not sterling, into sterling at the specified currency exchange rate for such notes.

To the extent that there are insufficient funds available to the issuer to repay the amount due to be paid on such note payment date, the issuer will be required to repay the shortfall, to the extent that it receives funds therefor (and subject to the terms of the issuer deed of charge and the issuer cash management agreement) on subsequent note payment dates in respect of such notes.

(C) ***Note principal payments and principal amount outstanding***

The principal amount redeemable (the "**note principal payment**") in respect of each note of a particular series and class of notes on any note payment date under Condition 5(B) above shall be a proportion of the amount required as at that note payment date to be applied in redemption of such series and 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 series and class of notes rounded down to the nearest sub-unit of the specified currency; provided always that no such note principal payment may exceed the principal amount outstanding of the relevant note.

On each note determination date the issuer shall determine (or cause the issuer cash manager to determine) (i) the amount of any note principal payment payable in respect of each note of the relevant series and class of notes on the immediately following note payment date and (ii) the principal amount outstanding of each such note which shall be the specified denomination less the aggregate amount of all note principal payments in respect of such note that have been paid since the closing date for such series and class of notes and on or prior to that note determination date (the "**principal amount outstanding**") and (iii) the fraction expressed as a decimal to the fifth decimal point (the "**pool factor**"), of which the numerator is the principal amount outstanding of that note (as referred to in (ii) above) and the denominator is the specified denomination. Each determination by or on behalf of the issuer of any note principal payment of a note, the principal amount outstanding of a note and the pool factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The issuer will cause each determination of the note principal payment, the principal amount outstanding and the pool factor in respect of a series of class of notes to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the business day immediately succeeding the note determination date, to the note trustee, the issuer security trustee, the paying agents, the registrar, the agent bank and (for so long as such notes are listed on one or more stock exchanges) the relevant stock exchanges, and will cause notice of each determination of the note principal payment and the principal amount outstanding to be given to noteholders in accordance with Condition 14 by no later than the business day after the relevant note payment date.

If the issuer does not at any time for any reason determine (or cause the issuer cash manager to determine) a note principal payment or the principal amount outstanding in accordance with the preceding provisions of this paragraph, such note principal payment and/or principal amount outstanding may be determined by the note trustee in accordance with this Condition 5(C) in the manner the note trustee in its discretion considers fair and reasonable in the circumstances, having regard to this Condition 6(C), and each such determination or calculation shall be deemed to have been made by the issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the issuer, the issuer cash manager and the noteholders. The note trustee shall incur no liability in making such determination.

(D) ***Optional redemption in full***

Subject to the provisos below, upon giving not more than 60 nor less than 30 days' prior notice to the note trustee and the noteholders in accordance with Condition 14, the issuer may redeem a series and class of notes at their aggregate redemption amount together with any accrued and unpaid interest in respect thereof on the following dates:

- (i) the date specified as the step-up date for such notes in the applicable final terms and on any note payment date for such notes thereafter; or

- (ii) on such note payment date on which the aggregate principal amount outstanding of such notes and all other classes of notes of the same series is less than 10 per cent. of the aggregate principal amount outstanding of such series of notes as at the closing date for such series of notes; or
- (iii) on any date provided that all the noteholders of such notes have given prior written consent to such redemption,

PROVIDED THAT (in any of the cases above), the issuer shall have provided to the note trustee a certificate signed by two directors of the issuer to the effect that (a) it will have the funds, not subject to any interest of any other person, required to redeem such notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such notes (in the case of a redemption of notes in accordance with (iii) above, where the date of redemption of the notes is not a note payment date, on the proposed date of redemption of such notes and on the note payment date immediately following such date (in the case of the relevant note payment date, on the assumption that such notes are redeemed on such note payment date)) pursuant to the terms of the issuer deed of charge and the issuer cash management agreement, and (b) the repayment tests will be satisfied following the making of such redemptions (in the case of a redemption of notes in accordance with (iii) above, where the date of redemption of the notes is not a note payment date, on the proposed date of redemption of such notes and on the note payment date immediately following such date (in the case of the relevant note payment date, on the assumption that such notes are redeemed on such note payment date)).

(E) ***Optional redemption for tax and other reasons***

If, at any time, the issuer satisfies the note trustee immediately prior to the giving of the notice referred to below that, on the next note payment date for a series and class of notes, either:

- (i) the issuer would be required to deduct or withhold from any payment of principal or interest or any other amount under such notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; or
- (ii) Funding would be required to deduct or withhold from any payment of principal or interest or any other amount due in respect of the loan tranche under the global intercompany loan agreement which was funded by such notes any amount on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; and
- (iii) in relation to either the events described in (i) and (ii) above, such obligation of the issuer or Funding (as the case may be) cannot be avoided by the issuer or Funding (as the case may be) taking reasonable measures available to it,

then the issuer shall use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the note trustee as principal debtor under such notes and/or as lender of such loan tranche as the case may be, upon the note trustee being satisfied that such substitution will not be materially prejudicial to the noteholders, and upon the issuer security trustee being satisfied that (1) that the position of the issuer secured creditors will not thereby be adversely affected, and (2) that such substitution would not require registration of any new security under United States securities laws or would materially increase the disclosure requirements under United States law or the costs of issuance. Only if the issuer is unable to arrange a substitution will the issuer be entitled to redeem the notes as described in this Condition 5(E).

Subject to the proviso below, if the issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in (i) or (ii) above (as the case may be) is continuing, then the issuer may, having given not more than 60 nor less than 30 days' notice to the note trustee, the relevant issuer swap providers and the noteholders in accordance with Condition 14, redeem all (but not some only) of such notes on the immediately succeeding note payment date for such notes at their aggregate redemption amount together with any accrued and

unpaid interest in respect thereof provided that (in either case), prior to giving any such notice, the issuer shall have provided to the note trustee:

- (a) a certificate signed by two directors of the issuer stating the circumstances referred to in (i) or (ii) and (iii) above prevail and setting out details of such circumstances; and
- (b) an opinion in form and substance satisfactory to the note trustee of independent legal advisors of recognised standing to the effect that the issuer has or will become obliged to make such deductions.

The note trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in (i) or (ii) and (iii) above, in which event they shall be conclusive and binding on the noteholders. The issuer may only redeem such notes as aforesaid, if the issuer shall have provided to the note trustee a certificate signed by two directors of the issuer to the effect that (a) it will have the funds, not subject to any interest of any other person, required to redeem such notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such notes pursuant to the terms of the issuer deed of charge and the issuer cash management agreement, and (b) the repayment tests will be satisfied following the making of such redemptions.

In addition to the foregoing, if at any time it becomes unlawful for the issuer to make, fund or allow to remain outstanding a loan tranche made pursuant to the terms of the global intercompany loan agreement, then the issuer may require Funding to repay such loan tranche on any loan payment date pursuant to the terms of the global intercompany loan agreement to the extent necessary to cure such illegality and the issuer may, having given not more than 60 nor less than 30 days' notice to the note trustee, the relevant issuer swap providers and the noteholders in accordance with Condition 14, redeem all (but not some only) on the immediately succeeding note payment date for such notes at their aggregate redemption amount together with any accrued and unpaid interest in respect thereof. The issuer may only redeem the notes as aforesaid if the issuer shall have provided to the note trustee a certificate signed by two directors of the issuer to the effect that (a) it will have the funds, not subject to any interest of any other person, required to redeem such notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such notes pursuant to the terms of the issuer deed of charge and the issuer cash management agreement, and (b) the repayment tests will be satisfied following the making of such redemptions.

(F) ***Money market note mandatory transfer arrangements***

- (i) Where the money market note mandatory transfer arrangements are specified in the applicable final terms as being applicable to a series and class of money market notes, such notes shall be transferred in accordance with sub-paragraphs (ii) to (iv) below on any money market note mandatory transfer date for such notes in exchange for payment of the money market note mandatory transfer price for such notes, provided that the issuer shall not be liable for the failure to make payment of such money market note mandatory transfer price to the extent that such failure is a result of the failure of the applicable remarketing agent or the applicable conditional note purchaser to perform their respective obligations under the applicable remarketing agreement, the applicable conditional note purchase agreement or the issuer trust deed.
- (ii) There will be no mandatory transfer of a series and class of money market notes on an money market note mandatory transfer date for such notes if:
  - (a) such notes are fully redeemed or a notice has been given to the holders of such notes accordance with Condition 5(D) (optional redemption in full) or Condition 5(E) (optional redemption for tax and other reasons) on or prior to such money market note mandatory transfer date; or
  - (b) an automatic remarketing termination event in relation to such notes has occurred prior to such money market note mandatory transfer date.

In the event of the occurrence of any of the events in sub-paragraphs (ii)(A) or (ii)(B) above, the issuer will not be obliged to procure any subsequent purchase of such notes, the applicable remarketing agent will not be obliged to remarket any of such notes and the applicable conditional note purchaser will not be obliged to purchase any of such notes.

For the avoidance of doubt, following occurrence of any of the events in sub-paragraphs (ii)(a) or (ii)(b) above, the margin payable on such notes will be the then current money market note reset margin for such notes.

- (iii) Following the occurrence of an optional remarketing termination event in relation to a series and class of money market notes, the applicable remarketing agent will have the option to terminate its remarketing obligations under the applicable remarketing agreement. Following termination of its remarketing obligations, in the absence of an automatic remarketing termination event referred to in sub-paragraph (ii) above in relation to such notes, the remarketing agent will still be obliged under the applicable remarketing agreement, if required by the issuer, to facilitate the transfer and settlement of such notes.

For the avoidance of doubt, the obligations of the applicable conditional note purchaser, under the applicable conditional note purchase agreement to purchase the unplaced notes (of a series and class of money market notes) on a money market note mandatory transfer date for such notes will not be affected by the occurrence of an optional remarketing termination event in relation to such notes, and the maximum reset margin for such notes will be applicable to such notes from and including the applicable money market note mandatory transfer date.

- (iv) Subject to sub-paragraphs (i), (ii) and (iii) above, all of the applicable noteholders' interests in a series and class of money market notes shall be transferred on the applicable money market note mandatory transfer date for such notes either as directed by the applicable remarketing agent and/or to the applicable conditional note purchaser, or, if individual note certificates are then issued, such notes will be registered by the registrar as notified by or on behalf of the applicable remarketing agent and the register will be amended accordingly with effect from the applicable money market note mandatory transfer date.

(G) ***Mandatory transfer of maturity purchase notes***

- (i) Each series and class of the maturity purchase notes shall, subject to paragraphs (ii) and (iv) below and the provisions of the relevant conditional maturity purchase note deed, be transferred in accordance with paragraph (iii) below on the relevant transfer date in exchange for payment of the relevant maturity purchase price by the maturity purchaser to the holders of such series and class of maturity purchase notes on the relevant transfer date.
- (ii) If the issuer fails to redeem any maturity purchase notes in full on the expected maturity date (or within 3 business days thereof) then, subject to the terms of the relevant conditional maturity purchase note deed, the maturity purchaser agrees to purchase on the transfer date, at the maturity purchase price all, but not some only, of the outstanding maturity purchase notes held by a holder of maturity purchase notes and in respect of which a valid transfer instruction or tender instruction, as the case may be, has been delivered to the relevant clearing system or the registrar (as relevant), provided that no note event of default has occurred which is continuing on the transfer date.
- (iii) In respect of any series and class of maturity purchase notes outstanding following the expected maturity date the issuer will (a) give notice (which notices shall be irrevocable) on the business day following the loss calculation date to the holder(s) of any maturity purchase notes via Euroclear and Clearstream, Luxembourg of the maturity purchaser's intention to purchase the maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (an "**EC/CS Notice to Purchase**"), (b) instruct the DTC Tender Agent to give notice (which notices shall be irrevocable) on the business

day following the loss calculation date to the holder(s) of any maturity purchase notes via DTC of the maturity purchaser's intention to purchase such maturity purchase notes on the transfer date for cash at a price equal to the maturity purchase price (a "**DTC Notice to Purchase**"), and (c) make a corresponding announcement via the London Stock Exchange and Bloomberg.

- (iv) A holder of any maturity purchase notes has the right (but not the obligation) to elect to have all, but not some only, of its maturity purchase notes purchased by the maturity purchaser on the transfer date. A holder of any maturity purchase note may exercise its right to have its maturity purchase notes purchased by the maturity purchaser on the transfer date (i) in the case of maturity purchase notes held in Euroclear and Clearstream, Luxembourg, by giving a transfer instruction (which shall be irrevocable) via Euroclear or Clearstream, Luxembourg (as applicable) no later than 4:00 p.m. (London time) on the Business Day that is 5 Business Days prior to (but excluding) the transfer date (or such earlier deadline set by any relevant intermediary or clearing system) and (ii) in the case of maturity purchase notes held in DTC, by instructing the DTC tender agent to deliver instructions to DTC in accordance with the usual procedures of DTC acknowledging acceptance of the maturity purchaser's offer to buy the maturity purchase notes (a tender instruction) (which shall be irrevocable) no later than 4:00 p.m. (New York time) on the business day that is 5 business days prior to (but excluding) the transfer date (or such earlier deadline set by any relevant intermediary or clearing system).
- (v) The principal paying agent shall arrange on the transfer date for an amount equal to the aggregate maturity purchase price received from the maturity purchaser to be credited (via Euroclear, Clearstream, Luxembourg, DTC or the registrar, as the case may be) to the accounts of the holder(s) of any maturity purchase notes that have delivered a transfer instruction or tender instruction, as the case may be, in accordance with paragraph (iv) above.
- (vi) Subject to paragraphs (i) and (iv) above, all the holders' interests in a series and class of maturity purchase notes specified in any valid transfer instruction or tender instruction in accordance with paragraph (iv) above shall be transferred on the relevant transfer date to the account of the maturity purchaser or as otherwise notified by the maturity purchaser prior to such date. For the avoidance of doubt, the holders of interests in a series and class of maturity purchase notes which are transferred in accordance with this Condition 5(G) shall, following such transfer, have no further claim or rights against the issuer in respect of such transferred notes.
- (vii) Notwithstanding the provisions of this Condition 5(G) where definitive notes have been issued in respect of any maturity purchase notes or if the relevant clearing system ceases to offer the relevant mechanisms to enable the purchase and settlement of the maturity purchase notes as provided for in this Condition 5(G), the maturity purchaser will purchase the relevant maturity purchase notes on the later of (i) the relevant scheduled transfer date and (ii) the date (the "deferred transfer date") which is the earlier of (A) the date that is 5 business days after the date on which the parties to the conditional maturity purchase note deed agree a procedure by which the purchase can occur and (B) 60 days after the scheduled transfer date.

(H) ***Redemption amounts***

For the purposes of this Condition 5, "**redemption amount**" means, in respect of any series and class of notes, the amount specified in relation to such notes in the applicable final terms or, if not so specified, and in respect of any note, the principal amount outstanding of such note.

6. **Payments**

(A) ***Payment of interest and principal***

Payments of principal shall be made by transfer to a designated account maintained by the payee with a designated bank and (in the case of final redemption) upon surrender (or, in the case of

part payment only, endorsement) of the relevant note certificates at the specified office of any paying agent.

Payments of interest shall be made by transfer to a designated account maintained by the payee with a designated bank and (in the case of interest payable on final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant note certificates at the specified office of any paying agent.

(B) ***Laws and regulations***

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

(C) ***Payment of interest following a failure to pay principal***

If payment of principal is improperly withheld or refused on or in respect of any note or part thereof, the interest which continues to accrue in respect of such note in accordance with Condition 4(D) will be paid in accordance with this Condition 6.

(D) ***Change of agents***

The initial principal paying agent, each other initial paying agent, the registrar and the transfer agent and their respective initial specified offices are listed at the end of these Conditions. The issuer reserves the right, subject to the prior written approval of the note trustee, at any time to vary or terminate the appointment of the principal paying agent, any other paying agent, the registrar and/or the transfer agent and to appoint additional or other paying agents. The issuer will at all times maintain a paying agent with a specified office in London and a registrar. Except where otherwise provided in the issuer trust deed, the issuer will cause at least 30 days' notice of any change in or addition to the paying agents, the transfer agent or the registrar or their specified offices to be given in accordance with Condition 14 and will notify the rating agencies of such change or addition.

(E) ***No payment on non-business day***

Where payment is to be made by transfer to a designated account, payment instructions (for value the due date or, if the due date is not a business day, for value the next succeeding business day) will be initiated and a holder of a note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day.

(F) ***Partial payment***

If a paying agent makes a partial payment in respect of any note, the issuer shall procure and the registrar will ensure 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 certificate, that a statement indicating the amount and date of such payment is endorsed on the relevant note certificate and, in the case of a global note held in the NSS, the registrar or principal paying agent, as the case may be, shall instruct the ICSDs to make appropriate entries in their records to reflect the amount of such payment and, in the case of a payment of principal, the remaining principal amount outstanding of a global note.

(G) ***Record date***

Each payment in respect of a global note will be made to the persons shown as the holder in the register at the close of business in the place of the ICSDs on the day before the due date for such payment (the "**record date**").

(H) ***Payment of interest***

Subject as provided otherwise in these Conditions, if interest is not paid in respect of a note of any class on the date when due and payable (other than because the due date is not a business



day) or by reason of non-compliance with Condition 6(A), then such unpaid interest shall itself bear interest at the rate of interest applicable from time to time to such note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with Condition 14.

7. **Prescription**

Claims against the issuer for payment of interest and principal on redemption shall be prescribed and become void if the relevant note certificates are not surrendered for payment within a period of 10 years from the relevant date in respect thereof. After the date on which a payment under a note becomes void in its entirety, no claim may be made in respect thereof. In this Condition 7, the "**relevant date**", in respect of a payment under a note, is the date on which the payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of those payments under all the notes due on or before that date has not been duly received by the principal paying agent or the note trustee on or prior to such date) the date on which the full amount of such monies having been so received or notice to that effect is duly given to noteholders in accordance with Condition 14.

8. **Taxation**

All payments in respect of the notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the issuer or any relevant paying agent is required by applicable law to make any payment in respect of the notes subject to any such withholding or deduction. In that event, the issuer or such paying agent shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. No paying agent nor the issuer will be obliged to make any additional payments to noteholders in respect of such withholding or deduction.

The occurrence of the issuer or any paying agent being required to make a withholding or deduction in the circumstances outlined in the previous paragraph shall not constitute a note event of default.

The issuer will treat the Rule 144A notes (other than the Rule 144A notes that are class Z notes) as indebtedness for US federal income tax purposes. Each holder of a Rule 144A note (other than a Rule 144A note that is a class Z note), by the acceptance thereof, agrees to treat such Rule 144A note as indebtedness for US federal income tax purposes.

9. **Events of default**

(A) ***Class A noteholders***

The note trustee, in its absolute discretion, may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount outstanding of the class A notes (which for this purpose and the purpose of any extraordinary resolution referred to in this Condition 9(A) means the class A notes of all series of notes constituted by the issuer trust deed) or if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the class A notes, shall), subject in each case to being indemnified, secured and/or prefunded to its satisfaction, deliver notice (a "**class A issuer enforcement notice**") to the issuer, the issuer security trustee and the Funding security trustee of a note event of default (as defined below) declaring (in writing) the class A notes and all other notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events, which is continuing or unwaived:

- (i) default being made for a period of seven business days in the payment of any amount of principal of the class A notes of any series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three business days in the payment of any amount of interest on the class A notes of any series when and as the same ought to be paid in accordance with these Conditions; or
- (ii) the issuer failing duly to perform or observe, in any material respect, any other obligation binding upon it under the class A notes of any series, the issuer trust deed, the

issuer deed of charge or any other programme document and, in any such case (except where the note trustee certifies that, in its opinion, such failure is incapable of remedy, in which case no notice will be required), such failure is continuing unremedied for a period of 30 days following the service by the note trustee on the issuer of notice requiring the same to be remedied and the note trustee has certified that the failure to perform or observe is materially prejudicial to the interests of the holders of the class A notes of such series; or

- (iii) the issuer, otherwise than for the purposes of such amalgamation or reconstruction or merger as is referred to in sub-paragraph (iv) below, ceases or threatens to cease to carry on its business or a substantial part of its business or the issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended, modified or re-enacted); or
- (iv) an order being made or an effective resolution being passed for the winding-up of the issuer, except a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have previously been approved by the note trustee in writing or by an extraordinary resolution of the holders of the class A notes; or
- (v) proceedings being otherwise initiated against the issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition or the making of an application for administration or the filing of documents with the court for an administration) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the opinion of the note trustee, being disputed in good faith with a reasonable prospect of success, a formal notice is given of intention to appoint an administrator in relation to the issuer or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the issuer or in relation to the whole or any substantial part of the undertaking or assets of the issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally or a composition or similar arrangement with the creditors or takes steps with a view to obtaining a moratorium in respect of its indebtedness, including without limitation, the filing of documents with the court; or
- (vi) a Funding enforcement notice being delivered by the Funding security trustee to Funding pursuant to the terms of any Funding intercompany loan agreement while the class A notes of any series are outstanding,

provided that, for the avoidance of doubt, a failure to make or produce any payment required by Condition 5(G) by reason of any failure on the part of any remarketing agent or any conditional note purchaser to perform its respective obligations under the programme documents shall not constitute a note event of default

(B) ***Class B noteholders***

This Condition 9(B) shall have no effect if, and for as long as, any class A notes of any series are outstanding. Subject thereto, for so long as any class B notes are outstanding, the note trustee, in its absolute discretion, may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount outstanding of the class B notes (which for this purpose and the purpose of any extraordinary resolution referred to in this Condition 9(B) means the class B notes of all series of notes constituted by the issuer trust deed) or if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the class B notes, shall), subject in each case to being indemnified and/or secured to its satisfaction, deliver notice (a "**class B issuer enforcement notice**") to the issuer, the issuer security trustee and the Funding security

trustee of a note event of default (as defined below) declaring (in writing) the class B notes and all other notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events, which is continuing or unwaived:

- (a) default being made for a period of seven business days in the payment of any amount of principal of the class B notes of any series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three business days in the payment of any amount of interest on the class B notes of any series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in Condition 9(A)(ii), (iii), (iv), (v) or (vi) above provided that the references in Condition 9(A)(ii), Condition 9(A) (iv) and Condition 9(A)(vi) to class A notes shall be read as references to class B notes.

(C) ***Class C noteholders***

This Condition 9(C) shall have no effect if, and for as long as, any class A notes or class B notes of any series are outstanding. Subject thereto, for so long as any class C notes are outstanding, the note trustee in its absolute discretion, may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount outstanding of the class C notes (which for this purpose and the purpose of any extraordinary resolution referred to in this Condition 9(C) means the class C notes of all series of notes constituted by the issuer trust deed) or if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the class C notes, shall), subject in each case to being indemnified and/or secured to its satisfaction, deliver notice (a "**class C issuer enforcement notice**") to the issuer, the issuer security trustee and the Funding security trustee of a note event of default (as defined below) declaring (in writing) the class C notes and all other notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events, which is continuing or unwaived:

- (a) default being made for a period of seven business days in the payment of any amount of principal of the class C notes of any series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three business days in the payment of any amount of interest on the class C notes of any series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in Condition 9(A)(ii), (iii), (iv), (v) or (vi) above provided that the references in Condition 9(A)(ii), Condition 9(A)(iv) and Condition 9(A)(vi) to class A notes shall be read as references to class C notes.

(D) ***Class D noteholders***

This Condition 9(D) shall have no effect if, and for as long as, any class A notes, class B notes or class C notes of any series are outstanding. Subject thereto, for so long as any class D notes are outstanding, the note trustee in its absolute discretion, may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount outstanding of the class D notes (which for this purpose and the purpose of any extraordinary resolution referred to in this Condition 9(D) means the class D notes of all series of notes constituted by the issuer trust deed) or if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the class D notes, shall), subject in each case to being indemnified and/or secured to its satisfaction, deliver notice (a "**class D issuer enforcement notice**") to the issuer, the issuer security trustee and the Funding security trustee of a note event of default (as defined below) declaring (in writing) the class D notes and all other notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events, which is continuing or unwaived:

- (a) default being made for a period of seven business days in the payment of any amount of principal of the class D notes of any series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three business days in the payment of any amount of interest on the class D notes of any series when and as the same ought to be paid in accordance with these Conditions; or

- (b) the occurrence of any of the events in Condition 9(A)(ii), (iii), (iv), (v) or (vi) above provided that the references in Condition 9(A)(ii), Condition 9(A)(iv) and Condition 9(A)(vi) to class A notes shall be read as references to class D notes.

(E) ***Class E noteholders***

This Condition 9(E) shall have no effect if, and for as long as, any class A notes, class B notes, class C notes or class D notes of any series are outstanding. Subject thereto, for so long as any class D notes are outstanding, the note trustee in its absolute discretion, may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount outstanding of the class E notes (which for this purpose and the purpose of any extraordinary resolution referred to in this Condition 9(E) means the class E notes of all series of notes constituted by the issuer trust deed) or if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the class E notes, shall), subject in each case to being indemnified and/or secured to its satisfaction, deliver notice (a "**class E issuer enforcement notice**") to the issuer, the issuer security trustee and the Funding security trustee of a note event of default (as defined below) declaring (in writing) the class E notes and all other notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events, which is continuing or unwaived:

- (a) default being made for a period of seven business days in the payment of any amount of principal of the class E notes of any series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three business days in the payment of any amount of interest on the class E notes of any series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in Condition 9(A)(ii), (iii), (iv), (v) or (vi) above provided that the references in Condition 9(A)(ii), Condition 9(A)(iv) and Condition 9(A)(vi) to class A notes shall be read as references to class E notes.

(F) ***Class Z noteholders***

This Condition 9(F) shall have no effect if, and for as long as, any class A notes, class B notes, class C notes, class D notes or class E notes of any series are outstanding. Subject thereto, for so long as any class Z notes are outstanding, the note trustee in its absolute discretion, may (and if so requested in writing by the holders of not less than 25 per cent. in aggregate principal amount outstanding of the class Z notes (which for this purpose and the purpose of any extraordinary resolution referred to in this Condition 9(F) means the class Z notes of all series of notes constituted by the issuer trust deed) or if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the class Z notes, shall), subject in each case to being indemnified and/or secured to its satisfaction, deliver notice (a "**class Z issuer enforcement notice**") to the issuer, the issuer security trustee and the Funding security trustee of a note event of default (as defined below) declaring (in writing) the class Z notes and all other notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events, which is continuing or unwaived:

- (a) default being made for a period of seven business days in the payment of any amount of principal of the class Z notes of any series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three business days in the payment of any amount of interest on the class Z notes of any series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in Condition 9(A)(ii), (iii), (iv), (v) or (vi) above provided that the references in Condition 9(A)(ii), Condition 9(A)(iv) and Condition 9(A)(vi) to class A notes shall be read as references to class Z notes.

(G) ***Following service of an issuer enforcement notice***

For the avoidance of doubt, upon any issuer enforcement notice being given by the note trustee in accordance with Condition 9(A), (B), (C), (D), (E) or (F) all notes shall immediately become due, without further action or formality at their principal amount outstanding together with accrued

interest (or, in the case of a zero coupon note, at its redemption amount, calculated in accordance with Condition 5(G)).

10. **Enforcement of notes**

(A) ***Enforcement***

The note trustee may, at its discretion and without notice at any time and from time to time, take such steps and institute such proceedings against the issuer or any other person as it may think fit to enforce the provisions of the notes, the issuer trust deed (including these Conditions) or any of the other programme documents to which it is a party and may, at its discretion and without notice, at any time after the issuer security has become enforceable (including after the service of an issuer enforcement notice in accordance with Condition 9), instruct the issuer security trustee to take such steps as it may think fit to enforce the issuer security. The note trustee shall not be bound to take such steps or institute such proceedings unless:

- (i) (subject in all cases to restrictions contained in the issuer trust deed to protect the interests of any higher ranking class of noteholders) it shall have been so directed by an extraordinary resolution of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders or the class Z noteholders or so requested in writing by the holders of at least one quarter in aggregate principal amount outstanding of the class A notes, class B notes, class C notes, class D notes, class E notes or class Z notes; and
- (ii) it shall have been indemnified, secured and/or prefunded to its satisfaction.

The issuer security trustee shall not be bound to take such steps or take any such other action unless it is so directed by the note trustee and indemnified and/or secured to its satisfaction.

Amounts available for distribution after enforcement of the issuer security shall be distributed in accordance with the terms of the issuer deed of charge.

No noteholder may institute any proceedings against the issuer to enforce its rights under or in respect of the notes, the issuer trust deed, the issuer deed of charge or any other programme document unless (1) the note trustee or the issuer security trustee, as applicable, has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound and (2) such failure is continuing; provided that, no class B noteholder, class C noteholder, class D noteholder, class E noteholder or class Z noteholder will be entitled to commence proceedings for the winding up or administration of the issuer unless there are no outstanding notes of a class with higher priority, or if notes of a class with higher priority are outstanding, there is consent of noteholders of not less than one quarter of the aggregate principal amount of the notes outstanding (as defined in the issuer trust deed) of the class or classes of notes with higher priority. Notwithstanding the foregoing and notwithstanding any other provision of the issuer trust deed, the right of any noteholder to receive payment of principal and interest on its notes on or after the due date for such principal or interest, or to institute suit for the enforcement of payment of that principal or interest, may not be impaired or affected without the consent of that noteholder.

(B) ***Limited Recourse***

If at any time following:

- (a) the occurrence of either:
  - (1) the final maturity date or any earlier date upon which all of the notes of each class are due and payable; or
  - (2) the delivery by the note trustee of an issuer enforcement notice; and
- (b) realisation of the issuer charged property and application in full of any amounts available to pay amounts due and payable under the notes in accordance with the applicable issuer priority of payments,

the proceeds of such realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable issuer priority of payments, to pay in full all amounts then due and payable in respect of any class of notes then the amount remaining to be paid (after such application in full of the amounts first referred to in paragraph (b) above) in respect of 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 paragraph (b) above, cease to be due and payable by the issuer. "**Realisation**" means in relation to any issuer charged property, the deriving to the fullest extent practicable, of proceeds from or in respect of such issuer charged property including (without limitation) through sale or through performance by an obligor.

None of the noteholders, the note trustee, the issuer security trustee or any other secured creditor (nor any other person acting on behalf of any of them) shall be entitled at any time to institute against the issuer or its directors, officers, successors or assigns, or join in any institution against the issuer of, any bankruptcy, examinership, reorganisation, arrangement, insolvency, winding up or liquidation proceedings or for the appointment of a liquidator, administrator, receiver or any other insolvency official in relation to the issuer or in relation to the whole or any substantial part of the undertakings of the issuer.

11. **Meetings of noteholders, modifications and waiver**

(A) ***Meetings of noteholders***

The issuer trust deed contains provisions for convening meetings of noteholders to consider any matter affecting their interests, including the sanctioning by extraordinary resolution of a modification of any provision of these Conditions or the provisions of any of the transaction documents.

(1) *Class A notes*

In respect of the class A notes, the issuer trust deed provides that, subject to Condition 11(A)(6) and Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class A notes of one series only shall be deemed to have been duly passed if passed at a meeting of the holders of the class A notes of that series;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class A notes of any two or more series but does not give rise to a conflict of interest between the holders of such two or more series of class A notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of such two or more series of class A notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class A notes of any two or more series and gives or may give rise to a conflict of interest between the holders of such two or more series of class A notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such two or more series of class A notes, it shall be passed at separate meetings of the holders of such two or more series of class A notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the holders of the class A notes of one series and the holders of the class A notes of another series or group of series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of class A notes subject to the conflict.

(2) *Class B notes*

In respect of the class B notes, the issuer trust deed provides that, subject to Condition 11(A)(6) and Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class B notes of one series only shall be deemed to have been duly passed if passed at a meeting of the holders of the class B notes of that series;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class B notes of any two or more series but does not give rise to a conflict of interest between the holders of such two or more series of class B notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of such two or more series of class B notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class B notes of any two or more series and gives or may give rise to a conflict of interest between the holders of such two or more series of class B notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such two or more series of class B notes, it shall be passed at separate meetings of the holders of such two or more series of class B notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the holders of the class B notes of one series and the holders of the class B notes of another series or group of series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of class B notes subject to the conflict.

(3) *Class C notes*

In respect of the class C notes, the issuer trust deed provides that, subject to Condition 11(A)(6) and Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class C notes of one series only shall be deemed to have been duly passed if passed at a meeting of the holders of the class C notes of that series;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class C notes of any two or more series but does not give rise to a conflict of interest between the holders of such two or more series of class C notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of such two or more series of class C notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class C notes of any two or more series and gives or may give rise to a conflict of interest between the holders of such two or more series of class C notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such two or more series of class C notes, it shall be passed at separate meetings of the holders of such two or more series of class C notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the holders of the class C notes of one series and the holders of the class C notes of another series or group of series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of class C notes subject to the conflict.

(4) *Class D notes*

In respect of the class D notes, the issuer trust deed provides that, subject to Condition 11(A)(6) and Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class D notes of one series only shall be deemed to have been duly passed if passed at a meeting of the holders of the class D notes of that series;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class D notes of any two or more series but does not give rise to a conflict of interest between the holders of such two or more series of class D notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of such two or more series of class D notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class D notes of any two or more series and gives or may give rise to a conflict of interest between the holders of such two or more series of class D notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such two or more series of class D notes, it shall be passed at separate meetings of the holders of such two or more series of class D notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the holders of the class D notes of one series and the holders of the class D notes of another series or group of series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of class D notes subject to the conflict.

(5) *Class E notes*

In respect of the class E notes, the issuer trust deed provides that, subject to Condition 11(A)(6) and Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class E notes of one series only shall be deemed to have been duly passed if passed at a meeting of the holders of the class E notes of that series;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class E notes of any two or more series but does not give rise to a conflict of interest between the holders of such two or more series of class E notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of such two or more series of class E notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class E notes of any two or more series and gives or may give rise to a conflict of interest between the holders of such two or more series of class E notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such two or more series of class E notes, it shall be passed at separate meetings of the holders of such two or more series of class E notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the holders of the class E notes of one series and the holders of the class E notes of another series or group of series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of class E notes subject to the conflict.



(6) *Class Z notes*

In respect of the class Z notes, the issuer trust deed provides that, subject to Condition 11(A)(6) and Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class Z notes of one series only shall be deemed to have been duly passed if passed at a meeting of the holders of the class Z notes of that series;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class Z notes of any two or more series but does not give rise to a conflict of interest between the holders of such two or more series of class Z notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of such two or more series of class Z notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of the class Z notes of any two or more series and gives or may give rise to a conflict of interest between the holders of such two or more series of class Z notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such two or more series of class Z notes, it shall be passed at separate meetings of the holders of such two or more series of class Z notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the holders of the class Z notes of one series and the holders of the class Z notes of another series or group of series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of each series of class Z notes subject to the conflict.

(7) *Sub-classes of notes*

In respect of a class of notes of any series constituting two or more sub-classes, the issuer trust deed provides that subject to Condition 11(B):

- (i) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of notes of one sub-class only of such class, shall be deemed to have been duly passed if passed at a meeting of the holders of the notes of such sub-class;
- (ii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders of more than one sub-class of notes of such class but does not give rise to a conflict of interest between the holders of such sub-classes of notes, shall be deemed to have been duly passed if passed at a single meeting of the holders of all such sub-classes of notes;
- (iii) a resolution which, in the sole opinion of the note trustee, affects the interests of the holders more than one sub-class of notes of such class and gives or may give rise to a conflict of interest between the holders of such sub-classes of notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the holders of such sub-classes of notes, it shall be passed at separate meetings of the holders of such sub-classes of notes; and
- (iv) if, in the sole opinion of the note trustee, there is a conflict of interest between the interests of the noteholders of one or more sub-class of notes of a series and the noteholders of another sub-class of notes of the same class and series, then a resolution directing the note trustee to take any action shall be deemed to have been duly passed only if passed at separate meetings of the holders of such sub-classes of notes.

Subject as provided in the following paragraph, the quorum at any meeting of the noteholders of any series and class of notes or any one or more series of notes of the same class convened to consider an extraordinary resolution will be one or more persons holding or representing more than half of the aggregate principal amount outstanding of such series and class of notes or such one or more series of notes of the same class or, at any adjourned meeting, one or more persons being or representing noteholders of such series and class of notes or such one or more series of notes the same class, whatever the aggregate principal amount outstanding of the notes so held or represented.

The quorum at any meeting of the noteholders for passing an extraordinary resolution which includes the sanctioning of a basic terms modification shall be one or more persons holding or representing not less than three quarters of the aggregate principal amount outstanding of the notes of the relevant series and class or of the relevant one or more series of notes of the same class or, at any adjourned and reconvened meeting, not less than one quarter of the aggregate principal amount outstanding of the notes of the relevant series and class or of the relevant one or more series of notes of the same class.

An extraordinary resolution passed at any meeting of noteholders shall be binding on all of the noteholders of the relevant series and class or of the relevant one or more series of notes of the same class whether or not they are present at the meeting.

In connection with any meeting of the noteholders where the relevant notes (or any of them) are not denominated in sterling, the principal amount outstanding of any note not denominated in sterling shall be converted into sterling at the relevant specified currency exchange rate.

A resolution signed by or on behalf of 90 per cent. of the noteholders of the relevant series and class who for the time being are entitled to receive notice of a meeting under the issuer trust deed shall for all purposes be as valid and effective as an extraordinary resolution passed at a meeting of such series and class of noteholders.

(B) ***Programme resolution***

Notwithstanding the provisions of Condition 11(A), any extraordinary resolution of the noteholders of any class of notes to direct the note trustee to deliver an issuer enforcement notice to the issuer, the issuer security trustee and the Funding security trustee pursuant to Condition 9 or to take any enforcement action or to instruct the issuer security trustee to enforce the issuer security pursuant to Condition 10 (a "**programme resolution**") shall only be capable of being passed at a single meeting of the noteholders of all series of such class of notes. The quorum at any such meeting for passing a programme resolution shall be one or more persons holding or representing more than half of the aggregate principal amount outstanding of the notes of such class or, at any adjourned and reconvened meeting, one or more persons being or representing noteholders of such class of notes, whatever the aggregate principal amount outstanding of such class of notes so held or represented by them.

A programme resolution passed at any meeting of all series of any class of notes shall be binding on all noteholders of all series of that class of notes, whether or not they are present or represented at the meeting.

(C) ***Limitations on noteholders***

Subject as provided in Condition 11(D):

- (i) an extraordinary resolution of the class A noteholders of any series shall be binding on all class B noteholders, all class C noteholders, all class D noteholders, all class E noteholders and all class Z noteholders (in each case, of that series or of any other series);
- (ii) no extraordinary resolution of the class B noteholders of any series shall take effect for any purpose while any class A notes (of that series or of any other series) remain outstanding unless it shall have been sanctioned by an extraordinary resolution of the class A noteholders of each series (provided that no such sanction by an extraordinary

resolution of the class A noteholders of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class A noteholders) and subject hereto shall be binding on all class C noteholders, all class D noteholders, all class E noteholders and all class Z noteholders (in each case, of that series or of any other series);

- (iii) no extraordinary resolution of the class C noteholders of any series shall take effect for any purpose while any class A notes or class B notes (in each case, of that series or of any other series) remain outstanding unless it shall have been sanctioned by an extraordinary resolution of the class A noteholders and an extraordinary resolution of the class B noteholders, in each case, of each series (provided that no such sanction by an extraordinary resolution of the class A noteholders or of the class B noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class A noteholders or such class B noteholders (as applicable)) and subject hereto shall be binding on all class D noteholders, all class E noteholders and all class Z noteholders (in each case, of that series or of any other series);
- (iv) no extraordinary resolution of the class D noteholders of any series shall take effect for any purpose while any class A notes, class B notes or class C notes (in each case, of that series or of any other series) remain outstanding unless it shall have been sanctioned by an extraordinary resolution of the class A noteholders, an extraordinary resolution of the class B noteholders and an extraordinary resolution of the class C noteholders, in each case, of each series (provided that no such sanction by an extraordinary resolution of the class A noteholders, of the class B noteholders or of the class C noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class A noteholders, such class B noteholders or such class C noteholders (as applicable)) and subject hereto shall be binding on all class E noteholders and all class Z noteholders (in each case, of that series or of any other series);
- (v) no extraordinary resolution of class E noteholders of any series shall take effect for any purpose while any class A notes, class B notes, class C notes or class D notes (in each case, of that series or of any other series) remain outstanding unless it shall have been sanctioned by an extraordinary resolution of the class A noteholders, an extraordinary resolution of the class B noteholders, an extraordinary resolution of the class C noteholders and an extraordinary resolution of the class D noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class A noteholders, of the class B noteholders, of the class C noteholders or of the class D noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class A noteholders, such class B noteholders, such class C noteholders or such class D noteholders (as applicable)) and subject hereto shall be binding on all class Z noteholders (in each case, of that series or of any other series); and
- (vi) no extraordinary resolution of class Z noteholders of any series shall take effect for any purpose while any class A notes, class B notes, class C notes, class D notes or class E notes (in each case, of that series or of any other series) remain outstanding unless it shall have been sanctioned by an extraordinary resolution of the class A noteholders, an extraordinary resolution of the class B noteholders, an extraordinary resolution of the class C noteholders, an extraordinary resolution of the class D noteholders and an extraordinary resolution of the class E noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class A noteholders, of the class B noteholders, of the class C noteholders, of the class D noteholders or of the class E noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class A noteholders, such class B noteholders, such class C noteholders, such class D noteholders or such class E noteholders (as applicable)).

(D) *Approval of modifications and waivers by noteholders*

No extraordinary resolution of the noteholders of any one or more series of class A notes to sanction a basic terms modification shall take effect unless it has been sanctioned by an extraordinary resolution of the class B noteholders, an extraordinary resolution of the class C noteholders, an extraordinary resolution of the class D noteholders, an extraordinary resolution of the class E noteholders and an extraordinary resolution of the class Z noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class B noteholders, of the class C noteholders, of the class D noteholders, of the class E noteholders or of the class Z noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class B noteholders, such class C noteholders, such class D noteholders, such class E noteholders or such class Z noteholders (as applicable)).

After the class A notes have been fully redeemed, no extraordinary resolution of the noteholders of any one or more series of class B notes to sanction a basic terms modification shall take effect unless it has been sanctioned by an extraordinary resolution of the class C noteholders, an extraordinary resolution of the class D noteholders, an extraordinary resolution of the class E noteholders and an extraordinary resolution of the class Z noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class C noteholders, of the class D noteholders, of the class E noteholders or of the class Z noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class C noteholders, such class D noteholders, such class E noteholders or such class Z noteholders (as applicable)).

After the class A notes and class B notes have been fully redeemed, no extraordinary resolution of the noteholders of any one or more series of class C notes to sanction a basic terms modification shall take effect unless it has been sanctioned by an extraordinary resolution of the class D noteholders, an extraordinary resolution of the class E noteholders and an extraordinary resolution of the class Z noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class D noteholders, of the class E noteholders or of the class Z noteholders, in each case, of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class D noteholders, such class E noteholders or such class Z noteholders (as applicable)).

After the class A notes, class B notes and class C notes have been fully redeemed, no extraordinary resolution of the noteholders of any one or more series of class D notes to sanction a basic terms modification shall take effect unless it has been sanctioned by an extraordinary resolution of the class E noteholders and an extraordinary resolution of the class Z noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class E noteholders or the class Z noteholders of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class E noteholders or such class Z noteholders (as applicable)).

After the class A notes, class B notes, class C notes and class D notes have been fully redeemed, no extraordinary resolution of the noteholders of any one or more series of class E notes to sanction a basic terms modification shall take effect unless it has been sanctioned by an extraordinary resolution of the class Z noteholders, in each case of each series (provided that no such sanction by an extraordinary resolution of the class Z noteholders of a particular series shall be required where the note trustee is of the opinion that it would not be materially prejudicial to the interests of such class Z noteholders).

(E) ***Modifications and determinations by note trustee***

The note trustee, may, without the consent of the noteholders:

- (i) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, the Conditions of any series and class of notes or any of the programme documents, except for a basic terms modification, which in the opinion of the note trustee:
  - (a) is not materially prejudicial to the interests of the noteholders of such series and class of notes or of any other series and class of notes; or
  - (b) is of a formal, minor or technical nature or is to correct a manifest error or is to comply with the mandatory provisions of law; or
  - (c) is expressly provided for in the programme documents
- (ii) determine that any note event of default in respect of a series and class of notes shall not be treated as such provided that, in any such case, it is not in the opinion of the note trustee materially prejudicial to the interests of the noteholders of such series and class of notes or of any other series and class of notes.

Any such modification, waiver, authorisation or determination shall be binding on the noteholders and, unless the note trustee agrees otherwise, any such modification shall be notified to the noteholders and the rating agencies in accordance with Condition 14 as soon as practicable thereafter.

(F) ***Redenomination***

The note trustee may agree, without the consent of the holders of any sterling notes on or after the specified date (as defined below), to such modifications to such sterling notes and the issuer trust deed in respect of redenomination of such notes in euro and associated reconventioning, renominatisation and related matters in respect of such notes as may be proposed by the issuer (and confirmed by an independent financial institution approved by the note trustee to be in conformity with then applicable market conventions) and to provide for redemption at the euro equivalent of the sterling principal amount of the sterling notes. For these purposes, "**specified date**" means the date on which the United Kingdom participates in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union, or otherwise participates in European economic and monetary union in a manner with an effect similar to such third stage.

Any such modification shall be binding on the holders of such sterling notes and, unless the note trustee agrees otherwise, any such modification shall be notified to such noteholders in accordance with Condition 14 as soon as practicable thereafter.

(G) ***Exercise of note trustee's functions***

Where the note trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions under these Conditions or any other issuer transaction document, to have regard to the interests of the noteholders (of a class, series or series and class thereof), it shall have regard to the interests of such noteholders as a class and, in particular but without prejudice to the generality of the foregoing, the note trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the note trustee shall not be entitled to require, and no noteholder shall be entitled to claim, from the issuer or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual noteholders.

12. **Indemnification of the note trustee and the issuer security trustee**

The programme documents contain provisions governing the responsibility (and relief from responsibility) of the note trustee and the issuer security trustee and providing for their indemnification in certain circumstances, including, among others, provisions relieving the issuer security trustee from taking enforcement proceedings or enforcing the issuer security unless indemnified, secured and/or prefunded to its satisfaction. The note trustee and the issuer security trustee are also entitled to be paid their costs and expenses in priority to any interest payments to noteholders.

The note trustee and the issuer security trustee and their related companies are entitled to enter into business transactions with the issuer, the issuer cash manager, Clydesdale Bank PLC and/or the related companies of any of them and to act as note trustee or security trustee for the holders of any new notes and/or any other person who is a party to any programme document or whose obligations are comprised in the issuer security and/or any of its subsidiary or associated companies without accounting for any profit resulting therefrom.

Neither the note trustee nor the issuer security trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the issuer security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons on behalf of the note trustee or the issuer security trustee, as applicable.

Furthermore, the note trustee and the issuer security trustee will be relieved of liability for making searches or other inquiries in relation to the assets comprising the issuer security. Neither the note trustee nor the issuer security trustee has any responsibility in relation to the legality and the enforceability of the trust arrangements and the related issuer security. Neither the note trustee nor the issuer security trustee will be obliged to take any action which might result in its incurring personal liabilities. Neither the note trustee nor the issuer security trustee is obliged to monitor or investigate the performance of any other person under the programme documents and is entitled to assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, unless it receives express notice to the contrary.

Neither the note trustee nor the issuer security trustee will be responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of any issuer security.

13. **Replacement of notes**

If Individual note certificates are lost, stolen, mutilated, defaced or destroyed, the noteholder can replace them at the specified office of any paying agent subject to all applicable laws and stock exchange requirements. The noteholder will be required both to pay the expenses of producing a replacement and to comply with the issuer's, the registrar's and the paying agent's reasonable requests for evidence and indemnity.

If a global note certificate is lost, stolen, mutilated, defaced or destroyed, the issuer will procure the delivery of a replacement global note certificate to the registered holder upon receipt of satisfactory evidence and surrender of any defaced or mutilated global note certificate. A replacement will only be made upon payment of the expenses for a replacement and compliance with the issuer's, registrar's and paying agents' reasonable requests as to evidence and indemnity.

Defaced or mutilated note certificates must be surrendered before replacements will be issued.

14. **Notice to noteholders**

(A) ***Publication of notice***

Any notice to noteholders shall be validly given if such notice is:

- (i) sent to them by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the register; and
- (ii) published in The Financial Times;

- (iii) for so long as amounts are outstanding on the Rule 144A notes, in a daily newspaper of general circulation in New York (which is expected to be The New York Times); and
- (iv) is in accordance with the rules of the relevant stock exchange;

or, if any of such newspapers set out above shall cease to be published or timely publication therein shall not be practicable, in a leading English language daily newspaper having general circulation in the United Kingdom or the United States (as applicable) provided that if, at any time, the issuer procures that the information concerned in such notice shall be published on the relevant screen, publication in the newspapers set out above or such other newspaper or newspapers shall not be required with respect to such information.

(B) ***Date of publication***

Any notices so published shall be deemed to have been given on the fourth day after the date of posting, or as the case may be, on the date of such publication or, if published more than once on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the relevant screen on which) publication is required.

(C) ***Global note certificates***

While the notes are represented by global note certificates, any notice to noteholders will be validly given if such notice is provided in accordance with Condition 14(A) or (at the option of the issuer) if delivered to DTC (in the case of the Rule 144A notes) or Euroclear and/or Clearstream, Luxembourg (in the case of the Reg S notes) or (in relation to a series and class of notes, if specified for such notes in the applicable final terms) if delivered to any alternative clearing system). Any notice delivered to the DTC and/or Euroclear and/or Clearstream, Luxembourg and/or such alternative clearing system will be deemed to be given on the day of delivery.

(D) ***Note trustee's discretion to select alternative method***

The note trustee shall be at liberty to sanction some other method of giving notice to the noteholders or any series or 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 exchanges on which the notes are then admitted for trading and provided that notice of such other method is given to the noteholders in such manner as the note trustee shall require.

15. **Further issues**

The issuer shall, subject to the terms of the issuer trust deed, be at liberty from time to time, without the consent of the noteholders, subject to the issuance tests, to create and issue further notes of a certain class having terms and conditions the same as the notes of any series of the same class or the same in all respects save for the amount and date of the first payment of interest thereon, issue date and/or purchase price and so that the same shall be consolidated and form a single series and class with the outstanding notes of such series and class.

16. **Governing law and jurisdiction**

The programme documents and all non-contractual obligations arising out of or in connection with them are and the notes are governed by English law unless specifically stated to the contrary. The Scottish declarations of trust and certain provisions in the programme documents relating to property situated in Scotland and all non-contractual obligations arising out of or in connection with them are governed by Scots law. The corporate services agreement in respect of the mortgages trustee is governed by Jersey law. Unless specifically stated to the contrary:

- (i) the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the notes and the programme documents; and
- (ii) the issuer and the other parties to the programme documents irrevocably submit to the non-exclusive jurisdiction of the courts of England.

17. **Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the notes under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

18. **Definitions**

Unless otherwise defined in these Conditions or unless the context otherwise requires, in these Conditions the following words shall have the following meanings and any other capitalised terms used in these Conditions shall have the meanings ascribed to them or incorporated in the issuer trust deed or the issuer master definitions schedule. The provisions of Clause 2 (*Interpretation and construction*) of the issuer master definitions schedule are incorporated into and shall apply to these Conditions.

"**AAA loan tranches**" means the loan tranches made by the issuer to Funding pursuant to the global intercompany loan agreement from the proceeds of issue of the class A notes of any series;

"**AA loan tranches**" means the loan tranches made by the issuer to Funding pursuant to the global intercompany loan agreement from the proceeds of issue of the class B notes of any series;

"**A loan tranches**" means the loan tranches made by the issuer to Funding pursuant to the global intercompany loan agreement from the proceeds of issue of the class C notes of any series;

"**AAA principal deficiency sub-ledger**" means one of five sub-ledgers on the Funding principal deficiency ledger which records any principal deficiency in respect of any AAA loan tranche;

"**account bank**" means Clydesdale Bank PLC and any successors and assigns and any replacement thereof appointed pursuant to the bank account agreement;

"**additional business centre**" means, in respect of any series and class of notes, each place specified as such for such notes in the applicable final terms;

"**agents**" means the paying agents, the transfer agent, the registrar and the agent bank;

"**agent bank**" means Citibank, N.A., London Branch in its capacity as agent bank at its specified office or such other person for the time being acting as agent bank under the issuer paying agent and agent bank agreement;

"**asset trigger event**" means an event that occurs when an amount is debited to the AAA principal deficiency sub-ledger of the Funding principal deficiency ledger and, for the avoidance of doubt, will occur even if there are sufficient funds to clear such debit on the next monthly payment date.

"**authorised investments**" means (i) sterling gilt-edged investments and (ii) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits in any account which earns a rate of interest related to LIBOR) provided that in all cases such investments (A) have a maturity date of 90 days or less and mature on or before the next following note payment date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or entity with which the demand or time deposits are made (being an authorised institution under the Financial Services and Markets Act 2000) are rated at least "F1+" by Fitch and "P-1" by Moody's or (B) are otherwise acceptable to the rating agencies (if they are notified in advance) to maintain the then current ratings of the notes;

"**automatic remarketing termination event**" means, for a series and class of money market notes and subject to the terms of the applicable remarketing agreement, (a) the occurrence of a note event of default, which has not been remedied or waived, (b) the purchase by the applicable conditional note purchaser of all such notes which are outstanding and the delivery by the applicable remarketing agent or the tender agent of a notice to that effect to the issuer and the principal paying agent, or (c) the redemption in full of such notes;



**"bank account agreement"** means the bank account agreement dated on or around the programme date, among the account bank, the cash manager, the mortgages trustee, Funding and the Funding security trustee;

**"base prospectus"** means the base prospectus of the issuer from time to time, the first being the base prospectus dated 27 September 2011;

**"basic terms modification"** means, in respect of any series and class of notes, any modification which would have the effect of:

- (a) reducing or cancelling of the amount payable or, where applicable, modifying, except where such modification is, in the opinion of the note trustee, bound to result in an increase, the method of calculating the amount payable or modifying the date of payment or, where applicable, altering the method of calculating the date of payment in respect of any principal or interest in respect of such notes;
- (b) altering the currency in which payments under such notes are to be made;
- (c) altering the quorum or majority required to pass an extraordinary resolution; or
- (d) altering the priority in which payments are made to the noteholders of such notes pursuant to any issuer priority of payments (except in a manner determined by the note trustee not to be materially prejudicial to the interests of the noteholders of such notes);

**"BBB loan tranches"** means the loan tranches made by the issuer to Funding pursuant to their terms of the global intercompany loan agreement from the proceeds of issue of the class D notes of any series;

**"BB loan tranche"** means the loan tranches made by the issuer to Funding pursuant to the terms of the global intercompany loan agreement from the proceeds of issue of the class E notes of any series;

**"beneficiaries deed"** means the beneficiaries deed entered into on or about the programme date, among the seller and Funding, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time;

**"broken amount"** means, in respect of any series and class of notes, the amount specified as such (if any) for such notes in the applicable final terms;

**"business day"** means, in respect of a series and class of notes, a day (other than a Saturday or Sunday or public holiday) on which banks are generally open for business in London (or such other day as may be specified for such notes in the applicable final terms);

**"cash management agreement"** means the cash management agreement dated on or around the programme date, among the cash manager, the mortgages trustee, the seller, Funding and the Funding security trustee;

**"cash manager"** means Clydesdale Bank and any successors and assigns and any replacement thereof appointed pursuant to the cash management agreement;

**"class"** means, in relation to the class A notes, the class B notes, the class C notes, the class D notes, the class E notes, the class Z notes or the noteholders, each single class thereof as the context requires and except where otherwise specified, the holders thereof;

**"class A noteholders"** means the holders of the class A notes;

**"class A notes"** means the notes of any series designated as such (or as a sub-class of such) in the applicable final terms;

**"class B noteholders"** means the holders of the class B notes;

**"class B notes"** means the notes of any series designated as such (or as a sub-class of such) in the applicable final terms;

"**class C noteholders**" means the holders of the class C notes;

"**class C notes**" means the notes of any series designated as such (or as a sub-class of such) in the applicable final terms;

"**class D noteholders**" means the holders of the class D notes;

"**class D notes**" means the notes of any series designated as such (or as a sub-class of such) in the applicable final terms;

"**class E noteholders**" means the holders of the class E notes;

"**class E notes**" means the notes of any series designated as such (or as a sub-class of such) in the applicable final terms;

"**class Z noteholders**" means the holders of the class Z notes;

"**class Z notes**" means the notes of any series designated as such (or as a sub-class of such) in the applicable final terms;

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

"**closing date**" means the date on which the issuer issues a series of notes, as specified for such notes in the applicable final terms;

"**collection bank agreement**" means the bank account agreement dated on or around the programme date among the mortgages trustee, Funding, the seller, YBHL, the servicer, the cash manager, the Funding security trustee and the entity or entities identified therein as the collection bank(s);

"**conditional maturity purchase note deed**" means any conditional maturity purchase note deed entered into in connection with the issuance of any series and class of maturity purchase notes between, among others, the issuer, the cash manager, the maturity purchaser, the note trustee and the principal paying agent, as amended and restated from time to time;

"**conditional note purchaser**" means, for a series and class of money market notes, the conditional note purchaser specified for such notes in the applicable final terms;

"**conditional note purchase agreement**" means, for a series and class of money market notes, an agreement to be dated on or about the closing date for such notes between, among others, the applicable conditional note purchaser, the issuer under which the conditional note purchaser will agree to purchase such notes on each money market note mandatory transfer date for such notes in certain circumstances;

"**corporate services agreements**" means (1) with respect to the issuer and Funding, the issuer corporate services agreement and (2) with respect to the mortgages trustee, the corporate services agreement dated on or around the programme date between the corporate services provider to the mortgages trustee and the mortgages trustee;

"**current seller share**" means the amount of trust property beneficially owned by the seller from time to time;

"**designated account**" means the account (which, in the case of a payment in Japanese Yen to a non-resident of Japan, shall be a non-resident account) maintained by a holder with a designated bank and identified as such in the register;

"**designated bank**" means (in the case of payment in a specified currency other than euro) a bank in the principal financial centre of the country of such specified currency (which, if the specified currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro;

"**determination period**" means, in respect of any series and class of notes, each period from (and including) a determination date for such notes to (but excluding) the next determination date for

such notes (including, where either the interest commencement date notes or the applicable final note payment date, in each case, for such notes is not a determination date, the period commencing on the first determination date for such notes prior to, and ending on the first determination date for such notes falling after, such date);

**"determination date"** means, in respect of any series and class of notes, the date(s) specified as such for such notes in the final terms;

**"distribution date"** means the 15th day of each calendar month, of if such day is not a London business day, the next following London business day;

**"dollars", "US\$", "US dollars" or "\$"** means the lawful currency for the time being of the United States of America;

**"DTC notice to purchase"** means any notice given by the issuer to a holder of any maturity purchase note(s) in accordance with Condition 5(G);

**"DTC tender agent"** means any party designated or appointed by the issuer to coordinate delivery of a DTC notice to purchase and related DTC matters in relation to the purchase of any maturity purchase notes by the maturity purchaser in accordance with Condition 5(G);

**"EC/CS notice to purchase"** means any notice given by the issuer to a holder of any maturity purchase note(s) in accordance with Condition 5(G);

**"EURIBOR"** means the Euro-zone inter-bank offered rate;

**"Euro", "euro" or "€"** means the currency of the member states of the European Union that adopt the single currency in accordance with the Treaty of Rome of 25 March 1957, establishing the European Community, as amended from time to time;

**"Euroclear"** means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

**"expected maturity date"** means in respect of any series and class of maturity purchase notes, the date which is the anticipated date for redemption in full (to the extent, if applicable, not previously redeemed in part) of the relevant maturity purchase notes, as specified in the applicable final terms;

**"extraordinary resolution"** means (a) a resolution passed at a meeting of the noteholders of a particular class, series or series and class duly convened and held in accordance with the provisions of the issuer trust deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes cast on such poll or (b) a resolution in writing signed by or on behalf of all the noteholders of a particular class, series or series and class, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the noteholders of such class, series or series and class (as the case may be);

**"final maturity date"** means, in respect of any series and class of notes, the date specified as such for such notes in the applicable final terms;

**"final terms"** means, in relation to any series of notes, the final terms issued in relation to such series of notes as a supplement to these Conditions and giving details of, *inter alia*, the amount and price of such series of notes and, with respect to a series of notes to be admitted to the official list of the UK Listing Authority and admitted to trading on the regulated market of the London Stock Exchange plc, which forms a part of the base prospectus in relation to such series of notes;

**"fixed interest period"** means, in respect of a series and class of notes, the period from (and including) a note payment date for such notes (or the interest commencement date for such notes) to (but excluding) the next (or first) note payment date for such notes.

**"fixed coupon amount"** means, in respect of any series and class of notes, the amount specified as such (if any) for such notes in the applicable final terms;

**"floating interest period"** means, in respect of a series and class of notes, the period from (and including) a note payment date for such notes (or the interest commencement date for such notes) to (but excluding) the next (or first) note payment date for such notes.

**"Funding"** means Lannraig Funding Limited;

**"Funding basis rate swap agreement"** means the ISDA master agreement, schedule thereto and confirmations thereunder dated on or around the programme date relating to the Funding basis rate swaps, and any credit support annexes or other credit support documents entered into at any time, among Funding and the applicable Funding basis rate swap provider and/or any credit support provider;

**"Funding basis rate swap provider"** means Clydesdale Bank PLC and/or, as applicable, any other basis rate swap provider appointed pursuant to the terms of the programme documents;

**"Funding basis rate swaps"** means the swap transactions evidenced by the Funding basis rate swap agreement;

**"Funding deed of charge"** means the deed of charge dated on or around the programme closing date among, among others, Funding, the Funding security trustee, the issuer and the issuer security trustee and each deed of accession or supplement entered into in connection therewith;

**"Funding enforcement notice"** means an enforcement notice which may be delivered by the Funding security trustee to Funding in relation to the enforcement of the Funding security following the occurrence of a Funding intercompany loan event of default;

**"Funding intercompany loan"** means a loan (or the aggregate of a number of separate loans) of the net proceeds of any issue (or all issues) of notes by an issuer, such loan(s) being advanced to Funding by such issuer pursuant to the terms of a Funding intercompany loan agreement;

**"Funding intercompany loan agreements"** means the agreements evidencing or otherwise entered into in relation to a Funding intercompany loan, in each case, entered into between, among others, Funding and an issuer;

**"Funding intercompany loan event of default"** means, in relation to any Funding intercompany loan agreement, the occurrence of an event of default specified as such in such Funding intercompany loan agreement;

**"Funding principal deficiency ledger"** means the ledger of such name maintained by the cash manager pursuant to the cash management agreement, comprising such sub-ledgers as relate to the classes of loan tranches of differing ratings as contemplated in the cash management agreement;

**"Funding security"** means the mortgages, charges, assignments, pledges and other security created by Funding under or pursuant to the terms of the Funding deed of charge in favour of the Funding security trustee for the benefit of the secured creditors of Funding as described under the Funding deed of charge;

**"Funding security trustee"** Citibank, N.A., London Branch and its successors or any other security trustee appointed pursuant to the terms of the Funding deed of charge;

**"global intercompany loan"** means the aggregate of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and the Z loan tranches made by the issuer to Funding pursuant to the terms of the global intercompany loan agreement;

**"global intercompany loan agreement"** means the Funding intercompany loan agreement dated on or around the programme date among Funding, the issuer, the Funding security trustee and the agent bank;

"**global note certificates**" means the Rule 144A global note certificates and the Reg S global note certificates;

"**holder**" has the meaning given to such term in Condition 1(B);

"**Holdings**" means Lannraig Holdings Limited;

"**Individual note certificates**" means the note certificates representing the notes while in definitive form;

"**interest commencement date**" means, in respect of any series and class of notes, the closing date of such notes or such other date as may be specified as such for such notes in the applicable final terms;

"**interest determination date**" means, in respect of any series and class of notes, the date(s) specified as such (if any) for such notes in the applicable final terms;

"**interest period**" means, in respect of any series and class of notes, the fixed interest period or the floating interest period relating thereto;

"**ISDA definitions**" means, in respect of any series and class of notes, the definitions, as published by the International Swaps and Derivatives Association, Inc. for the documentation of privately negotiated interest rate and/or currency derivative transactions as may be specified as such for such notes in the applicable final terms;

"**issuer**" means Lannraig Master Issuer plc;

"**issuer account bank**" means Clydesdale Bank PLC or such other person for the time being acting as account bank to the issuer pursuant to the terms of the issuer bank account agreement;

"**issuer bank accounts**" means the issuer dollar account, the issuer euro account, the issuer sterling account, the issuer swap collateral accounts and any additional bank accounts of the issuer as may, from time to time, be opened in accordance with the terms of the issuer bank account agreement and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge;

"**issuer bank account agreement**" means the bank account agreement dated on or around the programme date among the issuer, the issuer cash manager, the issuer account bank and the issuer security trustee;

"**issuer cash management agreement**" means the cash management agreement dated on or around the programme date among the issuer cash manager, the issuer and the issuer security trustee;

"**issuer charged property**" means the property, assets and undertakings of the issuer which from time to time are expressed to be mortgaged, charged, assigned, pledged or otherwise encumbered to, or in favour of, the issuer security trustee for itself and for the other issuer secured creditors under the issuer deed of charge or any other issuer transaction document;

"**issuer corporate services agreement**" means the corporate services agreement dated on or around the programme date between, among others, the issuer corporate services provider, Holdings, Funding and the issuer;

"**issuer corporate services provider**" means Structured Finance Management Limited or such other person for the time being acting as corporate services provider to the issuer under the issuer corporate services agreement;

"**issuer deed of charge**" means the deed of charge dated on or around the programme date among, among others, the issuer and the issuer security trustee and each deed of accession or supplement entered into in connection therewith;

**"issuer dollar account"** means the account of the issuer held with the issuer account bank denominated in US dollars for the day-to-day cash management of all amounts denominated in US dollars and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge and such additional or replacement bank accounts denominated in US dollars as may, from time to time, be opened in accordance with the terms of the issuer bank account agreement and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge;

**"issuer euro account"** means the account of the issuer held with the issuer account bank denominated in euro for the day-to-day cash management of all amounts denominated in euro and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge and such additional or replacement bank accounts denominated in euro as may, from time to time, be opened in accordance with the terms of the issuer bank account agreement and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge;

**"issuer enforcement notice"** means any of a class A issuer enforcement notice, a class B issuer enforcement notice, a class C issuer enforcement notice, a class D issuer enforcement notice or a class E issuer enforcement notice;

**"issuer master definitions schedule"** means the master definitions schedule in connection with the issuer dated on or around the programme date which is a schedule of definitions used in the issuer transaction documents;

**"issuer paying agent and agent bank agreement"** means the paying agent and agent bank agreement dated on or around the programme date among the issuer, the paying agents, the transfer agent, the registrar, the agent bank, the issuer security trustee and the note trustee;

**"issuer post-enforcement priority of payments"** means the order for the priority of payments and provisions for the issuer following the delivery by the note trustee to the issuer of an issuer enforcement notice, as set out in a schedule to the issuer deed of charge;

**"issuer pre-enforcement principal priority of payments"** means the order for the priority of principal payments and provisions for the issuer prior to the delivery by the note trustee to the issuer of an issuer enforcement notice, as set out in a schedule to the issuer deed of charge;

**"issuer pre-enforcement revenue priority of payments"** means the order for the priority of revenue payments and provisions (other than in relation to principal) for the issuer prior to the delivery by the note trustee to the issuer of an issuer enforcement notice, as set out in a schedule to the issuer deed of charge;

**"issuer secured creditors"** means the issuer security trustee (and any receiver appointed pursuant to the terms of the issuer deed of charge), the note trustee, the issuer swap providers, the start-up loan providers, the issuer corporate services provider, the issuer account bank, the issuer cash manager, the paying agents, the agent bank, the transfer agent, the registrar and the noteholders and any new issuer secured creditor who accedes to the issuer deed of charge from time to time under a deed of accession or a supplemental deed;

**"issuer security"** means the mortgages, charges, assignments, pledges and other security created by the issuer under or pursuant to the terms of the issuer deed of charge in favour of the issuer security trustee for the benefit of the issuer secured creditors;

**"issuer security trustee"** means Citibank, N.A., London Branch and its successors or any further or other security trustee appointed pursuant to the terms of the issuer deed of charge;

**"issuer swap agreements"** means the ISDA master agreements, schedules thereto and confirmations thereunder relating to the currency and/or interest rate swaps to be entered into in connection with the notes, and any credit support annexes or other credit support documents entered into at any time, among the issuer and the applicable issuer swap provider and/or any credit support provider;

**"issuer swap collateral"** means any asset (including, without limitation, cash and/or securities) paid or transferred to the issuer by an issuer swap provider in accordance with the terms of the relevant issuer swap agreement as collateral to secure the performance of that issuer swap provider's obligations under the relevant issuer swap agreement together with any income or distributions received in respect of such asset (if the issuer is entitled to retain the same) and any equivalent of or replacement of such asset into which such asset is transformed;

**"issuer swap collateral accounts"** means the issuer swap collateral cash account and the issuer swap collateral securities account;

**"issuer swap collateral ancillary document"** means any document (including, without limitation, any custodial agreement or bank account agreement but excluding the issuer swap agreements, the issuer cash management agreement and the issuer deed of charge) as may be entered into by the issuer from time to time in connection with the issuer swap collateral;

**"issuer swap collateral cash account"** means an account opened in the name of the issuer for the purpose of holding swap collateral in cash and maintained pursuant to the terms of the issuer cash management agreement;

**"issuer swap collateral securities account"** means a securities account opened in the name of the issuer for the purpose of holding swap collateral in the form of securities and maintained pursuant to the terms of the issuer cash management agreement;

**"issuer swap providers"** means, in relation to a series and class of notes, the institutions identified as such for such notes in the applicable final terms;

**"issuer sterling account"** means the account of the issuer held with the issuer account bank denominated in sterling for the day-to-day cash management of all amounts denominated in sterling and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge and such additional or replacement bank accounts denominated in sterling as may, from time to time, be opened in accordance with the terms of the issuer bank account agreement and maintained pursuant to the terms of the issuer bank account agreement, the issuer cash management agreement and the issuer deed of charge;

**"issuer transaction documents"** means, in respect of the issuer, each of the following documents:

- (a) the programme agreement;
- (b) the global intercompany loan agreement;
- (c) the Funding deed of charge;
- (d) the issuer trust deed;
- (e) the issuer corporate services agreement;
- (f) the issuer deed of charge;
- (g) the issuer paying agent and agent bank agreement;
- (h) the issuer bank account agreement;
- (i) the issuer cash management agreement;
- (j) the start-up loan agreement;
- (k) the issuer master definitions schedule;
- (l) each programme issuance document to which the issuer is a party;
- (m) each other programme document to which the issuer is a party; and

- (n) each other deed, document, agreement, instrument or certificate entered into or to be entered into by the issuer under or in connection with any of the documents set out in paragraphs (a) through (n) above or the transactions contemplated in them (including any agreement entered into by the issuer as a replacement of any of the documents set out in paragraphs (a) through (n) above);

**"issuer trust deed"** means the trust deed entered into on or around the programme date between the issuer and the note trustee, and each supplemental deed entered into in connection therewith;

**"LIBOR"** means the London inter-bank offered rate;

**"loan payment date"** means, in respect of a loan tranche, the monthly payment date(s) specified for such loan tranche in the applicable loan tranche supplement;

**"loan tranches"** means the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches, the BB loan tranches and the Z loan tranches;

**"loan tranche supplement"** means, in relation to any loan tranche, the document between, amongst others, Funding and the issuer recording the principal terms of such loan tranche;

**"London business day"** means a day (other than a Saturday or Sunday or public holiday) on which banks are generally open for business in London;

**"loss calculation date"** means in respect of any series and class of maturity purchase notes, the date specified in the applicable final terms;

**"mandatory transfer"** means, for a series and class of money market notes, the obligation on the issuer to procure the purchase of (and the obligation of the then holders of such notes to transfer) such notes on each money market note mandatory transfer date for such notes;

**"margin"** means, in respect of any series and class of notes, the amount specified as such for such notes in the applicable final terms;

**"master definitions schedule"** means the master definitions schedule in connection with the issuer, Funding and the mortgages trustee dated on or around the programme date which is a schedule of definitions used on the programme documents;

**"maturity purchase price"** means, in respect of any series and class of maturity purchase notes, the then remaining principal amount outstanding of the maturity purchase notes on the expected maturity date (plus any interest accrued from and including the expected maturity date to but excluding the transfer date at the rate of interest applicable to such notes on the basis that the rate of interest shall not be subject to any downward adjustment (including any reduction to the margin scheduled to apply on any step-up date) on or following the expected maturity date until (and including) the transfer date) after taking into account any principal repayments made by the issuer on or after the expected maturity date to (and including) the transfer date minus the principal deficiency losses;

**"maturity purchaser"** means, in respect of any series and class of maturity purchase notes, the maturity purchaser specified in the applicable final terms;

**"maximum rate of interest"** means, in respect of any series and class of notes, the rate of interest specified as such for such notes in the applicable final terms;

**"maximum reset margin"** means, for a series and class of money market notes, the maximum reset margin specified for such notes in the applicable final terms;

**"minimum rate of interest"** means, in respect of any series and class of notes, the rate of interest specified as such for such notes in the applicable final terms;

**"minimum seller share"** means an amount included in the seller share which is calculated pursuant to the terms of the mortgages trust deed;



**"money market note mandatory transfer arrangements"** means, for a series and class of money market notes, the arrangements for mandatory transfer set out in the applicable conditional note purchase agreement, the applicable remarketing agreement and the issuer trust deed.

**"money market note mandatory transfer date"** means, for a series and class of money market notes, the monthly payment dates specified as such for such notes in the applicable final terms until the earlier to occur of a remarketing termination event or the final maturity of such notes;

**"money market note mandatory transfer price"** means, for a series and class of money market notes, the amount of the payment to the holders of such notes on the applicable money market note mandatory transfer date constituting the principal amount outstanding of such notes on that date (after taking into account the note principal payments in respect of such notes that have been paid on that date);

**"money market note reset margin"** means, for a series and class of money market notes, the percentage margin at which the applicable remarketing agent is able to on sell all of such notes in the market as on the applicable money market note mandatory transfer date;

**"money market notes"** means a series and class of notes which are intended to be "eligible securities" for purchase by money market funds under Rule 2a-7 of the United States Investment Company Act of 1940, as amended;

**"monthly payment date"** means (a) in respect of the issuer (and any series and class of notes) the date falling on the 19th day of each calendar month, subject to the appropriate business day convention, if any, specified (in relation to such notes) in the applicable final terms, and (b) in respect of Funding (and any loan tranche) the date falling on the 19th day of each calendar month, subject to the appropriate business day convention, if any, specified (in relation to such loan tranche) in the applicable loan tranche supplement;

**"mortgage sale agreement"** means the mortgage sale agreement dated on or about the programme date among the seller, YBHL, the mortgages trustee, Funding and the Funding security trustee;

**"mortgages trust"** means the trust of the trust property held by the mortgages trustee under the mortgages trust deed;

**"mortgages trustee"** means Lannraig Trustees Limited;

**"mortgages trust deed"** means trust deed dated on or around the programme date among the mortgages trustee, the seller and Funding;

**"non-asset trigger event"** means (a) the occurrence of certain insolvency events in relation to the seller; or (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days; or (c) the failure by the seller to make certain payments to the mortgages trustee and such failure to pay is materially prejudicial to the interests of the holders of the notes issued by all issuers; or (d) on any two consecutive distribution dates, the current seller share is equal to or less than the minimum seller share, in each case as more fully set forth in the mortgages trust deed;

**"note certificates"** means any global note certificates or Individual note certificates;

**"note determination date"** means, in respect of a series and class of notes, the distribution date immediately preceding each note payment date for such notes;

**"note event of default"** means the occurrence of an event of default by the issuer as specified in Condition 9;

**"note payment date"** means, in respect of a series and class of notes, the monthly payment date(s) specified for such notes in the applicable final terms;

**"note principal payment"** has the meaning indicated in Condition 5(C);

**"note purchase agreement"** means an agreement (other than a subscription agreement) between, among others, the issuer and the note purchaser(s) designated therein, relating to the sale of a series and class of notes;

**"note trustee"** means Citicorp Trustee Company Limited and its successors or any further or other note trustee appointed pursuant to the terms of the issuer trust deed;

**"noteholders"** means the holders for the time being of the notes;

**"NSS"** means the new safekeeping structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy operations;

**"optional remarketing termination event"** means, for a series and class of money market notes and subject to the terms of the applicable remarketing agreement, (a) the occurrence of an event beyond the control of the applicable remarketing agent or the issuer and, as a consequence of which, the applicable remarketing agent will be unable to perform its obligations under the applicable remarketing agreement or which in the applicable remarketing agent's reasonable opinion will represent a material market change affecting such notes, (b) the determination by the remarketing agent, acting reasonably and following consultation with the applicable conditional note purchaser that the enactment or amendment of any law or regulation or any form of banking, fiscal, monetary or regulatory control which is mandatory or customarily adopted in the banking, securities or broker/dealer industries would cause the applicable remarketing agent to incur increased costs in carrying out its remarketing obligations or make it unlawful or impossible to carry out those obligations; or (c) the issuer is in material breach of any representations and warranties given by it in the applicable conditional note purchase agreement as at the closing date for such notes;

**"pass-through trigger event"** means any of the following events:

- (a) a trigger event;
- (b) the service of an issuer enforcement notice by the note trustee on the issuer; or
- (c) the service of a Funding enforcement notice by the Funding security trustee on Funding;

**"paying agents"** means the principal paying agent and any further or other paying agents for the time being appointed under the issuer paying agent and agent bank agreement;

**"principal amount outstanding"** has the meaning indicated in Condition 5(C);

**"principal deficiency losses"** will be, in respect of any series and class of maturity purchase notes, the outstanding balance on the principal deficiency ledger attributable to such maturity purchase notes on the relevant loss calculation date;

**"principal paying agent"** means Citibank, N.A. London Branch in its capacity as principal paying agent at its specified office or such other person for the time being acting as principal paying agent under the issuer paying agent and agent bank agreement;

**"programme agreement"** means the agreement dated on or around the programme date between, among others, the issuer, Funding, Barclays Bank PLC and the managers named therein;

**"programme date"** means 30 September 2011;

**"programme documents"** means each of the following documents:

- (a) the mortgages trust deed;
- (b) the beneficiaries deed;
- (c) the mortgage sale agreement;
- (d) the Scottish declarations of trust;

- (e) the servicing agreement;
- (f) the Funding intercompany loan agreements;
- (g) the Funding deed of charge;
- (h) the corporate services agreements;
- (i) the bank account agreement;
- (j) the Funding basis rate swap agreement;
- (k) the cash management agreement;
- (l) the collection bank agreement;
- (m) the master definitions schedule;
- (n) the issuer transaction documents for each issuer;
- (o) each other document to which Funding or the mortgages trustee is a party; and
- (p) each other deed, document, agreement, instrument or certificate entered into or to be entered into by Funding or the mortgages trustee under or in connection with any of the documents set out in paragraphs (a) through (n) above or the transactions contemplated in them (including any agreement entered into by Funding or the mortgages trustee as a replacement of any of the documents set out in paragraphs (a) through (n) above);

**"programme issuance documents"** means, in respect of each issuance of a series of notes, each of the following documents:

- (a) the subscription agreement;
- (b) the loan tranche supplement;
- (c) the supplemental trust deed to the issuer trust deed;
- (d) the relevant notes;
- (e) each issuer swap agreement and issuer swap collateral ancillary document in relation to a class of notes of the applicable series;
- (f) each deed of accession or supplemental deed to the issuer deed of charge;
- (g) each start-up loan supplement;
- (h) the remarketing agreement;
- (i) the conditional note purchase agreement;
- (j) the note purchase agreement;
- (k) each other deed, document, agreement, instrument or certificate entered into or to be entered into by the issuer under or in connection with any of the documents set out in paragraphs (a) through (i) above or the transactions contemplated in them (including any agreement entered into by the issuer as a replacement of any of the documents set out in paragraphs (a) through (i) above);

**"rate of interest"** and **"rates of interest"** means, in respect of any series and class of notes, the rate or rates (expressed as a percentage per annum) of interest payable in respect of such notes specified for such notes in the applicable final terms or calculated and determined in accordance with the applicable final terms;

**"rating agencies"** means Moody's Investors Service Limited and Fitch Ratings Ltd.;

**"ratings confirmation"** means receipt of (i) written confirmation from each rating agency that the relevant amendment, action, determination or appointment will not result in the reduction, qualification, suspension or withdrawal of the then current ratings assigned to any outstanding notes rated by that rating agency; or (ii) a certification in writing by an authorised signatory of the issuer to the issuer security trustee and the note trustee stating that the relevant amendment, action, determination or appointment has been notified to the rating agencies and, in its opinion, would not cause the then current ratings assigned to any outstanding notes to be reduced, qualified, suspended or withdrawn by any rating agency and, where a rating agency was prepared to consult with the issuer, such opinion is based on such consultation with the relevant rating agency; provided however that it is understood that the rating agencies shall be under no obligation to provide a rating agency confirmation;

**"record date"** has the meaning given to such term in Condition 6(G);

**"redemption amount"** has the meaning given to such term in Condition 5(G);

**"reference rate"** means, in respect of any series and class of notes, the rate specified as such for such notes in the applicable final terms;

**"Reg S"** means Regulation S under the United States Securities Act of 1933, as amended;

**"Reg S notes"** means each series and class of notes that are offered or sold to persons (other than U.S. persons) outside the United States pursuant to Regulation S;

**"Reg S global note certificates"** means the note certificates representing the Reg S notes while in global form;

**"register"** means the register of noteholders kept by the registrar and which records the identity of each noteholder and the number of notes that each noteholder owns;

**"registrar"** means Citibank, N.A., London Branch in its capacity as registrar at its specified office or such other person for the time being acting as registrar under the issuer paying agent and agent bank agreement;

**"regulated market"** means a regulated market as defined in the Markets in Financial Instruments Directive (2004/39/EC);

**"relevant originator"** means the originator of the BTL loan, being either of Clydesdale Bank PLC and Yorkshire Bank Home Loans Limited;

**"relevant screen"** means a page of the Reuters service or Bloomberg service, or any other medium for electronic display of data as may be previously approved in writing by the note trustee and has been notified to noteholders in the manner set out in Condition 14;

**"relevant screen page"** means, in respect of any series and class of notes, the screen page specified as such for such notes in the applicable final terms (or such replacement page on the relevant service which displays the information);

**"remarketing agent"** means, for a series and class of money market notes, the remarketing agent specified for such notes in the applicable final terms, acting as agent on behalf of the issuer or such other agent appointed to act as remarketing agent pursuant to the terms of the remarketing agreement;

**"remarketing agreement"** means, for a series and class of money market notes, an agreement to be dated on or about the closing date for such notes between, among others, the issuer and the remarketing agent;

**"remarketing termination event"** means, for a series and class of money market notes, either an optional remarketing termination event in relation to such notes, in respect of which the

applicable remarketing agent has terminated its appointment under the remarketing agreement or an automatic remarketing termination event in relation to such notes;

"**Rule 144A**" means Rule 144A under the United States Securities Act of 1933, as amended;

"**Rule 144A global note certificates**" means the note certificates representing the Rule 144A notes while in global form;

"**Rule 144A notes**" means each series and class of notes which is not registered under the Securities Act and is offered in the United States or to U.S. persons who are "qualified institutional buyers" (within the meaning of Rule 144A under the Securities Act) in reliance upon Rule 144A under the Securities Act (or, in the case of the initial sale from the issuer to the managers, in reliance upon Section 4(2) of the Securities Act);

"**scheduled transfer date**" means, in respect of any series and class of maturity purchase notes, the date specified as such in the applicable final terms;

"**Scottish declaration of trust**" means each Scots law governed declaration of trust made pursuant to the mortgage sale agreement (a) by the seller in the case of Scottish BTL loans originated by the seller or (b) by YBHL, with the consent of the seller, in the case of Scottish BTL loans originated by YBHL and sold by YBHL to the seller;

"**security interest**" means any mortgage or sub-mortgage, standard security, charge or sub-charge (whether legal or equitable), encumbrance, pledge, lien, hypothecation, assignment by way of security or other security interest or title retention arrangement and any agreement, trust or arrangement having substantially the same economic or financial effect as any of the foregoing (other than a lien arising in the ordinary course of business or by operation of law);

"**seller**" means Clydesdale Bank PLC;

"**seller share**" means the current seller share of the trust property calculated as set forth in the mortgages trust deed;

"**seller share event**" means an event that will occur if, on a distribution date (i) the current seller share on that distribution date is equal to or less than the minimum seller share for such distribution date (determined using the amounts of the current seller share and minimum seller share that would exist after making the distributions of mortgages trustee available principal receipts on that distribution date on the basis that the cash manager assumes that those mortgages trustee available principal receipts are distributed in the manner described in the mortgages trust deed) and (ii) a seller share event has not occurred on the immediately preceding distribution date;

"**seller share event distribution date**" means the distribution date on which a seller share event occurs;

"**series**" means, subject to Condition 15, in relation to the notes, all notes (of any class) issued on a given day;

"**series and class**" means, a particular class of notes of a given series or, where such class of such series comprises more than one sub-class, "**series and class**" means a particular sub-class of such class of notes;

"**servicing agreement**" means the servicing agreement dated on or around the programme date, among the servicer, the mortgages trustee, the seller, Funding and the Funding security trustee;

"**servicer**" means Clydesdale Bank and any successors and assigns and any replacement thereof appointed pursuant to the servicing agreement;

"**specified currency**" means, in respect of any series and class of notes, the currency or currencies specified as such for such notes in the applicable final terms;

**"specified currency exchange rate"** means, in relation to a series and class of notes, the exchange rate specified in the issuer swap agreement relating to such series and class of notes or, if the issuer swap agreement has been terminated, the applicable spot rate;

**"specified date"** has the meaning indicated in Condition 11(F);

**"specified denomination"** means, in respect of any series and class of notes, the denomination specified as such for such notes in the applicable final terms which shall be €100,000 (and integral multiples of €1,000 in excess thereof) or, in respect of any note issued which has a maturity of less than a year, £100,000 or more (or, in each case, its equivalent in the relevant currencies as at the date of issue of such notes);

**"specified office"** means, as the context may require, in relation to any of the agents, the office specified against the name of such agent in the issuer paying agent and agent bank agreement or such other specified notice as may be notified to the issuer and the note trustee pursuant to the issuer paying agent and agency bank agreement;

**"specified period"** means, in respect of any series and class of notes, the period expressed as the specified period for such notes in the applicable final terms;

**"start-up loan"** means a loan advanced to the issuer by the start-up loan provider pursuant to the terms of the start-up loan agreement

**"start-up loan agreement"** means the loan agreement dated on or around the programme date among the issuer, Clydesdale Bank PLC and the issuer security trustee or any other loan agreement evidencing or otherwise entered into in relation to a start-up loan, in each case, entered into between, among others, the issuer and a start-up loan provider;

**"start-up loan supplement"** means, in relation to any start-up loan, the document between, amongst others, the issuer and the start-up loan provider recording the principal terms of such start-up loan;

**"start-up loan provider"** means any lender identified in a start-up loan agreement as a start-up loan provider;

**"sterling"**, **"pounds sterling"** or **"£"** means the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**"sterling notes"** means each series and class of notes denominated in sterling;

**"sub-class"** means, in relation to any class of notes or the noteholders, each single sub-class thereof as the context requires and except where otherwise specified, the holders thereof;

**"subscription agreement"** means an agreement supplemental to the programme agreement (by whatever name called) in or substantially in the form set out in the programme agreement or in such other form as may be agreed between the issuer and the relevant managers;

**"sub-unit"** means, with respect to any currency other than sterling, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to sterling, one pence;

**"tender agent"** means, for a series and class of money market notes, the agent appointed to act as tender agent in respect of such notes pursuant to the terms of the applicable remarketing agreement;

**"tender instruction"** means the instruction to be delivered by the DTC tender agent on behalf of any holder of maturity purchase notes to DTC in accordance with the usual procedures of DTC;

**"transfer agent"** means Citibank, N.A., London Branch in its capacity as transfer agent at its specified office or such other person for the time being acting as transfer agent under the issuer paying agent and agent bank agreement;

"**transfer date**" means the later of the scheduled transfer date and the deferred transfer date;

"**transfer instruction**" means the electronic transfer and blocking instruction to be delivered by any holder of maturity purchase notes to Euroclear and Clearstream, Luxembourg, in accordance with the usual procedures of such clearing systems;

"**trigger event**" means an asset trigger event and/or a non-asset trigger event.

"**trust determination date**" means the first day (or, if not a London business day, the next succeeding London business day) of each calendar month;

"**UK Listing Authority**" means the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000, as amended;

"**YBHL**" means Yorkshire Bank Home Loans Limited;

"**Z loan tranche**" means the loan tranches made by the issuer to Funding pursuant to the terms of the global intercompany loan agreement from the proceeds of issue of the class Z notes of any series.

## MATERIAL LEGAL ASPECTS OF THE BTL LOANS AND THE RELATED SECURITY

The following discussion describes, in summary, the material legal aspects in respect of the assignment of the BTL loans and related security and of English and Scottish residential property and mortgages. It is a brief summary and not an exhaustive analysis of the relevant law.

### English BTL loans

#### *General*

The parties to a mortgage are the mortgagor, who is homeowner and who grants the mortgage over his property, and the mortgagee, who is the lender. Each BTL loan is secured by a mortgage on the property (the mortgaged property). Since the most common form of creating a mortgage on residential property, namely, by means of a legal charge by deed, means that a mortgagor does not cease to be the owner of the property, generally a mortgagor will be free to create further mortgages on the mortgaged property (subject to any restrictions imposed by the mortgagee in the mortgage deed). Each BTL loan to be assigned to the mortgages trustee will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the mortgaged property and over all unsecured creditors of the borrower, except in respect of certain statutory rights, which are granted statutory priority. There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold estates.

#### *Registered title*

Title to registered land is registered at the Land Registry. The registrar allocates a unique title number. Consequently if there are freehold and leasehold registered interests in the same property, then there will be more than one register of title and a separate title number is allocated to each interest in such property. Each individual register consists of three parts: the property register, the proprietorship register and the charges register.

The property register describes the land and the type of estate, freehold or leasehold that is the subject of that title number. In some instances it may also refer to third party rights that burden the property although these may also be mentioned in the charges register as prior to the Land Registration Act 2002, practice varied between the various District Land Registries around the country.

The proprietorship register details the following:

- The class of registered title. There are three classes of registered title for freehold and four classes for leasehold. The most common title (and the best grade of title available) is absolute title. A person registered with absolute title owns the specified estate in the land free from all interests other than those entered on the register, those classified as notice, caution, unregistered interests which override registered disposition (referred to below) and (in the case of leasehold land) all express and implied covenants, obligations and liabilities imposed by the lease or incidental to the land.
- Restrictions on the ability of the registered proprietor to deal with the property e.g. a restriction imposed by a mortgagee prohibiting registration of subsequent mortgagees.

The charges register details security interests and encumbrances registered against the property.

The property is also identified by a plan retained at the Land Registry indicating the location of the related land (the "**filed plan**"). However, the filed plan is not conclusive as to matters such as the location of boundaries.

The Land Registration Act 2002 provides that some interests in land will bind the land even though they are not capable of registration at the Land Registry. These fall into two categories:

- Overriding interests; and
- adverse rights affecting the title to the estate or charge.



Title to registered land is established and evidenced by the entries on the register and the title plan recorded at the Land Registry containing official copies of the entries on the register relating to that land.

### **Unregistered title**

All land in England and Wales is now subject to compulsory registration on the happening of any of a number of trigger events. The most common trigger event is a sale of the land, but since April 1998 the triggers have also included the creation of a first priority legal mortgage over unregistered land. However, an increasingly small but still significant proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights or interests, including a legal mortgage where the mortgagee has taken possession of the title deeds, can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other interests, including equitable charges, must be registered at the Land Charges Registry in order to be effective against a subsequent purchaser or mortgagee of the land.

### **Taking security over land**

A legal charge of registered land may only be effected once the charge has been registered with the Land Registry. Prior to registration, it will take effect only as an equitable mortgage or charge. A registered legal charge is subject to pre-existing registered legal charges but has priority over pre-existing mortgages which are not registered and legal charges registered subsequent to it. Where land is registered therefore, a mortgagee must register its legal charge at the Land Registry in order to secure priority over any subsequent holder of a legal charge. Priority of mortgages (whether legal, including legal charges, or equitable) over registered land is generally governed by the date of registration of the mortgage rather than the date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register its legal charge. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of any interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the mortgaged property. Without the title deeds to the mortgaged property, the borrower is unable to establish the necessary chain of ownership, and is therefore prevented from dealing with his land without the consent of the mortgagee. Priority of mortgages over unregistered land depends on a number of factors including, whether the mortgagee has taken possession of the title deeds, whether the interest is registerable and whether it has been registered at the Land Charges Registry and the date of creation of the mortgage/legal charge. Generally speaking where all else is equal between two competing mortgages, the priority will be determined by the date of creation of the mortgage/legal charge.

### **The originators as mortgagee**

The sale to the mortgages trustee of the BTL loans together with their related security will take effect in equity only and the mortgages trustee will not apply to the Land Registry or the Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in the section "*Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the BTL loans and their related security which may adversely affect payments on the notes*".

### **Enforcement of mortgages**

If a borrower breaches the mortgage conditions of its BTL loan, the BTL loan generally provides that all monies under the BTL loan will become immediately due and payable. The mortgagee would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained expressly or impliedly in the mortgage conditions to pay or repay those amounts. In addition, the mortgagee would then be entitled to enforce its mortgage in relation to the defaulted BTL loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the mortgaged property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the mortgaged property and to third parties as occupier of the mortgaged property.

- The mortgagee may lease the mortgaged property to third parties.
- The mortgagee may appoint a receiver to deal with income from the mortgaged property or exercise other rights delegated to the receiver by the mortgagee. A receiver is the agent of the mortgagor and so, unlike when the mortgagee enters into possession of the mortgaged property, in theory the mortgagee is not liable for the receiver's acts or as occupier of the mortgaged property. In practice, however, the receiver will require indemnities from the mortgagee that appoints it. Similar duties of care will apply to a sale by a receiver as set out below in relation to a sale by a mortgagee.
- The mortgagee may sell the mortgaged property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a mortgaged property sold pursuant to a mortgagee's power of sale becomes the owner of the mortgaged property.
- The mortgagee may foreclose on the mortgaged property. Under foreclosure procedures, the mortgagor's title to the mortgaged property is extinguished so that the mortgagee becomes the owner of the mortgaged property. The remedy is, because of procedural constraints, rarely used.

Notwithstanding the above, in order to enforce a power of sale in respect of a mortgaged property, the mortgagee must generally obtain possession of the mortgaged property (to sell the mortgaged property with vacant possession) either voluntarily or by a court order. Actions for possession are regulated by statute and the courts have certain powers to adjourn possession proceedings, to stay any possession order or postpone the date for delivery of possession. The court will exercise such powers in favour of a borrower broadly where it appears to the court that the borrower is likely to be able, within a reasonable time period, to pay any sums due under the BTL loan or to remedy any other breach of obligation under the BTL loan or its related security. If a possession order in favour of the mortgagee is granted it may be suspended to allow the borrower more time to pay. Once possession is obtained the mortgagee has a duty to the borrower to take reasonable care to obtain a proper price for the mortgaged property. Failure to do so will put the mortgagee at risk of an action by the borrower for breach of such duty, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant mortgagee to sell the property within a reasonable time.

## **Scottish BTL loans**

### *General*

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the "**1970 Act**"). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over the property (the "**secured property**") and is generally the only party to execute the standard security. The second party, who is the lender, is termed the heritable creditor. Each Scottish BTL loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent standard security over the relevant property without the consent of the relevant originator. Upon intimation to the relevant originator (in its capacity as trustee for the mortgages trustee pursuant to the relevant Scottish declaration of trust) of any subsequent standard security the prior ranking of the relevant originator's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the relevant originator or the mortgages trustee is obliged to advance, and interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of "Standard Conditions" into all standard securities, although the majority of these may be varied by agreement between the parties. The originators, along with most major lenders in the residential mortgage market in Scotland, have elected to vary the Standard Conditions by means of their own sets of Scottish mortgage conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular the notice and other procedures to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

### ***Nature of property as security***

While title to all land in Scotland is registered there are currently two possible forms of registration namely the Land Register and Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long leasehold land.

#### ***Land Register***

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long leasehold interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land and the existence of a standard security over it are established by the entries on the Land Register relating to that land. Prior to 22 January 2007, the holder of the title received a land certificate containing official copies of the relevant entries on the Land Register. Similarly, the holder of any standard security over the land in question received a charge certificate containing official copies of the entries relating to that security. However, in terms of the Automated Registration of Title to Land (Electronic Communications) (Scotland) Order 2006 and the Land Registration (Scotland) Rules 2006, with effect from 22 January 2007 such land and charge certificates will only be issued to the relevant title or security holder if so requested at the time of the relevant registration and will otherwise be available in electronic form only. A person registered in the Land Register owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The relevant Land Register entries and land certificates (whether in paper or electronic form) will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests) affecting the land. They will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the relevant Land Register entries and land certificate.

#### ***Sasine Register***

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

#### ***Taking security over land***

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and to secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the secured property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration (being the date of creation) rather than their date of execution. There is no equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

#### ***The originators as heritable creditor***

The sale of the Scottish BTL loans by the seller to the mortgages trustee will be given effect by a number of declarations of trust by the seller, in respect of Scottish BTL loans originated by it, and by YBHL (with the consent of the seller) in respect of Scottish BTL loans originated by YBHL and sold to the seller (and any sale of Scottish BTL loans in the future will be given effect by further declarations of trust), by which the beneficial interest in the Scottish BTL loans will be transferred to the mortgages trustee. The consequences of this are explained in the section "*Risk Factors – There may be risks associated with the*

*fact that the mortgages trustee has no legal title to the BTL loans and their related security which may adversely affect payments on the notes".*

### ***Enforcement of mortgages***

If a borrower defaults under a Scottish BTL loan, the Scottish mortgage conditions provide that all monies under the BTL loan will become immediately due and payable. The relevant originator or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the relevant originator or its successors or assignees as heritable creditor may enforce its standard security in relation to the defaulted Scottish BTL loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- (i) the heritable creditor may enter into possession of the secured property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the secured property and to third parties as occupier of the secured property;
- (ii) the heritable creditor may grant a lease of the secured property of up to seven years (or longer with the court's permission) to third parties;
- (iii) the heritable creditor may sell the secured property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor's power of sale becomes the owner of the property; and
- (iv) the heritable creditor may, in the event that a sale cannot be achieved, foreclose on the secured property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. This remedy is however rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

Notwithstanding the above, in order to enforce its security in respect of a secured property, the heritable creditor must generally obtain possession of the secured property (for example, in order to sell the secured property with vacant possession) either voluntarily or by a court order. Actions for possession are regulated by statute (in particular the 1970 Act and the Mortgage Rights (Scotland) Act 2001 (the "**2001 Act**") and, since the coming into effect of the 2001 Act on 3 December, 2001, the courts have certain powers to suspend the enforcement of the security. The court will exercise such powers in favour of a borrower broadly where it appears to the court that the borrower is likely to be able, within a reasonable time period, to pay any sums due under the BTL loan or to remedy any other breach of obligation under the BTL loan or its related security, or to permit the borrower time to find alternative accommodation. Once possession is obtained the heritable creditor has a duty to the borrower to obtain the best price that can reasonably be obtained for the secured property. Failure to do so will put the heritable creditor at risk of an action by the borrower for breach of such duty, although it is for the borrower to prove breach of such duty. There is also a risk that a borrower may also take court action to force the relevant heritable creditor to sell the secured property within a reasonable time. See further "*Risk Factors – Home owner and tenant protection*".

A court order under section 126 of the CCA is necessary to enforce a standard security in certain circumstances as described in the section "*Regulation of consumer credit lending in the United Kingdom may have an impact on the originators, the mortgages trustee and/or the servicer and may adversely affect the ability of the issuer to make payments in full when due on the notes*".

### ***Borrower's right of redemption***

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

## MATERIAL UNITED KINGDOM TAX CONSEQUENCES

### *Introduction*

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 notes. The comments relate only to the position of persons who are absolute beneficial owners of the notes. Prospective noteholders should be aware that the particular terms of issue of any series of notes as specified in the relevant final terms may affect the tax treatment of that and other series of 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.

### *UK Withholding Tax on the notes*

The notes issued by the issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "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 either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange.

The London Stock Exchange 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 or the Professional Securities Market of that Exchange.

In all cases falling outside the exemption described above, interest on the notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20%) subject to such relief as may be available following a direction from HMRC pursuant to the provisions of any applicable double taxation treaty, or to any other exemption which may apply. However, this withholding will not apply if the relevant interest is paid on notes with a maturity date of less than one year from the date of issue and which are not issued under arrangements the effect of which is to render such notes part of a borrowing with a total term of a year or more.

### *Provision of Information*

Noteholders should note that where any interest on notes is paid to them (or to any person acting on their behalf) by the or any person in the United Kingdom acting on behalf of the issuer (a "**paying agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "**collecting agent**"), then the issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the noteholder (including the noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the noteholder is resident in the United Kingdom for United Kingdom taxation purposes. In certain circumstances, the details provided to HMRC may be passed by HMRC to the tax authorities of certain other jurisdictions.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any notes which constitute "deeply discounted securities" for the purposes of section 18 of the Taxes Management Act 1970 (although in this regard HMRC published guidance for the year 2011/2012 indicates that HMRC will not exercise its power to obtain information in relation to such payments in that year).

Information may also be required to be reported in accordance with regulations made pursuant to the EU Savings Directive (see below).

### ***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 and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at a rate of 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.

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

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

### ***Other Rules Relating to United Kingdom Withholding Tax***

1. Notes may be issued at an issue price of less than 100 per cent of their principal amount. Any discount element on any such notes will not generally be subject to any United Kingdom withholding tax pursuant to the provisions mentioned above, but may be subject to reporting requirements as outlined above.
2. Where notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.
3. Where interest has been paid under deduction of United Kingdom income tax, noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation. Noteholders should seek their own professional advice as regards the withholding tax treatment of any payment on the notes which does not constitute "interest" or "principal" as those terms are understood in United Kingdom tax law.

## MATERIAL UNITED STATES TAX CONSEQUENCES

### Circular 230 Notice

ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES (INCLUDING FEDERAL INCOME TAX AND ERISA ISSUES) SET FORTH IN THIS BASE PROSPECTUS WAS WRITTEN IN CONNECTION WITH THE PROMOTION AND MARKETING BY THE ISSUER AND THE MANAGERS OF THE TRANSACTIONS DESCRIBED IN THIS BASE PROSPECTUS. SUCH DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE LEGAL OR TAX ADVICE TO ANY PERSON AND WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON. EACH INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, EACH PROSPECTIVE INVESTOR (AND EACH EMPLOYEE, REPRESENTATIVE, OR OTHER AGENT OF EACH PROSPECTIVE INVESTOR) MAY DISCLOSE TO ANY AND ALL PERSONS, WITHOUT LIMITATION OF ANY KIND, THE TAX TREATMENT AND TAX STRUCTURE (INCLUDING OPINIONS AND OTHER TAX ANALYSES) OF THE TRANSACTIONS DESCRIBED IN THIS BASE PROSPECTUS AND ALL MATERIALS OF ANY KIND THAT ARE PROVIDED TO THE PROSPECTIVE INVESTOR RELATING TO SUCH TAX TREATMENT AND TAX STRUCTURE (AS SUCH TERMS ARE DEFINED IN TREASURY REGULATION SECTION 1.6011-4). THIS AUTHORIZATION OF TAX DISCLOSURE IS RETROACTIVELY EFFECTIVE TO THE COMMENCEMENT OF DISCUSSIONS WITH PROSPECTIVE INVESTORS REGARDING THE TRANSACTIONS CONTEMPLATED HEREIN.

### General

The following section is a discussion of the anticipated material United States federal income tax consequences of the purchase, ownership and disposition of the Rule 144A notes that may be relevant to a holder of Rule 144A notes that is a United States person (as defined later in this section) or that otherwise is subject to US federal income taxation on a net income basis in respect of a Rule 144A note (any such United States person or holder, a "**US holder**").

In general, the discussion assumes that a holder acquires a Rule 144A note at original issuance at its issue price (generally the first price at which a substantial amount of substantially similar notes are sold for money, excluding sales to bond houses, brokers, or similar persons or organisations acting in the capacity of managers, placement agents or wholesalers) and holds such note as a capital asset. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Rule 144A notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including dealers in stocks, securities or notional principal contracts; traders in securities electing to mark to market; insurance companies; tax-exempt organisations; banks, savings and loan associations and similar financial institutions; taxpayers whose functional currency is other than the US dollar; taxpayers that hold a Rule 144A note as part of a hedge or straddle or synthetic security or a conversion transaction, within the meaning of section 1258 of the United States Internal Revenue Code of 1986, as amended (the "**Code**"); and subsequent purchasers of Rule 144A notes. In addition, this discussion does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the US federal government. In addition, please consult the applicable final terms for a discussion of additional United States federal income tax consequences in the event the Rule 144A notes are denominated in a currency other than US dollars and in the event any of the Rule 144A notes are money market notes that are subject to remarketing arrangements.

This discussion is based on the US federal income tax laws, regulations, rulings and decisions in effect or available as of the date of this base prospectus. All of the foregoing are subject to change, and any change may apply retroactively and could affect the continued validity of this discussion. Further, the following discussion assumes that the issuer, Funding and the mortgages trustee, in its capacity as trustee for the mortgage trust, will conduct their affairs as described in this base prospectus and in accordance with assumptions made by, and representations made to, counsel.

US federal income tax counsel to Clydesdale Bank ("**US federal income tax counsel**"), has prepared and reviewed the statements under the heading "*Material United States tax consequences*". As described under "*Tax status of the issuer, Funding, mortgages trustee and mortgages trust*", US federal income tax counsel is of the opinion that the mortgages trustee, acting as trustee of the mortgages trust, Funding and the issuer will not be subject to US federal income tax as a result of their contemplated activities. As described further under "*Characterisation of the Rule 144A notes*", US federal income tax counsel is also of the opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A notes, the Rule 144A notes that are class A notes, class B notes, class C notes and class D notes will be treated as debt for US federal income tax purposes and the Rule 144A notes that are class E notes should be treated as debt for US federal income tax purposes. If the final terms applicable to a series of class E notes that are Rule 144A notes specify that such series of class E notes will be treated as debt for US federal income tax purposes, then the statements in this section "*Material United States tax consequences*" regarding the Rule 144A notes that are class A notes, class B notes, class C notes and class D notes will also, where applicable, apply to such series of class E notes.

In addition, the issuer intends to treat the Rule 144A notes that are class Z notes as equity for US federal income tax purposes.

An opinion of US federal income tax counsel is not binding on the Internal Revenue Service (the "**IRS**") or the courts, and no rulings will be sought from the IRS on any of the issues discussed in this section. As a result, the IRS or a court may disagree with all or part of the discussion herein. **Accordingly, the issuer encourages persons considering the purchase of Rule 144A notes to consult their own tax advisors as to the personal US tax consequences of the purchase, ownership and disposition of the Rule 144A notes, including the possible application of state, local, non-US or other tax laws, and other US federal income tax issues affecting the transaction.**

As used in this section the term "**United States person**" means (a) an individual who is a citizen or resident of the United States, (b) an entity treated as a corporation or partnership for United States federal income tax purposes that is organised or created under the law of the United States, a State thereof, or the District of Columbia, (c) any estate the income of which is subject to taxation in the United States regardless of source, and (d) any trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust, or the trust was in existence on August 20, 1996 and is eligible to elect, and has made a valid election, to be treated as a United States person despite not meeting those requirements.

If an entity that is treated as a partnership for US federal income tax purposes holds Rule 144A notes, the US federal income tax treatment generally will depend upon the activities of the partnership and the status of the partners.

#### **Tax status of the issuer, Funding, mortgages trustee and mortgages trust**

Under the programme documents, each of the issuer, Funding, and the mortgages trustee, acting in its capacity as trustee of the mortgages trust, covenants not to engage in any activities in the United States (directly or through agents), not to derive any income from sources within the United States as determined under US federal income tax principles, and not to hold any mortgaged property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under US federal income tax principles. US federal income tax counsel is of the opinion that, assuming compliance with the programme documents, none of the issuer, Funding or the mortgages trustee, acting in its capacity as trustee of the mortgages trust, will be subject to US federal income tax. No elections will be made to treat the issuer, Funding or the mortgage trust or any of their assets as a REMIC (a type of securitisation vehicle having a special tax status under the Code).



## Characterisation of the Rule 144A notes

Although there is no authority regarding the treatment of instruments that are substantially similar to the Rule 144A notes, it is the opinion of US federal income tax counsel that the Rule 144A notes that are class A notes, class B notes, class C notes and class D notes will be treated as debt for US federal income tax purposes and that the Rule 144A notes that are class E notes should be treated as debt for US federal income tax purposes. See "*Alternative characterisation of the Rule 144A notes*". The issuer intends to treat the Rule 144A notes (other than Rule 144A notes that are class Z notes) as debt of the issuer for all purposes, including US federal income tax purposes. In addition, the issuer intends to treat the Rule 144A notes that are class Z notes as equity for US federal income tax purposes. In general, the characterisation of an instrument for US federal income tax purposes as debt or equity by its issuer as of the time of issuance is binding on a holder (but not the IRS), unless the holder takes an inconsistent position and discloses such position on its US federal income tax return.

The Rule 144A notes will not be qualifying real property BTL loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under sections 7701(a)(19)(C), 856(c) or 860G(a)(3) of the Code, respectively.

## Taxation of US holders of the Rule 144A notes (other than Rule 144A notes that are class Z notes)

The following discussion applies to US holders of the Rule 144A notes (other than Rule 144A notes that are class Z notes) ("**Rule 144A priority notes**").

*Qualified Stated Interest and Original Issue Discount ("OID")*. For purposes of this discussion, it is assumed that the Rule 144A priority notes will accrue interest at a rate equal to LIBOR plus a margin (or other qualified floating rate within the meaning of Treas. Reg. § 1.1275-5), and, hence the Rule 144A priority notes should be treated as "variable rate debt instruments" for US federal income tax purposes. Please consult the applicable final terms in the event the Rule 144A priority notes accrue interest at a rate other than a qualified floating rate.

With respect to Rule 144A priority notes that have a stated maturity of more than one year (i.e., other than short-term obligations, discussed below), the issuer intends to treat interest on the Rule 144A priority notes as "qualified stated interest" under United States Treasury regulations relating to original issue discount (hereafter, the "**OID regulations**"). As a consequence, assuming that such interest is treated as qualified stated interest, discount on such Rule 144A priority notes arising from an issuance at less than par will only be required to be accrued under the OID regulations if such discount exceeds a statutorily defined *de minimis* amount. Qualified stated interest, which generally must be unconditionally payable at least annually, is taxed under a holder's normal method of accounting. *De minimis* OID is included in income on a *pro rata* basis as principal payments are made on such Rule 144A priority notes. It is possible that interest on certain Rule 144A priority notes could be treated as OID because such interest is subject to deferral in certain limited circumstances (as described under Condition 4(D) (*Deferred Interest*) of the terms and conditions of the notes.

A US holder of a Rule 144A priority note issued with OID must include OID in income over the term of such Rule 144A note under a constant yield method that takes into account the compounding of interest. Under the Code, OID is calculated and accrued using prepayment assumptions where payments on a debt instrument may be accelerated by reason of prepayments of other obligations securing such debt instrument. Moreover, the legislative history to the provisions provides that the same prepayment assumptions used to price a debt instrument be used to calculate OID, as well as to accrue market discount and amortise premium. Here, prepayment of the BTL loans is not expected to alter the scheduled principal payments on the Rule 144A priority notes and accordingly, the issuer intends to assume that the Rule 144A priority notes will have their principal repaid according to the schedule for purposes of accruing any OID. No representation is made that the BTL loans will pay on the basis of such prepayment assumption or in accordance with any other prepayment scenario.

With respect to Rule 144A priority notes that have a stated maturity of not greater than one year ("**short-term obligations**"), US holders that report income for US federal income tax purposes under the accrual method are required to accrue OID on short-term obligations on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A US holder who is an individual or other cash method holder is not required to accrue OID on a short-term obligation unless such holder elects to do so. If such an election is not made, any gain recognised by such

holder on the sale, exchange or maturity of such short-term obligation will be ordinary income to the extent of the holder's rateable share of OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of the sale, exchange or maturity.

As an alternative to the above treatments, US holders may elect to include in gross income all interest with respect to the Rule 144A priority notes, including stated interest, acquisition discount, OID, *de minimis* OID, market discount, *de minimis* market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium, using the constant yield method described above.

*Sales and Retirement.* In general, a US holder of a Rule 144A priority note will have a basis in such note equal to the cost of the note to such holder, and reduced by any payments thereon other than payments of qualified stated interest. Upon a sale or exchange of the note, a US holder will generally recognise gain or loss equal to the difference between the amount realised (less any accrued interest, which would be taxable as such) and the holder's tax basis in the note. Such gain or loss will be long-term capital gain or loss if the US holder has held the note for more than one year at the time of disposition. In certain circumstances, US holders that are individuals may be entitled to preferential treatment for net long-term capital gains. The ability of US holders to offset capital losses against ordinary income is limited.

#### **Foreign Currency Gain or Loss with respect to Interest on Rule 144A notes (other than Rule 144A notes that are class Z notes) that are not denominated in US dollars**

The following discussion applies to US holders of the Rule 144A notes (other than Rule 144A notes that are class Z notes) that are denominated in a currency other than US dollars ("**Rule 144A foreign currency priority notes**") whether or not the US holders receive payments in the currency in which the Rule 144A foreign currency priority notes are denominated.

A US holder that uses the cash method of accounting for US federal income tax purposes and that receives a payment of interest on a Rule 144A foreign currency priority note will be required to include in income the US dollar value of the payment in the foreign currency (determined by reference to the spot rate in effect on the date such payment is received) regardless of whether the payment is in fact converted to US dollars at that time, and such US dollar value will be the US holder's tax basis in the foreign currency amount.

A US holder that uses the accrual method of accounting for US federal income tax purposes, or that otherwise is required to accrue interest prior to receipt, generally will be required to include in income the US dollar value of the amount of interest income that has accrued and is otherwise required to be taken into account with respect to a Rule 144A foreign currency priority note during the relevant accrual period. The US dollar value of such accrued income will be determined by translating such income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. A US holder will recognise exchange gain or loss (which will be treated as ordinary income or loss) with respect to accrued interest income on the date such income is received. The amount of such exchange gain or loss will equal the difference, if any, between the US dollar value of the payment of foreign currency received (determined on the date such payment is received) in respect of such accrual period and the US dollar value of interest income that has accrued during such accrual period (as determined above). Such US holder may elect to determine the US dollar value of the interest by reference to the spot rate in effect on the last day of the interest accrual period (and in the case of a partial accrual period, the spot rate on the last day of the taxable year). If the last day of the interest accrual period is within five business days of the receipt of the payment, the electing US holder may translate interest at the spot rate on the date of the receipt. This election will apply to all debt instruments held by a US holder at the beginning of the first taxable year to which the election applies and to all debt instruments thereafter acquired by the US holder and will be irrevocable without the consent of the IRS.

Any exchange gain or loss resulting from the disposition of the foreign currency amount subsequent to the receipt of such amount by the US holder will be treated as ordinary income or loss. Any exchange gain or loss generally will be treated as U.S. source income or loss for foreign tax credit purposes.

To the extent that a Rule 144A foreign currency priority note is issued with OID, the US holder of such Note must accrue OID in the same manner as an accrual method US holder above.

## **Foreign Currency Gain or Loss on Sale, Retirement or Other Taxable Disposition of the Rule 144A foreign currency priority notes**

The following discussion applies to US holders of the Rule 144A foreign currency priority notes whether or not the US holders receive payments in the foreign currency.

Generally, the amount realised upon the sale, retirement or other taxable disposition of a Rule 144A foreign currency priority note will equal the US dollar value of the foreign currency amount received as determined using the spot rate on the date of such sale, retirement or other taxable disposition. To the extent the amount realised upon the sale, retirement or other taxable disposition of a Rule 144A foreign currency priority note represents accrued but unpaid interest or OID, such amounts must be taken into account as interest income, with exchange gain or loss computed as described above. While the Rule 144A foreign currency priority notes are traded on a qualifying established securities market, a cash basis US holder (or an accrual basis US holder that elects to be treated as a cash basis taxpayer pursuant to the applicable Treasury Regulations) that sells a Rule 144A foreign currency priority note and receives foreign currency will have an amount realised equal to the US dollar value of the foreign currency amount received, determined using the spot rate on the settlement date of the sale. An accrual basis US holder that does not make the cash basis election and that receives foreign currency will have an amount realised equal to the US dollar value of the foreign currency amount received, determined using the spot rate of the date of sale. Any gain or loss realised upon the sale, retirement or other taxable disposition of a Rule 144A foreign currency priority note that is attributable to fluctuations in exchange rates will be exchange gain or loss which will not be treated as interest income or expense and will be ordinary income or loss. Gain or loss realised between the purchase of the Rule 144A foreign currency priority notes and the sale of the Rule 144A foreign currency priority notes attributable to fluctuations in currency exchange rates will equal the difference between the US dollar value of the principal amount of those notes in the foreign currency, determined on the date such payment is received or the Rule 144A foreign currency priority notes is disposed of, and the US dollar value of the principal amount of the Rule 144A foreign currency priority notes in the foreign currency, determined on the date the US holder purchased the Rule 144A foreign currency priority notes. Such exchange gain or loss will be recognised only to the extent of the total gain or loss realised by the US holder on the sale, retirement or other taxable disposition of the Rule 144A foreign currency priority notes.

Any exchange gain or loss resulting from the disposition of the foreign currency amount subsequent to the receipt by the US holder will be treated as ordinary income or loss. Any exchange gain or loss generally will be treated as U.S. source income or loss for foreign tax credit purposes.

### **Alternative characterisation of the Rule 144A notes**

The proper characterisation of the arrangement involving the issuer and the holders of the Rule 144A priority notes is not clear because there is no authority on transactions comparable to that contemplated herein. Prospective investors are encouraged to consult their own tax advisors regarding the personal tax consequences with respect to the potential impact of an alternative characterisation of the Rule 144A priority notes for US federal income tax purposes. One possible alternative characterisation is that the IRS could assert that the lowest subordinated class of notes or any other class of notes should be treated as equity in the issuer for US federal income tax purposes because the issuer may not have substantial equity. If any class of Rule 144A priority notes were treated as equity, US holders of such notes would be treated as owning equity in a passive foreign investment company ("PFIC") which, depending on the level of ownership of such US holder and certain other factors, might also constitute an interest in a controlled foreign corporation ("CFC") for such US holder.

A Rule 144A priority note that is treated as an equity interest in a PFIC or CFC rather than a debt instrument for US federal income tax purposes would have certain timing and character consequences to a US holder and could require certain elections and disclosures that would need to be made shortly after acquisition to avoid potentially adverse US federal income tax consequences. If the issuer was treated as a PFIC in which a US holder owns an equity interest, unless a United States person makes a "QEF election" or "mark to market election", such person will be subject to a special tax regime (i) in respect of gains realised on the sale or other disposition of its Rule 144A priority notes, and (ii) in respect of distributions on its Rule 144A priority notes held for more than one taxable year to the extent those distributions constitute "excess distributions". Although not free from doubt, the PFIC rules should not apply to gain realised in respect of any Rule 144A priority notes disposed of during the same taxable year in which such Rule 144A priority notes are acquired. An excess distribution generally includes dividends

or other distributions received from a PFIC in any taxable year to the extent the amount of such distributions exceeds 125 per cent. of the average distributions for the three preceding years (or, if shorter, the investor's holding period). Because the Rule 144A priority notes pay interest at a floating rate, it is possible that a United States person will receive excess distributions as a result of fluctuations in the floating rate over the term of the Rule 144A priority notes. In general, under the PFIC rules, a United States person will be required to allocate such excess distributions and any gain realised on a sale of its Rule 144A priority notes to each day during such person's holding period for the Rule 144A priority notes, and will be taxable at the highest rate of taxation applicable to the Rule 144A priority notes for the year to which the excess distribution or gain is allocable (without regard to such person's other items of income and loss for such taxable year) (the "**deferred tax**"). The deferred tax (other than the tax on amounts allocable to the year of disposition or receipt of the distribution) will then be increased by an interest charge computed by reference to the rate generally applicable to underpayments of tax (which interest charge generally will be non-deductible interest expense for individual taxpayers).

**THE ISSUER DOES NOT INTEND TO PROVIDE INFORMATION THAT WOULD ENABLE A HOLDER OF A RULE 144A PRIORITY NOTE TO MAKE A QEF ELECTION AND THE MARK TO MARKET ELECTION WILL ONLY BE AVAILABLE DURING ANY PERIOD IN WHICH THE RULE 144A PRIORITY NOTES ARE TRADED ON A QUALIFYING EXCHANGE OR MARKET.**

The issuer encourages persons considering the purchase or ownership of 10 per cent. or more of any class of Rule 144A priority notes (or combination of classes) that is treated as equity for US federal income tax purposes to consult their own tax advisors regarding the personal US tax consequences resulting from such an acquisition under the special rules applicable to CFCs under the Code.

**Tax Shelter Reporting Requirements – Currency Exchange Losses**

Under Treasury regulations on tax shelter disclosure and list maintenance, taxpayers that enter into "reportable transactions" on or after 1 January 2003, are required to file information returns. In the case of a corporation or a partnership whose partners are all corporations, a reportable transaction includes any transaction that generates, or reasonably can be expected to generate, a loss claimed under Section 165 of the Code (without taking into account any offsetting items) (a "**Section 165 loss**") of at least US\$10 million in any one taxable year or US\$20 million in any combination of taxable years. In the case of any other partnership, a reportable transaction includes any transaction that generates, or reasonably can be expected to generate a Section 165 loss of at least US\$2 million in any taxable year or US\$4 million in any combination of taxable years. In the case of an individual or trust, a reportable transaction includes any transaction that generates, or reasonably can be expected to generate, a Section 165 loss of at least US\$50,000 in any one taxable year arising from a currency exchange loss. In determining whether a transaction results in a taxpayer claiming a loss that meets the threshold over a combination of taxable years, only losses claimed in the taxable year that the transaction is entered into and the five succeeding taxable years are combined. Accordingly, if a US holder realises currency exchange losses on the Rule 144A priority notes satisfying the monetary thresholds discussed above, such US holder would have to file an information return. Prospective investors should consult their tax advisers regarding these information return requirements.

For further information, see "*Foreign Currency Gain or Loss on Sale, Retirement or Other Taxable Disposition of the Rule 144A foreign currency priority notes*".

**Distributions on the class Z notes to US holders**

Except as provided below, a US holder of a class Z note is required to include in income payments of "interest" as distributions on equity of the issuer (with no dividends received deduction available to corporate US holders). In addition, generally, "interest" income derived by a US holder of a class Z note which is treated as equity should constitute foreign source income that will be treated as passive category income for United States foreign tax credit purposes (or, in the case of certain US holders, general category income). Dividend income derived by a US holder of a class Z note will not be eligible for the preferential income tax rates provided by the Jobs and Growth Tax Relief Reconciliation Act of 2003. Each US holder of a class Z note should consult its own United States tax advisers as to how it should treat this income for purposes of its particular foreign tax credit calculation.

### *Investment in a Passive Foreign Investment Company*

The issuer expects to be treated as a "passive foreign investment company" (a "**PFIC**"). US holders of class Z notes will be considered US shareholders in a PFIC (each, a "**US shareholder**"). In general, a US shareholder in a PFIC may desire to make an election to treat the issuer as a qualified electing fund ("**QEF**") with respect to such US shareholder. Generally, a QEF election should be made on or before the due date for filing a US shareholder's federal income tax return for the first taxable year for which it held the class Z notes. An electing US shareholder will be required to include in gross income such US shareholder's *pro rata* share of the issuer's ordinary earnings and to include as long-term capital gain such US shareholder's *pro rata* share of the issuer's net capital gain, whether or not distributed, assuming that the issuer does not constitute a controlled foreign corporation in which the US shareholder is a US shareholder, as discussed further below. A US holder will not be eligible for the dividends received deduction in respect of such income or gain. In addition, any losses of the issuer in a taxable year will not be available to such US holder. In certain cases in which a QEF does not distribute all of its earnings in a taxable year, US shareholders may also be permitted to elect generally to defer payment of the taxes on the QEF's undistributed earnings until such amounts are distributed or the class Z notes are disposed of, subject to an interest charge on the deferred amount. In this respect, prospective purchasers of class Z notes should be aware that the issuer may have significant earnings, but distributions attributable to such earnings may be deferred, perhaps for a substantial period of time. Thus, absent an election to defer payment of taxes, US shareholders of the issuer that make a QEF election may owe tax on significant "phantom" income.

In addition, it should be noted that if the issuer disposes of any loans or other investments that are not in registered form, a US shareholder making a QEF election (i) may not be permitted to take a deduction for any loss attributable to such obligations and (ii) may be required to treat earnings as ordinary income even though such earnings would otherwise constitute capital gains.

The issuer does not intend to provide information to holders of the class Z notes (or any other class of notes that is treated as equity for United States federal income tax purposes) that a US shareholder making a QEF election will need for United States federal income tax reporting purposes (e.g., the US shareholder's *pro rata* share of ordinary income and net capital gain as computed for United States federal income tax purposes) and the issuer will not provide a PFIC Annual Information Statement as described in Treasury Regulations. US shareholders that are considering making a QEF election should consult their United States tax advisers with respect to their particular circumstances, including issues related to their annual United States federal income tax reporting obligations under the PFIC rules and the computations required to effect a QEF election.

If a US shareholder does not make a QEF election and the PFIC rules are otherwise applicable, a US shareholder that has held such class Z notes during more than one taxable year would be required to report any gain on disposition of any class Z notes as ordinary income and to compute the tax liability on such gain and certain excess distributions as if the items had been earned ratably over each day in the US shareholder's holding period for the class Z notes and would be subject to the highest ordinary income tax rate for each prior taxable year in which the items were treated as having been earned, regardless of the rate otherwise applicable to the US shareholder. Such US shareholder would also be liable for an additional tax equal to interest on the tax liability attributable to such income allocated to prior years as if such liability had been due with respect to each such prior year. An excess distribution is the amount by which distributions during a taxable year in respect of a class Z note exceed 125 per cent. of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the US shareholder's holding period for the class Z notes). Because the class Z notes are expected to pay "interest" at a floating rate, it is possible that a US holder will receive excess distributions as a result of fluctuations in such floating rate over the term of the class Z notes. US shareholders of class Z notes should consider carefully whether to make a QEF election with respect to the class Z notes and the consequences of not making such an election.

### *Investment in a Controlled Foreign Corporation*

Depending on a US holder's degree of ownership of the equity interests in the issuer, the issuer may constitute a controlled foreign corporation (a "**CFC**"). In general, a foreign corporation will constitute a CFC if more than 50 per cent. of the shares of the corporation, measured by reference to combined voting power or value, are held, directly or indirectly, by US shareholders. For this purpose, a "**US shareholder**" is any person that is a US person for United States federal income tax purposes that

possesses (actually or constructively) 10 per cent. or more of the combined voting power of all classes of shares of a corporation (persons who own interests in a US pass-through entity that is a US shareholder will also be subject to the CFC rules). US holders possessing 10 per cent. or more of the class Z notes (or any combination thereof) are US shareholders. If more than 50 per cent. of the equity interests in the issuer were held by such US shareholders, the issuer would be treated as a CFC.

If the issuer is properly treated as a CFC, a US shareholder would be treated, subject to certain exceptions, as receiving a dividend at the end of the taxable year of the issuer in an amount equal to that person's *pro rata* share of the "**subpart F income**" and certain US source income of the issuer. Among other items, and subject to certain exceptions, subpart F income includes dividends, interest, annuities, gains from the sale of shares and securities, certain gains from commodities transactions, certain types of insurance income and income from certain transactions with related parties. It is anticipated that all of the issuer's income would be subpart F income.

If the issuer is properly treated as a CFC, a US shareholder would be taxable on the issuer's subpart F income under the CFC rules and not under the PFIC rules. As a result, to the extent subpart F income of the issuer includes net capital gains, such gains will be treated as ordinary income of the US shareholder under the CFC rules, notwithstanding the fact that the character of such gains generally would otherwise be preserved under the PFIC rules if a QEF election were made.

US holders of the class Z notes should consult their United States tax advisers as to timing and character mismatches that may result from the issuer being treated as a PFIC or CFC.

#### *Distributions on class Z notes*

The treatment of actual distributions on the class Z notes, in very general terms, will vary depending on (a) (i) whether a US holder has made a timely QEF election as described above, and (ii) the US shareholder's *pro rata* share of the issuer's ordinary earnings (as determined under the Code) and the US shareholder's *pro rata* share of the issuer's net capital gain for the US holder's taxable year in which or with which the taxable year of the issuer ends, and (b) whether a US holder has made a timely mark-to-market election as described above. See "*Distributions on the class Z notes to US holders—Investment in a Passive Foreign Investment Company*" for more information. If a timely QEF election has been made, distributions should be allocated first to amounts previously taxed pursuant to the QEF election (or pursuant to the CFC rules, if applicable) and to this extent would not be taxable to US holders. Distributions in excess of such previously taxed amounts will be treated first as a nontaxable return of capital and then as capital gain.

In the event that a US holder does not make a QEF election or a mark-to-market election, then except to the extent that distributions may be attributable to amounts previously taxed pursuant to the CFC rules, some or all of any distributions with respect to the class Z notes may constitute excess distributions, taxable as previously described. See "*Distributions on the class Z notes to US holders—Investment in a Passive Foreign Investment Company*" for more information.

A United States holder will determine the United States dollar value of a distribution which is denominated in a foreign currency made on the class Z notes (or any other class of notes which is treated as equity for United States federal income tax purposes) by translating the foreign currency payment at the spot rate of exchange on the date of such distribution.

#### **Disposition of class Z notes**

In general, a US holder of a class Z note will recognise gain or loss upon the sale or other disposition of a class Z note equal to the difference between the amount realized and such holder's adjusted tax basis in the class Z note. If the issuer is not a CFC and a US holder has made a timely QEF election as described above, such gain or loss will be long-term capital gain or loss if the US holder held the class Z notes for more than 12 months at the time of the disposition.

Initially, the tax basis of a US holder should equal the United States dollar value of the amount paid for a class Z note. Such basis will be increased by amounts taxable to such holder by virtue of a QEF election or the CFC rules and decreased by actual distributions from the issuer that are deemed to consist of such previously taxed amounts or are treated as nontaxable returns of capital.

If a US holder does not make a QEF election or mark-to-market election, any gain realised on the sale or exchange of a class Z note will be subject to an interest charge and taxed as ordinary income. See "*Distributions on the class Z notes to US holders—Investment in a Passive Foreign Investment Company*" for more information.

If the issuer were treated as a CFC and a US holder were treated as a US shareholder therein, then any gain realised by such holder upon the disposition of class Z notes would be treated as ordinary income to the extent of the current and accumulated earnings and profits of the issuer. In this respect, earnings and profits would not include any amounts previously taxed pursuant to a timely QEF election or pursuant to the CFC rules.

A US holder will determine the United States dollar value of amounts realised which are denominated in a foreign currency from the sale, redemption or other disposition of a class Z note (or any other class of notes which is treated as equity for United States federal income tax purposes) by translating the foreign currency payment at the spot rate of exchange on the date of such sale, redemption or other disposition.

### **Backup withholding**

Backup withholding of US federal income tax may apply to payments made in respect of the notes to registered owners who are not "exempt recipients" and who fail to provide certain identifying information (such as the registered owner's taxpayer identification number) in the required manner. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Rule 144A notes to a United States person must be reported to the IRS, unless such person is an exempt recipient or establishes an exemption. With respect to non-United States persons investing in the Rule 144A notes, to ensure they qualify for an exemption, the paying agent will require such beneficial holder to provide a statement from the individual or corporation that:

- is signed under penalties of perjury by the beneficial owner of the note,
- certifies that such owner is not a United States person, and
- provides the beneficial owner's name and address.

Generally, this statement is made on an IRS Form W-8BEN ("**W-8BEN**"), which is effective for the remainder of the year of signature plus three full calendar years unless a change in circumstances makes any information on the form incorrect. The noteholder must inform the paying agent within 30 days of such change and furnish a new W-8BEN. A noteholder that is not an individual or an entity treated as a corporation for US federal income tax purposes or that is not holding the notes on its own behalf may have substantially increased reporting requirements. For example, a non-US partnership or non-US trust generally must provide the certification from each of its partners or beneficiaries along with certain additional information. Certain securities clearing organisations, and other entities who are not beneficial owners, may be able to provide a signed statement to the paying agent. However, in such case, the signed statement may require a copy of the beneficial owner's W-8BEN (or the substitute form).

In addition, upon the sale of a note to (or through) a broker, the broker must report the sale and backup withhold on the entire purchase price, unless (i) the broker determines that the seller is a corporation or other exempt recipient, (ii) the seller certifies (as described above) that such seller is a non-United States person and certain other conditions are met or (iii) the broker has the taxpayer identification number of the recipient properly certified as correct.

Any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's US federal income tax provided the required information is furnished to the IRS.

Prospective investors considering purchasing Rule 144A notes are encouraged to consult their own tax advisors as to the personal US tax consequences of the foregoing withholding tax requirements.

### **Information Reporting Regarding Specified Foreign Financial Assets**

Recently enacted legislation requires an individual US person with an interest in any "specified foreign financial asset" to file a report with the IRS with information relating to the asset and the maximum value

thereof for any taxable year in which the aggregate value of all such assets is greater than US\$50,000 (or such higher dollar amount as prescribed by US Treasury Regulations). Specified foreign financial assets include any depository or custodial account held at a foreign financial institution; any debt or equity interest in a foreign financial institution if such interest is not regularly traded on an established securities market; and, if not held at a financial institution, (i) any stock or security issued by a non-United States person, (ii) any financial instrument or contract held for investment where the issuer or counterparty is a non-United States person, and (iii) any interest in an entity which is a non-US person. Penalties apply to any failure to file a required report. Additionally, in the event a US person holding a specified foreign financial asset does not file the information report relating to disclosure of specified foreign financial assets, the statute of limitations on the assessment and collection of United States federal income taxes of such US person for the related tax year will not begin until such information report is filed. US holders should consult their own tax advisor as to the possible application to them of this information reporting requirement and related statute of limitations tolling provision with respect to their investment in the Rule 144A notes.



## **MATERIAL JERSEY TAX CONSIDERATIONS**

### **Tax status of the mortgages trustee and the mortgages trust**

The following summary of the anticipated tax treatment in Jersey of the mortgages trustee is based on Jersey taxation law in force at the date of this document and tax practice as it is understood to apply at the date of this document. It does not constitute legal or tax advice and does not address all aspects of Jersey tax law and practice (including such tax law and practice as it applies to any land or building situated in Jersey).

The mortgages trustee is resident for tax purposes in Jersey and is subject to income tax in Jersey at a rate of zero per cent. on the basis that it is not a financial services company or a utility company for the purposes of the Income Tax (Jersey) Law 1961, as amended.

The mortgages trust is not a legal entity for Jersey tax purposes and, therefore, it will not be subject to Jersey income tax.

## ERISA CONSIDERATIONS

Unless otherwise specified in the applicable final terms, the Rule 144A notes (other than, unless otherwise specified in the applicable final terms, the Rule 144A notes that are class E notes (the treatment of which remains uncertain) and the Rule 144A notes that are class Z notes) will be eligible for purchase by employee benefit plans and other plans subject to the US Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and/or the provisions of Section 4975 of the Code and by governmental or church plans that are subject to state, local or other federal law of the United States that is substantially similar to ERISA or Section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on "employee benefit plans" (as defined in Section 3(3) of ERISA) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, "**ERISA Plans**") and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "*Risk factors*" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the "**Plans**")) and certain persons (referred to as "*parties in interest*" or "*disqualified persons*") having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The seller, the issuer, the servicer, the mortgages trustee, Funding or any other party to the transactions contemplated by the programme documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the Rule 144A notes is acquired or held by a Plan with respect to which the issuer, the servicer, the mortgages trustee, Funding or any other party to such transactions, is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any such notes and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption ("**PTCE**") 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a "qualified professional asset manager"), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) PTCE 96-23 (relating to transactions determined by in-house asset managers) and the service provider exemption under new Section 408(b)(17) of ERISA and new Section 4975(d)(20) of the Code. There can be no assurance that any of these exemptions or any other exemption will be available with respect to any particular transaction involving the notes.

Unless otherwise specified in the applicable final terms, each purchaser and subsequent transferee of any Rule 144A note (other than, unless otherwise specified in the applicable final terms, the Rule 144A notes that are class E notes (the treatment of which remains uncertain) and the Rule 144A notes that are class Z notes) will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that (A) it is not an ERISA Plan or other Plan, an entity whose underlying assets include the assets of any such ERISA Plan or other Plan (each of the foregoing, a "**Benefit Plan Investor**"), or a governmental or church plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (B) its purchase, holding and disposition of such note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental or church plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available.

Each purchaser and subsequent transferee of any Rule 144A note that is a class Z note, and unless otherwise specified in the applicable final terms, any Rule 144A note that is a class E note, and of any Reg S notes will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that (i) it is not (and is not deemed for purposes of ERISA or the Code to be) a Benefit Plan Investor, or (ii)(A) it is an employee benefit plan that is not a Benefit Plan Investor which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**") and (B) the purchase and holding of such notes, as applicable, do not and will not violate any such substantially Similar Law. Any purported purchase or transfer of any note or interest therein that does not comply with the foregoing shall be null and void ab initio.

In addition, Section 3(42) of ERISA and a regulation promulgated by the US Department of Labor at 29 C.F.R. Section 2510.3—101 (collectively, the "**Plan Asset Regulation**"), describe what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an "equity interest" of an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the 1940 Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in debt form may be considered an "equity interest" if it has "substantial equity features". If the issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the Rule 144A notes, such plan assets would include an undivided interest in the assets held by the issuer and transactions by the issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code. **Investors should note that concerns in respect of the foregoing may be magnified here, particularly in the case of the lowest subordinated class of notes.** In addition, in analyzing these issues with their own counsel, prospective purchasers of notes should consider, among other things, that, although special tax counsel has concluded that the Rule 144A notes that are class A notes, class B notes, class C notes and class D notes will be treated as debt for federal income tax purposes, see "*Material United States tax consequences*", it is not clear whether the debt would be treated for tax purposes as issued by the issuer. If the underlying assets of the issuer are deemed to be Plan assets, the obligations and other responsibilities of Plan sponsors, Plan fiduciaries and Plan administrators, and of parties in interest and disqualified persons, under Parts 1 and 4 of Subtitle B of Title I of ERISA and Section 4975 of the Code, as applicable, may be expanded, and there may be an increase in their liability under these and other provisions of ERISA and the Code (except to the extent (if any) that a favourable statutory or administrative exemption or exception applies). In addition, various providers of fiduciary or other services to the issuer, and any other parties with authority or control with respect to the issuer, could be deemed to be Plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services.

Any insurance company proposing to purchase any of the Rule 144A notes (other than, unless otherwise specified in the applicable final terms, the Rule 144A notes that are class E notes (the treatment of which remains uncertain) and the Rule 144A notes that are class Z notes) using the assets of its general account should consider the extent to which such investment would be subject to the requirements of ERISA in light of the US Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* and under any subsequent guidance that may become available relating to that decision. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the Department of Labor for transactions involving insurance company general accounts in PTCE 95—60, 60 Fed. Reg. 35925 (July 12, 1995), the enactment of Section 401(c) of ERISA by the Small Business Job Protection Act of 1996 (including, without limitation, the expiration of any relief granted thereunder) and the regulations thereunder.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the Rule 144A notes should determine whether, under the documents and instruments governing the Plan, an investment in the notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment loan portfolio. Any Plan proposing to invest in such notes (including any governmental plan) should consult with its counsel to confirm, among other things, that such investment will not result in a

non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental or church plan, any substantially similar state, local or other federal law).

The sale of any notes to a Plan is in no respect a representation by the seller, the issuer, the servicer, the mortgages trustee, Funding or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## **UNITED STATES LEGAL INVESTMENT CONSIDERATIONS**

None of the notes is a "mortgage related security" under the United States Secondary Mortgage Market Enhancement Act of 1984, as amended.

The appropriate characterisation of the notes under various legal investment restrictions and, consequently, the ability of investors subject to these restrictions to purchase such notes, is subject to significant interpretative uncertainties. These uncertainties may adversely affect the liquidity of, and the creation of any secondary market for, the notes. Accordingly, investors should consult their own legal advisors in determining whether and the extent to which the notes constitute legal investments or are subject to investment, capital or other restrictions.

## TRANSFER RESTRICTIONS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to making any offer, resale, pledge or transfer of the notes.

The notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other relevant jurisdiction and accordingly, may not be reoffered, resold, pledged or otherwise transferred except in accordance with the restrictions described below.

### Legends

Unless determined otherwise by the issuer in accordance with applicable law and so long as any class of notes is outstanding, a Reg S global note certificate will bear a legend substantially as set forth below:

NEITHER THIS NOTE NOR BENEFICIAL INTERESTS HEREIN HAVE BEEN OR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

BY PURCHASING OR OTHERWISE ACQUIRING ANY BENEFICIAL INTEREST IN THIS GLOBAL NOTE, EACH OWNER OF SUCH BENEFICIAL INTEREST WILL BE DEEMED TO HAVE AGREED FOR THE BENEFIT OF THE ISSUER THAT IF IT SHOULD DECIDE TO DISPOSE OF ITS BENEFICIAL INTERESTS REPRESENTED BY THIS GLOBAL NOTE, SUCH INTERESTS MAY BE OFFERED, RESOLD OR OTHERWISE TRANSFERRED ONLY PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE LAWS OF ANY STATE OF THE UNITED STATES. ACCORDINGLY, ANY TRANSFER OF THE NOTES PRIOR TO THE TERMINATION OF THE DISTRIBUTION COMPLIANCE PERIOD MAY ONLY BE MADE: (A) TO A NON-U.S. PERSON IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT OR (B) TO OR FOR THE ACCOUNT OR BENEFIT OF PERSONS WHO ARE QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT). IN THE CASE OF ANY SUCH TRANSFER PURSUANT TO CLAUSE (B), (1) THE TRANSFEREE WILL BE REQUIRED TO HAVE THE NOTES SO TRANSFERRED BE REPRESENTED BY AN INTEREST IN THE RULE 144A GLOBAL NOTE CERTIFICATES (AS DEFINED IN THE ISSUER TRUST DEED) AND (2) THE TRANSFEROR WILL BE REQUIRED TO DELIVER A TRANSFER CERTIFICATE (THE FORM OF WHICH IS ATTACHED TO THE ISSUER TRUST DEED AND IS AVAILABLE FROM THE REGISTRAR).

[BY ITS ACQUISITION AND HOLDING OF THIS NOTE, EACH HOLDER OF THIS NOTE WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (I) IT IS NOT AND IS NOT DEEMED FOR PURPOSES OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**") TO BE (A) AN "**EMPLOYEE BENEFIT PLAN**" AS DEFINED IN ERISA AND SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (B) A "**PLAN**" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE "PLAN ASSETS" BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY (ANY OF THE FOREGOING, A "**BENEFIT PLAN INVESTOR**"), AND (II) IF AT ANY TIME THE PURCHASER OR TRANSFEREE WILL BE AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND THAT IS SUBJECT TO ANY U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), THE PURCHASE AND HOLDING OF THIS NOTE DO NOT AND WILL NOT VIOLATE ANY SIMILAR LAW. ANY PURPORTED TRANSFER OF THIS NOTE THAT DOES NOT COMPLY WITH THESE REQUIREMENTS SHALL BE NULL AND VOID *AB INITIO*.]

Unless determined otherwise by the issuer in accordance with applicable law and so long as any class of notes is outstanding, a Rule 144A global note certificate will bear a legend substantially as set forth below:

NEITHER THIS NOTE NOR BENEFICIAL INTERESTS HEREIN HAVE BEEN OR ARE EXPECTED TO BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION. THE ISSUER HAS NOT BEEN REGISTERED AND DOES NOT INTEND TO REGISTER AS AN "INVESTMENT COMPANY" UNDER THE U.S. INVESTMENT COMPANY ACT OF 1940, AS AMENDED.

BY PURCHASING OR OTHERWISE ACQUIRING A BENEFICIAL INTEREST IN THIS GLOBAL NOTE, EACH OWNER OF SUCH BENEFICIAL INTEREST WILL BE DEEMED TO HAVE REPRESENTED FOR THE BENEFIT OF THE ISSUER AND FOR ANY AGENT OR SELLER WITH RESPECT TO THE NOTES THAT IT (I)(A) IS A "**QUALIFIED INSTITUTIONAL BUYER**" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (B) WILL HOLD AT LEAST THE MINIMUM DENOMINATION OF \$100,000 (OR ITS EQUIVALENT IN ANOTHER CURRENCY), (C) WILL PROVIDE NOTICE OF APPLICABLE TRANSFER RESTRICTIONS TO ANY SUBSEQUENT TRANSFEREE, (D) IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNTS OF ONE OR MORE OTHER PERSONS EACH OF WHOM MEETS ALL THE PRECEDING REQUIREMENTS AND (E) AGREES THAT IT WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THE NOTES OR ANY BENEFICIAL INTEREST HEREIN TO ANY PERSON EXCEPT TO A PERSON THAT MEETS ALL THE PRECEDING REQUIREMENTS AND AGREES NOT TO SUBSEQUENTLY TRANSFER THE NOTES OR ANY BENEFICIAL INTEREST HEREIN EXCEPT IN ACCORDANCE WITH THIS CLAUSE (E) OR (II) IS NOT A U.S. PERSON AND IS ACQUIRING THE NOTES IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 903 OR 904 OF REGULATION S. IN THE CASE OF ANY SUCH TRANSFER PURSUANT TO CLAUSE (II), (1) THE TRANSFEREE WILL BE REQUIRED TO HAVE THE NOTES SO TRANSFERRED TO BE REPRESENTED BY AN INTEREST IN THE REG S GLOBAL NOTE CERTIFICATES (AS DEFINED IN THE ISSUER TRUST DEED) AND (2) THE TRANSFEROR WILL BE REQUIRED TO DELIVER A TRANSFER CERTIFICATE (THE FORM OF WHICH IS ATTACHED TO THE ISSUER TRUST DEED AND IS AVAILABLE FROM THE REGISTRAR).

[to be included in the class A notes, the class B notes, the class C notes, the class D notes and, where specified in the applicable final terms, the class E notes] [UNLESS OTHERWISE SPECIFIED IN THE APPLICABLE FINAL TERMS, EACH PURCHASER AND TRANSFEREE OF THIS NOTE OR ANY INTEREST THEREIN, BY ITS ACQUISITION OF SUCH NOTE, SHALL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE WILL NOT BE (I) AN "**EMPLOYEE BENEFIT PLAN**" AS DEFINED IN SECTION 3(3) OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") WHICH IS SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA OR A "**PLAN**" SUBJECT TO SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE**"), (II) AN ENTITY DEEMED TO BE USING THE ASSETS OF OR ACTING ON BEHALF OF SUCH AN EMPLOYEE BENEFIT PLAN SUBJECT TO ERISA OR PLAN SUBJECT TO SECTION 4975 OF THE CODE, (III) ANY EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), OR (IV) AN ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO INCLUDE PLAN ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN, PLAN OR OTHER BENEFIT PLAN, OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE OR ANY INTEREST THEREIN WILL NOT RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, IS NOT IN VIOLATION OF ANY SIMILAR LAW).]

[to be included in the class Z notes and unless otherwise specified in the applicable final terms, in the class E notes] [BY ITS ACQUISITION AND HOLDING OF THIS NOTE, EACH HOLDER OF THIS NOTE WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT (I) IT IS NOT AND IS NOT DEEMED FOR PURPOSES OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA**") OR SECTION 4975 OF THE INTERNAL REVENUE CODE OF

1986, AS AMENDED (THE "**CODE**") TO BE (A) AN "**EMPLOYEE BENEFIT PLAN** AS DEFINED IN ERISA AND SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF ERISA, (B) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE CODE, OR (C) ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE "PLAN ASSETS" BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY (ANY OF THE FOREGOING, A "**BENEFIT PLAN INVESTOR**"), AND (II) IF AT ANY TIME THE PURCHASER OR TRANSFEREE WILL BE AN EMPLOYEE BENEFIT PLAN THAT IS NOT A BENEFIT PLAN INVESTOR AND THAT IS SUBJECT TO ANY U.S. FEDERAL, STATE, OR LOCAL LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("**SIMILAR LAW**"), THE PURCHASE AND HOLDING OF THIS NOTE DO NOT AND WILL NOT VIOLATE ANY SIMILAR LAW. ANY PURPORTED TRANSFER OF THIS NOTE THAT DOES NOT COMPLY WITH THESE REQUIREMENTS SHALL BE NULL AND VOID *AB INITIO*.]

THE PURCHASER OR ACQUIRER ACKNOWLEDGES THAT THE ISSUER RESERVES THE RIGHT PRIOR TO ANY SALE OR OTHER TRANSFER TO REQUIRE THE DELIVERY OF SUCH CERTIFICATIONS, LEGAL OPINIONS AND OTHER INFORMATION AS THE ISSUER MAY REASONABLY REQUIRE TO CONFIRM THAT THE PROPOSED SALE OR OTHER TRANSFER COMPLIES WITH THE FOREGOING RESTRICTIONS.

PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE SELLERS OF THE NOTES MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A. TERMS USED IN THIS LEGEND HAVE THE MEANINGS GIVEN TO THEM UNDER SUCH RULE.



## SUBSCRIPTION AND SALE

On or about the Programme date, the issuer will enter into an agreement (the "**programme agreement**") with Barclays Bank PLC (together with such other institutions appointed as managers from time to time, the "**managers**"), pursuant to which the managers will agree with the issuer the arrangements upon which notes may be sold from time to time by the issuer to, and purchased by, such managers or any of them. The programme agreement, among other things, makes provision for the form and terms and conditions of such notes, the price at which such notes will be purchased by the managers and the commissions and/or other agreed fees (if any) payable or allowable by the issuer in respect of such purchase. The programme agreement also makes provision for the appointment of additional managers and the resignation or termination of appointment of existing managers. In the programme agreement, the issuer also agrees to reimburse and indemnify the managers for certain of their expenses and liabilities (including liabilities under the Securities Act) in connection with the establishment and any future update of the programme and the issue of notes under the programme. The managers will be entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase notes under the programme agreement in certain circumstances prior to payment to the issuer.

The final terms for any notes will describe the method of offering being used for the notes and will set forth the identity of the managers and the price at which each class or sub-class of such series is being offered, the nature and amount of any underwriting discounts or additional compensation to the managers and the proceeds of the offering to the issuer, or the method by which the price at which the managers will sell those notes will be determined. The final terms will also contain information regarding the nature of the managers' obligations, any material relationship between any manager and the issuer and, where appropriate, information regarding any discounts or concessions to be allowed or reallocated to dealers or others and any arrangements to stabilise the market for notes so offered. Notes may be acquired by the managers for their own accounts and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale.

Set out below is a summary of the principal restrictions on the offer and sale of the notes and the distribution of documents relating to the notes.

### United States

Each manager will represent and agree that:

- the Notes have not been and will not be registered under the Securities Act and may not be offered or sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), except, with respect to the Rule 144A notes only, to a person that is a QIB, in reliance on Rule 144A or another applicable exemption from registration under the Securities Act.
- the Reg S notes may only be offered, sold, resold, delivered or transferred outside the United States to non-U.S. persons in offshore transactions in reliance on Rule 903 or 904 of Regulation S. The Rule 144A notes may only be offered, sold, resold, delivered or transferred within the United States to QIBs.
- such manager is a QIB and agrees not to offer or sell any Rule 144A notes (or any beneficial interests therein) constituting part of its allotment within the United States or to, or for the account or benefit of, U.S. Persons, except to persons (including any other distributor and any dealers) that are or that it reasonably believes are QIBs, in reliance on Rule 144A.
- in connection with the offer, sale and issuance of the Rule 144A notes, the issuer is relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- except for sales described in paragraph (a) above, it will not offer, sell or deliver the notes to, or for the account or benefit of, U.S. persons (i) as part of such manager's distribution at any time or (ii) otherwise prior to the date that is 40 days after the later of the commencement of the offering of the applicable series of notes and the closing date for the applicable series of notes (the "**distribution compliance period**"), except in accordance with Rule 903 or 904 of Regulation S and, accordingly, that neither it, its affiliates nor any person acting on its or their behalf has

engaged or will engage in any directed selling efforts (within the meaning of Regulation S) with respect to such notes and it and its affiliates and any person acting on its or their behalf has complied with and will comply with the offering restriction requirements of Regulation S to the extent applicable.

- at or prior to confirmation of sales of any notes, it will have sent to each distributor, dealer or other person to which it sells any notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of such notes within the United States or to, or for the account or benefit of, U.S. persons. In addition, until the end of the distribution compliance period, the offer or sale of any notes within the United States by any distributor, dealer or person receiving a selling concession, fee or other remuneration in respect of the notes (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.
- neither it, nor its affiliates, nor any persons acting on its or their behalf, have engaged or will engage in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Securities Act) in connection with the offer and sale of the notes in the United States.
- in connection with each sale of the notes to a QIB, it has taken or will take reasonable steps to ensure that the purchaser is aware that the notes have not been and will not be registered under the Securities Act and that transfers of the notes are restricted as set forth in this base prospectus. Any offer or sale of the notes in the United States will be made by U.S. broker-dealers, including affiliates of the managers, who are registered as U.S. broker-dealers under the Exchange Act. The managers may allow a concession, not in excess of the selling concession, to certain brokers or dealers.

#### **United Kingdom**

Each manager will represent and agree that:

- in relation to any notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the FSMA by the issuer;
- 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
- 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.

#### **Belgium**

This base prospectus is not intended to constitute a public offer in Belgium and may not be distributed to the Belgian public. The Belgian Commission for Banking, Finance and Insurance (*Commission bancaire, financière et des assurances*) has not been notified of the offer under this base prospectus pursuant to Article 32 of the Law of 16 June 2006 on the public offering of securities and the admission of securities to trade on regulated markets (the "**prospectus law**") nor has this base prospectus been, or will it be, approved by the Belgian Banking, Finance and Insurance Commission pursuant to Article 23 of the prospectus law. Accordingly, each manager will represent and agree that it will offer or sell notes or distribute the base prospectus or any other information document, brochure or similar document, directly or indirectly, to any person in Belgium other than (i) qualified investors referred to in Article 3, §2 a) of the prospectus law, acting for their own account or (ii) investors wishing to acquire notes for an amount

of at least €50,000 (or its equivalent in foreign currencies) per transaction, as specified in Article 3, §2 c) of the prospectus law.

### **Canada**

The notes will not be qualified for sale under the securities laws of any province or territory of Canada. Each manager will represent and agree that it has not offered, sold or distributed and will not offer, sell or distribute any notes, directly or indirectly, in Canada or to or for the benefit of any resident of Canada, other than in compliance with applicable securities laws. Each manager will also represent and agree that it has not and will not distribute or deliver this base prospectus or any other offering material in connection with any offering or distribution of notes in Canada, other than in compliance with applicable securities laws.

### **China**

Each manager will represent and agree that neither it nor any of its affiliates:

- may circulate or distribute in the People's Republic of China (excluding Hong Kong, Macau and Taiwan) (the "**PRC**") this base prospectus or any other offering material to any resident of the PRC; and
- may offer or sell the notes, directly or indirectly, to any resident of the PRC, or offer or sell the notes to any person for re-offering or re-sale, directly or indirectly, to any resident of the PRC.

This base prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities in the PRC to any person to whom it is unlawful to make the offer or solicitation in the PRC.

The issuer does not represent that this base prospectus may be lawfully distributed, or that any notes may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to any exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the issuer that would permit a public offering of any notes or distribution of this document in the PRC. Accordingly, the notes are not being offered or sold within the PRC by means of this base prospectus or any other document. Neither this base prospectus nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.

### **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each manager will represent and agree that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this base prospectus as completed by the final terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such notes to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 100 (or, if the Relevant Member State has implemented the relevant provision of Directive 2010/73/EU (the "**2010 Prospectus Amending Directive**"), 150) natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant manager or managers nominated by the issuer for any such offer; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to in (a) to (c) above shall require the issuer or any manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of notes to the public**" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 Prospectus Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State.

### **France**

Each manager will represent and agree that it has not offered or sold, and will not offer or sell, directly, or indirectly, notes to the public in the Republic of France and that offers and sales of notes in France will be made only to qualified investors (*investisseurs qualifiés*) or to a restricted circle of investors (*cercle restreint d'investisseurs*), all acting for their account as defined in and in accordance with Article L.411-2 of the French Code Monétaire et Financier and decree no. 98—880 dated 1 October 1998 (now codified under Articles D411-1 and D411-2 of the French Code Monétaire et Financier).

In addition, each manager will represent and agree that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in the Republic of France this base prospectus or any other offering material relating to the notes other than to investors to whom offers and sales of the notes in France may be made as described above and that this base prospectus has not been submitted for approval (*visa*) by the Autorité des Marchés Financiers and does not constitute an offer for sale or subscription of securities

### **Federal Republic of Germany**

Each manager will represent and agree that it is aware of the fact that no German prospectus (*Prospekt*) within the meaning of the Securities Prospectus Act (*Wertpapierprospektgesetz*, the "**WpPG**") of the Federal Republic of Germany has been or will be published with respect to the notes. Further, each manager will represent and agree that it has not engaged and has agreed that it will not engage in the public offering (*öffentliches Angebot*) (as such term is defined in the WpPG) of the notes otherwise than in accordance with the WpPG and all other applicable legal and regulatory requirements.

### **Hong Kong**

Each manager will represent and agree that:

- it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any notes other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong) or which do not constitute an offer to the public thereunder; and
- it has not issued, or had in its possession for the purpose of issue and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), advertisement, invitation, or document relating to the notes which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to the notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

## **Ireland**

Each manager will represent and agree that:

- it will not underwrite the issue of, or place, the notes otherwise than in conformity with the provisions of the Irish Investment Intermediaries Act 1995 (as amended), including, without limitation, Sections 9 and 23 thereof and any codes of conduct rules made under Section 37 thereof and the provisions of the Investor Compensation Act 1998;
- it will not underwrite any issue of, or place, the notes, otherwise than in conformity with the provisions of the Irish Central Banks Acts 1942 1999 (as amended) and any codes of conduct rules made under Section 117(1) thereof;
- it will not underwrite any issue of, or place, or do anything in Ireland in respect of the notes otherwise than in conformity with the provisions of the Irish Prospectus (Directive 2003/71/EC) Regulations 2005 and any rules issued under Section 51 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005, by the Irish Central Bank and Financial Services Regulatory Authority ("**IFSRA**"); and
- it will not underwrite any issue of, or place, or otherwise act in Ireland in respect of the notes, otherwise than in conformity with the provisions of the Irish Market Abuse (Directive 2003/6/EC) Regulations 2005 and any rules issued under Section 34 of the Irish Investment Funds, Companies and Miscellaneous Provisions Act 2005 by IFSRA.

## **Italy**

Each Manager will acknowledge and agree that the offering of notes has not been cleared by CONSOB (the Italian Securities Exchange Commission) pursuant to Italian securities legislation and, accordingly, no notes may be offered, sold or delivered, nor may copies of this base prospectus or any other document relating to the notes be distributed in the Republic of Italy, except to:

- professional investors (operatori qualificati), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1st July, 1998; or
- in circumstances which are exempted from the rules on solicitation of investments pursuant to Article 100 of Legislative Decree No. 58 of 24th February, 1998 (the "**Financial Services Act**") and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14th May, 1999.

Any offer, sale or delivery of notes or distribution of copies of this base prospectus or any other document relating to the notes in the Republic of Italy above must be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act and Legislative Decree No. 385 of 1st September, 1993 (the "**Italian Banking Act**") and in accordance with any other applicable laws and regulations.

Each manager will undertake to comply with any information request from the Bank of Italy pursuant to article 129 of the Italian Banking Act.

## **Japan**

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the "**Financial Instruments and Exchange Law**").

Each manager will represent and agree that:

- the notes have not been and will not be registered under the Financial Instruments and Exchange Law; and

- accordingly, no notes may be offered or sold, directly or indirectly, in Japan or to, or for the account or benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, or otherwise in compliance with the Financial Instruments and Exchange Law and other laws and regulations.

As used above, "**resident of Japan**" means a natural person having his place of domicile or residence in Japan, or a juridical person having its main office in Japan as defined in Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade law of Japan (Law No. 228 of 1949).

### **Jersey**

No person shall, and each manager will represent, warrant and agree that it has not and shall not, circulate in Jersey any offer for the subscription, sale or exchange of the notes for which any prior written consent would be required pursuant to the Companies (Jersey) Law 1991, as amended, the Companies (General Provisions) (Jersey) Order 2002, as amended or the Control of Borrowing (Jersey) Order 1958, as amended.

### **Republic of Korea**

Each manager will represent and agree that:

- the notes have not been and will not be registered under the Financial Investment Services and Capital Markets Act (the "**FSCMA**"); and
- the Notes may not be offered, sold or delivered, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law) for a period of one year from the date of issuance of the notes, except (x) in the case where the notes are issued as bonds other than convertible bonds, bonds with warrants or exchangeable bonds, and where the other relevant requirements are further satisfied, the notes may be offered, sold or delivered to or for the account or benefit of a Korean resident which falls within certain categories of professional investors as specified in the FSCMA, its Enforcement Decree and the Regulation on Securities Issuance and Disclosure, or (y) as otherwise permitted under applicable Korean laws and regulations

Each manager will undertake to ensure that any securities dealer to which it sells notes confirms that it is purchasing such notes as principal and agrees with such manager that it will comply with the restrictions described above.

### **Norway**

Each manager will represent and agree that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Kingdom of Norway any notes other than to persons who are registered with the Oslo Stock Exchange as professional investors.

### **Singapore**

This base prospectus has not been registered with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**Securities and Futures Act**"). Accordingly, each manager will represent and agree that notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this base prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following relevant persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased notes, namely a person who is:

- a corporation (which is not an accredited investor) the sold business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of who is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor, should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the Notes under Section 275 of the Securities and Futures Act except:
  - (a) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person, or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act;
  - (b) where no consideration is given for the transfer; or
  - (c) by operation of law.

### **Spain**

Each manager will represent and agree that notes may not be offered or sold in Spain except in circumstances which do not constitute a public offer of securities in Spain within the meaning of article 30bis of the Spanish Securities Market Law of 28 July 1988 (*Ley 24/1988, de 28 de julio, del Mercado de Valores*), as amended and restated, and supplemental rules enacted thereunder or without complying with all legal and regulatory requirements under Spanish securities laws.

Neither the notes nor this base prospectus have been or will be registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and therefore this base prospectus is not intended for any public offer of notes in Spain.

### **Sweden**

Each manager will represent and agree that it will not, directly or indirectly, offer for subscription of purchase or issue invitations to subscribe for or buy notes or distribute any draft or definite document in relation to any such offer, invitation or sale except in circumstances that it will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991:980) om handel med finansielle instrument*).

### **Taiwan**

Each manager will represent and agree that this base prospectus or any other offering material may not be circulated or distributed in the Republic of China, and the Notes may not be offered or sold, directly or indirectly, in the Republic of China.

### **General**

The managers will represent and agree that they have complied and will comply with all applicable securities laws and regulations in force in any jurisdiction in which they purchase, offer, sell or deliver notes or possess them or distribute the base prospectus or any other offering material and will obtain any consent, approval or permission required by them for the purchase, offer, sale or delivery by them of notes under the laws and regulations in force in any jurisdiction to which they are subject or in which they make such purchases, offers, sales or deliveries and the issuer shall have no responsibility for them. Furthermore, the managers will represent and agree that they have not and will not directly or indirectly offer, sell or deliver any notes or distribute or publish any offering circular, form of application, advertisement or other offering material 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, sales and deliveries of notes by it will be made on the same terms.

Neither the issuer nor the managers represent that notes may at any time lawfully be sold in compliance with any application, registration or other requirements in any jurisdiction (other than as described above), or pursuant to any exemption available thereunder, or assume any responsibility for facilitating such sale.

The managers will agree to, unless prohibited by applicable law, furnish to each person to whom they offer or sell notes a copy of the base prospectus and the accompanying final terms, in each case as then amended or supplemented or, unless delivery of the base prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The managers are not authorised to give any information or to make any representation not contained in the base prospectus in connection with the offer and sale of notes to which the base prospectus relates.

With regard to the issue of each series and class of notes, the relevant managers will be required to comply with such other additional or modified restrictions (if any) as the issuer and the managers shall agree.



## **REPORTS TO NOTEHOLDERS**

The servicer is required to prepare annual and monthly reports that will contain information about the issuer, the notes and the loan portfolio. The financial information contained in the reports will not be prepared in accordance with generally accepted accounting principles of any jurisdiction. Annual and monthly reports prepared by the servicer, on behalf of the issuer, as at the date of this base prospectus, are made available on Bloomberg at "LNRG" and are also made available on [www.euroabs.com](http://www.euroabs.com). The Bloomberg address, the website and the contents thereof do not form part of this base prospectus.

## LISTING AND GENERAL INFORMATION

### Authorisation

The issue of each series of notes from time to time has been authorised by resolution of the board of directors of the issuer passed on 22 September 2011.

### Listing of notes

Application has been made to the FSA in its capacity as competent authority for the purposes of Part VI of the FSMA for the notes issued during the period of 12 months from the date of this base prospectus to be admitted to the official list. Application will also be made to the London Stock Exchange for each class of the notes to be admitted to trading on the regulated market of the London Stock Exchange.

It is expected that each series and class of notes which is to be admitted to the official list and to trading on the regulated market of the London Stock Exchange will be admitted separately, as and when issued, subject only to the issue of a global note certificate or individual note certificates representing the notes of each series and class and to making the final terms relating to the notes available to the public in accordance with the Prospectus Directive and associated UK and EU implementing legislation.

This base prospectus has been prepared in compliance with the prospectus rules, made pursuant to Part VI of the FSMA.

### Clearing and settlement

The Rule 144A notes denominated in dollars have been accepted for clearance through DTC. The Rule 144A notes denominated a currency other than US dollars and the Reg S notes have been accepted for clearance through Clearstream, Luxembourg and Euroclear. The appropriate CUSIP numbers, Common Codes and International Securities Identification Numbers ("ISINs") for each series and class of notes will be specified in the applicable final terms.

Transactions in respect of the Rule 144A notes accepted for clearance through DTC will normally be effected for settlement in US dollars and for delivery on the third working day after the date of the transaction. Prior to listing, however, dealings will be permitted by the London Stock Exchange plc in accordance with its rules.

### Litigation

None of the issuer, Funding, Holdings or the mortgages trustee is, or has been in the 12 calendar months preceding the date of this base prospectus, involved in any governmental, legal or arbitration proceedings or enforcement proceedings which may have or have had in the recent past a significant effect upon the financial position or profitability of the issuer, Funding, Holdings or the mortgages trustee respectively, nor, so far as the issuer, Funding, Holdings or the mortgages trustee respectively, is aware, are any such governmental, legal or arbitration proceedings or enforcement proceedings pending or threatened.

As at the date of this base prospectus, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Clydesdale Bank PLC is aware) against Clydesdale Bank PLC, or in which the property of Clydesdale Bank PLC is the subject, which is material to noteholders.

### Accounts

No statutory or non-statutory accounts within the meaning of the Companies Act 2006 (as amended) have been prepared by the issuer or Funding. So long as notes issued under the programme are listed on the official list and are traded on the Market, the most recently published audited annual accounts of the issuer from time to time shall be available at the specified office of the UK principal paying agent in London. Neither the issuer nor Funding shall publish interim accounts.

Since the date of its incorporation, the issuer has not entered into any contracts or arrangements not being in the ordinary course of business.

### **Significant or material change**

Since its relevant date of incorporation, there has been no material adverse change in the financial position or prospects and no significant change in the financial or trading position, in each case, of the issuer, Funding, Holdings or the mortgages trustee.

### **Documents available**

From the date of this base prospectus and for so long as any series and class of notes issued by the issuer may be admitted to the official list, copies of the following documents may, when published, be inspected at the registered office of the issuer and from the specified office of the principal paying agent during usual business hours, on any weekday (public holidays excepted):

- (A) the Memorandum and Articles of Association of each of the issuer, Funding, Holdings and the mortgages trustee;
- (B) a copy of the base prospectus;
- (C) any future prospectuses, prospectus supplements, information memoranda and supplements (as applicable) to the base prospectus (including the final terms) and any other documents incorporated therein or therein by reference;
- (D) all other reports, letters, statements prepared by an expert and included in the base prospectus;
- (E) each of the following documents:
  - the programme agreement and each subscription agreement;
  - the global intercompany loan agreement and each loan tranche supplement;
  - the mortgages trust deed;
  - the mortgage sale agreement;
  - each Scottish declaration of trust;
  - the issuer deed of charge and each deed of accession to the issuer deed of charge;
  - the Funding deed of charge and each deed of accession to the Funding deed of charge;
  - the Funding basis rate swap agreement;
  - each issuer swap agreement;
  - the issuer trust deed;
  - the issuer paying agent and agent bank agreement;
  - the servicing agreement;
  - the cash management agreement;
  - the issuer cash management agreement;
  - the bank account agreement;
  - the issuer bank account agreement;
  - the collection bank agreement;
  - the master definitions schedule;

- the issuer master definitions schedule;
- each start-up loan agreement and each start-up loan tranche supplement;
- each remarketing agreement;
- each conditional note purchase agreement;
- each conditional maturity purchase note deed;
- the corporate services agreement; and
- any other deeds of accession or supplemental deeds relating to any such documents.

Under the terms of the programme documents, the programme has been structured with the intention that the income and/or repayments in respect of the securitised assets backing the issue of notes by the issuer will have the characteristics that demonstrate capacity to produce funds to service, on a timely basis, any payments due and payable on the notes, assuming that the payments in respect of such assets are made punctually.

This base prospectus and the final terms will be made available in electronic form on the website of the regulated market of the London Stock Exchange at [www.rns.com](http://www.rns.com).

**APPENDIX  
FORM OF FINAL TERMS**

*Set out below is the form of final terms which, subject to any necessary amendment,  
will be completed for each series of notes issued under the programme*

**[Date]**

**Lannraig Master Issuer plc**

*(Incorporated with limited liability in England and Wales, registered number 7454283)*

**Issue of series [•] notes  
under its £10 billion residential buy-to-let mortgage backed note programme**

The series [•] notes will comprise the following classes of notes:

Initial principal amount	class	Final maturity	Issue price	Ratings	
				Moody's	Fitch
[•]	[•]	[•]	[•]	[•]	[•]

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the notes set forth in the base prospectus dated 27 September 2011 (the "**base prospectus**") which constitutes a base prospectus for the purposes of Directive 2003/71/EC (the "**Prospectus Directive**"). This document constitutes the final terms of the notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the base prospectus. Full information on the issuer and the offer of the notes is only available on the basis of the combination of these final terms and the base prospectus. The base prospectus is available for viewing at the offices of the paying agent at Citigroup Centre, Canada Square, Canary Wharf, London EC14 5LB [and the offices of the manager(s) at [insert address]] and copies are available at the registered address of the issuer at 35 Great St.Helen's, London EC3A 6AP or at [www.sfmeurope.com](http://www.sfmeurope.com). This final terms may be used to offer and sell the series [•] notes only if accompanied by the base prospectus.

The series [•] notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws of any state of the United States or any other relevant jurisdiction. The series [•] notes are being offered solely (i) outside the United States to non-U.S. persons in offshore transactions (as defined in Regulation S under the Securities Act ("**Regulation S**")) in reliance on Regulation S and (ii) within the United States in reliance on Rule 144A under the Securities Act ("**Rule 144A**") to persons who are "**qualified institutional buyers**" as defined in Rule 144A ("**QIBs**").

The series [•] notes may not be reoffered, resold, pledged, exchanged or otherwise transferred except in transactions exempt from or not subject to the registration requirements of the Securities Act or the securities laws of any state of the United States or any other relevant jurisdiction. By its purchase of a series [•] note, each purchaser will be deemed to have (1) represented and warranted that (i) it is a QIB acting for its own account or the account of another QIB, or (ii) it is a non-US person located outside the United States and (2) agreed that it will only sell such series [•] note in accordance with the applicable restrictions set forth herein and/or in the base prospectus. See "*Subscription and sale*" in the base prospectus.

The series [•] notes have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission or any other United States regulatory authority, nor have any of the foregoing authorities passed upon the accuracy or adequacy of this final terms or the base prospectus. Any representation to the contrary is a criminal offence.

You should read this final terms and the base prospectus carefully before you invest. A note is not a deposit and neither the series [•] notes nor the BTL loans in the loan portfolio are insured or guaranteed by Clydesdale Bank PLC or by any United Kingdom or United States governmental agency. The series [•] notes will be obligations solely of the issuer and will not be guaranteed by, or be the responsibility of, any other entity. The issuer will seek to satisfy its obligations under the series [•] notes from its assets.

**PROSPECTIVE PURCHASERS ARE HEREBY NOTIFIED THAT THE ISSUER AND ANY SELLER OF ANY NOTES MAY BE RELYING ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A.**

See the section headed "*Notices to Investors*" beginning on page [•] of the base prospectus for additional information concerning the subscription and sale of the series [•] notes.

Please consider carefully the risk factors beginning on page [•] of the base prospectus before you purchase any notes.

**Arranger for the programme**

**Barclays Capital**

**Managers**

[•]

The following are the specific terms and conditions relating to the series [•] notes and form part of the terms and conditions of the notes as applied to the series [•] notes (and solely with respect to the series [•] notes) by the issuer trust deed and constitute the final terms of the series [•] notes for the purposes of Article 5.4 of the Prospectus Directive.

1. **Issue of the notes**

(a) **Issuer**

Lannraig Master Issuer plc

(b) **Series**

Series [•]

(c) **Closing date**

[•]

(d) **Initial principal amount**

Notes	Initial principal amount
Series [•] class [•] notes [•]	

(e) **Issue price**

[•]

[[•]% of the initial principal amount in relation to [each class of notes in the series [•] notes]/[the series [•] class [•] notes]]

(f) **Ratings**

Notes	Ratings	
	Fitch	Moody's
Series [•] class [•] notes	[•]	[•]

(g) **Manager(s)**

[•]

*[For the series [•] class [•] notes, [•]]*

(h) **Stabilising manager(s)**

[•]

*[For the series [•] class [•] notes, [•]]/[Not applicable]*

(i) **Additional selling restrictions**

[•]

2. **Form and holding of the notes**

(a) **Reg S notes and Rule 144A notes**

[•]

*[All of the [series [•] notes]/[the series [•] class [•] notes] are Reg S notes]/ [All of the [series [•] notes]/[the series [•] class [•] notes] are Rule 144A notes]*

*[Reg S global note certificates are registered in the name of a nominee of a common depository for Euroclear and Clearstream, Luxembourg/ a common safekeeper for Euroclear and Clearstream, Luxembourg]*

*[Rule 144A global note certificate denominated in a currency other than US dollars are registered in the name of a nominee of a common depository for Euroclear and Clearstream, Luxembourg/ a common safekeeper for Euroclear and Clearstream, Luxembourg]*

*[Rule 144A global note certificate denominated in US dollars are registered in the name of Cede & Co. as nominee of, DTC]*

(b) **Specified currency**

[•]

*[[•] in respect of the each class of notes in the series [•] notes that is denominated in [•]]*

(c) **Specified denominations**

[•]

*[For each class of notes in the series [•] notes denominated in [•], [•] and integral multiples of [•] in excess thereof]*

(d) **Additional Business Centre(s)**

[•]

*[For the series [•] class [•] notes, [•]]*

(e) **Any clearing system(s) other than DTC, Euroclear, or Clearstream, Luxembourg**

[•]

*[Give names]/[Not applicable]*

(f) **Additional Paying Agent(s)**

[•]

*[Give names]/[Not applicable]*

(g) **Delivery**

Delivery [against]/[free of] payment

(h) **Clearing System Codes**

<u>Notes</u>	<u>CUSIP number</u>	<u>Common code</u>	<u>ISIN</u>	<u>[other]</u>
Series [•] class [•] notes				

(i) **Listing**

*[Listing on the official list of the UK Listing Authority and admission to trading on the London Stock Exchange's regulated market]*

(j) **[Estimate of total expenses related to admission to trading**

**[•]]**

3. **Interest on the notes**

(a) **Interest commencement date**

[•]

(b) **Fixed rate note provisions**

[•]

*[The fixed rate note provisions are applicable to the series [•] class [•] notes]/[Not applicable]*

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 3(b)]*

(i) **Rates of interest**

<u>Notes</u>	<u>Rate of interest</u>
Series [•] class [•] notes	[•]

(ii) **Note payment dates**

[•]

*[For the series [•] class [•] notes, [•], the monthly payment date falling in [•] in each year up to and including the final maturity date or, following the earlier to occur of the step-up date (if any) for such notes and a pass-through trigger event, each monthly payment date up to and including the final maturity date]*

(iii) **Fixed coupon amounts**

<u>Notes</u>	<u>Fixed coupon amounts</u>
Series [•] class [•] notes	[•] per [•] in nominal amount

(iv) **Broken amounts**

<u>Notes</u>	<u>Rate of interest</u>
Series [•] class [•] notes	<i>[Insert particulars of any initial or final broken amounts which do not correspond with the fixed coupon amount]</i>



(v) **Day count fraction**  
[•]  
*[For the series [•] class [•] notes, [Actual/Actual (ISMA)]/[30/360]/[specify other]]*

(vi) **Determination date(s)**  
[•] in each year  
*[Insert regular note payment dates, however, note that this will need to be amended in the case of regular note payment dates which are not of equal duration and is only relevant where day count fraction is Actual/Actual (ISMA)]*

(vii) **Other terms relating to the method of calculating interest for fixed rate notes**  
[•]  
*[give details]/[Not applicable]*

(c) **Floating rate note provisions**  
[•]  
*[The floating rate note provisions are applicable to the series [•] class [•] notes]/[Not applicable]*

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 3(c)]*

(i) **Note payment dates**  
[•]  
*[For [the series [•] class [•] notes]/[each class of notes in the series [•] notes], the monthly payment date falling in [•] in each year up to and including the final maturity date or, following the earlier to occur of the step-up date (if any) for such notes and a pass-through trigger event, each monthly payment date up to and including the final maturity date. The first note payment date in respect of [the series [•] class [•] notes]/[each class of notes in the series [•] notes] will be the note payment date falling in [•]]*

(ii) **Business day convention**  
[•]  
*[For [the series [•] class [•] notes]/[each class of notes in the series [•] notes], [floating rate convention]/[following business day convention]/[modified following business day convention]/[preceding business day convention]/[specify other]]*

(iii) **Screen rate determination**  
[•]  
*[The screen rate determination provisions are applicable to [each class of notes in the series]/[the series [•] class [•] notes]]/[Not applicable]*  
*[If not applicable, delete the remaining sub-paragraphs of this paragraph 3(c)(iii)]*

(A) **Reference rate**

[•]

*[For each interest period for [the series [•] class [•] notes]/[each class of notes in the series [•] notes denominated in [•], [LIBOR]/[EURIBOR]/[other]. Additional information is required if other – including amendment to fallback provisions in the issuer paying agent and agent bank agreement)]*

(B) **Interest determination date(s)**

[•]

*[If LIBOR (other than sterling LIBOR or euro LIBOR), the second day on which commercial banks are open for general business (including dealings in foreign exchange and foreign currency deposits) in London prior to the start of each floating interest period]/[if sterling LIBOR, the first day of each floating interest period]/[if EURIBOR or euro LIBOR, the second day on which the TARGET System is open prior to the start of each floating interest period]*

(C) **Relevant screen page**

[•]

*[For [the series [•] class [•] notes]/[each class of notes in the series [•] notes denominated in [•], [•]]*

(iv) **ISDA determination**

[•]

*[The ISDA determination provisions are applicable to [each class of notes in the series]/[the series [•] class [•] notes]]/[Not applicable]*

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 3(c)(iv)]*

(A) **Floating rate option**

[•]

(B) **Designated maturity**

[•]

(C) **Reset date**

[•]

(D) **ISDA definitions**

[•]

(v) **Margin(s)**

<u>Notes</u>	<u>Margin for each floating interest period up to (but excluding) the step-up date</u>	<u>Margin for each floating interest period from (and including) the step-up date</u>
Series [•] class [•] notes	[•]	[•]

(vi) **Step-up date**

Notes	Step-up date – the note payment date falling in
Series [•] class [•] notes	[•]

(vii) **Maximum rate of interest and minimum rate of interest**

*[Not applicable - if not applicable, delete the remaining sub-paragraphs of this paragraph 3(c)(viii)]*

Notes	Minimum rate of interest		Maximum rate of interest	
	for each floating interest period up to the step-up date	for each floating interest period following the step-up date	for each floating interest period up to the step-up date	for each floating interest period following the step-up date
Series [•] class [•] notes	[•]	[•]	[•]	[•]

(viii) **Day count fraction**

[•]

*[For [the series [•] class [•] notes]/[each class of notes in the series [•] notes denominated in [•], [Actual/365]/[Actual/365 (Fixed)]/[Actual/365 (Sterling)]/[Actual/360]/[30/360]/[30E/360]/[other]*

*[(See Condition 4 for alternatives)]*

(ix) **Fall back provisions, rounding provisions and any other terms relating to the method of calculating interest on floating rate notes, if different from those set out in the terms and conditions of the notes**

[•]

*[give details]/[Not applicable]*

(x) **Party responsible for calculating the rate of interest and interest amount (if not the agent bank)**

[•]

*[give details]/[Not applicable]*

(d) **Change of interest basis or redemption/payment basis**

[•]

*[Specify details of any provision for change of notes into another interest basis or redemption/ payment basis]/[Not applicable]*

4. **Repayment of the notes**

(a) **Type of note**

*[The series [•] class [•] notes are [bullet notes]/[controlled amortisation notes]/[pass-through notes]]*

(b) **Details relating to bullet notes**

*[Applicable]/[Not applicable]*

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 4(b)]*

(i) **Bullet Redemption Date**

Notes	Bullet redemption date
Series [•] class [•] notes	[•]

(ii) **Bullet redemption amount**

Notes	Bullet redemption amount
Series [•] class [•] notes	[•]

(c) **Details relating to controlled amortisation notes**

[Applicable]/[Not applicable]

*[If controlled amortisation notes are applicable, specify the target balances for each note payment date below]*

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 4(c)]*

Series [•] class [•] notes		
Controlled amortisation dates the note payment date falling in	Target balance (£)	Target balance (specified currency)
[•]		

(d) **Details relating to pass-through notes**

[Applicable]/[Not applicable]

*[If pass-through notes are applicable, specify the note payment date following which the pass-through notes will become due]*

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 4(d)]*

(e) **Redenomination**

[•]

*[For each class of notes in the series [•] notes denominated in [•], redenomination applicable]/[for each class of notes in the series [•] notes denominated in [•], redenomination not applicable]*

5. **Money market notes**

(a) **Money market note mandatory transfer arrangements**

[Money market note mandatory transfer arrangements are applicable to the series [•] class [•] notes]/[Not applicable]

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 5]*

(b) **Name of remarketing agent**

[•]

(c) **Name of conditional note purchaser**

[•]

(d) **Money market note mandatory transfer dates**

[•]

*[For the series [•] class [•] notes, the monthly payment date falling in [•] and each subsequent monthly payment date falling in each [•] thereafter]*

(e) **Maximum reset margin**

[•]

*[For the series [•] class [•] notes, [•]]*

(f) **Other details relating to the remarketing arrangements**

[•]

6. **Maturity purchase notes**

(a) **Maturity purchase note mandatory transfer arrangements**

[Maturity purchase note mandatory transfer arrangements are applicable to the series [•] class [•] notes]/[Not applicable]

*[If not applicable, delete the remaining sub-paragraphs of this paragraph 6]*

(b) **Expected maturity date**

[•]

(c) **Schedule of transfer dates**

[•]

(d) **Loss calculation date**

[•]

(e) **Maturity purchaser**

[•]

7. **Required subordinated percentage and reserves**

(a) **Required subordinated percentage**

<u>Notes</u>	<u>Required subordinated percentage</u>
class A notes	[•]%
class B notes	[•]%
class C notes	[•]%
class D notes	[•]%
class E notes	[•]%

(b) **Target reserve required amount**

£[•]

(c) **Programme reserve required percentage**

[•]%

(d) **Arrears or step-up trigger event**

(i) Item (i) funding reserve fund increased amount

[•]

(ii) Item (ii) funding reserve fund increased amount  
[•]

(iii) Item (i) and (ii) funding reserve fund increased amount  
[•]

8. **Details of the issuer swaps relating to the notes**

(a) **Issuer swap providers**

[•]

*[for the series [•] class [•] notes, [•]]*

(b) **Specified currency exchange rate**

[•]

*[For the series [•] class [•] notes, GBP 1.00/[specified currency [•]]*

9. **Operational information**

**Notes to be held in a manner which would allow Eurosystem eligibility: [Yes] [No]**

[Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper, and does not necessarily mean that the Notes will be recognized as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.][Include this text if "yes" selected]

10. **Rating Agencies**

The notes to be issued have been rated *[insert details]* by *[insert details]*.

*[[Insert credit rating agency]* is established in the European Union and has applied for registration under Regulation (EC) No 1060/2009 (as amended), although notification of the corresponding registration decision has not yet been provided by the relevant competent authority.]

*[[Insert credit rating agency]* is established in the European Union and registered under Regulation (EC) No 1060/2009 (as amended).]

*[[Insert credit rating agency]* is not established in the European Union and has not applied for registration under Regulation (EC) No 1060/2009 (as amended).]

*[[Insert credit rating agency]* is not established in the European Union and is endorsed by a credit rating agency [registered/that has applied for registration] under Regulation (EC) No 1060/2009 (as amended).]

*[[Insert credit rating agency]* is not established in the European Union and [is certified in accordance with Regulation (EC) No 1060/2009/is applying to be certified in accordance with Regulation (EC) No 1060/2009 (as amended) but has not yet been certified].]

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 Union and registered under Regulation (EC) No 1060/2009 (as amended) (the "**CRA Regulation**") unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

[The above disclosure should reflect the rating allocated to notes of the type being issued under the programme generally or, where the issue has been specifically rated, that rating]

11. **ERISA**

Employee benefit plans can buy: [Yes]/[No]

12. **Other terms or special conditions or additional information**

*[Not applicable/give details]*

### Loan tranche information

On the closing date for the series [•] notes, the issuer will, pursuant to the terms of the global intercompany loan agreement, advance to funding an aggregate amount in sterling equal to the proceeds of the issue of the series [•] notes.

The advance will be made up of separate loan tranches, each loan tranche will be funded by a separate class or sub-class of notes in the series [•] notes and will be identified by reference to that class or sub-class of notes.

The loan tranches to be funded by the series [•] notes are as follows:

<u>Loan tranches</u>	<u>Initial principal amount</u>	<u>Notes that will fund the loan tranche</u>
[•]	£[•]	Series [•] class [•] notes

The following are certain other terms and conditions of the loan tranches that will be funded by the series [•] class [•] notes.

(a) **Closing date**

[•]

(b) **Interest commencement date**

[•]

(c) **Step-up date and final maturity date**

<u>Loan Tranches</u>	<u>Step-up date – the note payment date falling in</u>	<u>Final maturity date – the note payment date falling in</u>
[•]	[•]	[•]

(d) **Loan payment dates**

[•]

*[For all loan tranches to be funded by the series [•] notes, the monthly payment date falling in [•] in each year up to and including the final maturity date]*



**Issuer swap providers**

[Name, address and brief description of issuer swap provider(s) to be added upon selection of issuer swap providers (if any)]

**[Remarketing agents and conditional note purchasers]**

*[If not applicable, delete this section]*

**[Maturity purchaser]**

*[To be inserted for maturity purchaser if maturity purchase notes are issued, including name, address, country of incorporation, business of the maturity purchaser and name of market in which securities are listed]*

### **Start-Up Loan**

The start-up loan provider for the start-up loan to be made to the issuer on the closing date specified herein will be [•].

The initial principal amount of such start-up loan will be £[•].

The interest rate for such start-up loan will be [•].

### **Other series of notes issued**

As of the closing date specified herein, the aggregate principal amount outstanding of notes issued by the issuer (converted, where applicable, into sterling at the applicable specified currency exchange rate), including the notes described herein, will be:

Class A notes	£[•]
Class B notes	£[•]
Class C notes	£[•]
Class D notes	£[•]
Class E notes	£[•]
Class Z notes	£[•]

### **Other loan tranches**

As of the closing date specified herein, the aggregate principal amount outstanding of loan tranches advanced by the issuer to funding pursuant to the terms of the global intercompany loan agreement, including the loan tranches described herein, will be:

AAA	£[•]
AA	£[•]
A	£[•]
BBB	£[•]
BB	£[•]
Z	£[•]

### **Mortgage sale representation date**

*[Applicable]/[Not applicable]*

*[If applicable, specify the relevant date following which the seller and the mortgages trustee are no longer required to use reasonable efforts to sell and purchase sufficient BTL loans so as to ensure the overcollateralisation test will not be breached on any three consecutive distribution dates]. [If not applicable, delete this section]*

### **BTL loan final maturity date**

*[Applicable]/[Not applicable]*

*[If applicable, specify the latest final maturity date applicable to BTL loans which may be assigned to the mortgages trustee]. [If not applicable, delete this section]*

### **Interest only BTL loan amount**

*[Applicable]/[Not applicable]*

*[If applicable, specify the interest only BTL loan amount, which amount may not be exceeded for the purposes of interest only BTL loans in the loan portfolio]. [If not applicable, delete this section]*

### Maturity and repayment considerations

The average lives of each class of the series [•] notes cannot be stated because the actual rate of repayment of the BTL loans and redemption of the mortgages and a number of other relevant factors are unknown. Calculations of the possible average lives of each class of the series [•] notes can be made, however, based on certain assumptions. The assumptions used to calculate the possible average lives of each class of the series [•] notes in the following table include that:

- (a) neither the issuer security nor the Funding security is enforced;
- (b) the aggregate current balance of BTL loans in the mortgages trust will not fall below an amount equal to the product of [•] and the principal amount outstanding of all notes of the issuer at any time;
- (c) no asset trigger event or non-asset trigger event occurs;
- (d) no event occurs that would cause payments on each class of the series [•] notes to be deferred;
- (e) [the issuer exercises its option to redeem each class of the series [•] notes on the step-up date, if any, relating to such notes];
- (f) the series [•] notes are issued on the closing date specified herein;
- (g) each payment made by the issuer to the noteholders is paid on the [•] day of the relevant month in which such payment is payable, regardless of whether such date is a business day;
- (h) no interest or fees are paid from mortgages trustee available principal receipts, funding available principal receipts or issuer available principal receipts;
- (i) the BTL loans are not subject to any defaults or losses, and no BTL loan falls into arrears;
- (j) the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller continue to be rated at least "[•]" by Moody's and "[•]" by Fitch; and
- (k) no further series of notes are issued after the closing date specified herein.

Assumptions (e) and (f) reflect the issuer's current expectations, although no assurance can be given that repayment of the notes will occur as described. Assumptions (a) through (d) and (h) through (k) relate to unpredictable circumstances.

Based upon the foregoing assumptions, the approximate average lives of the series [•] notes, at various constant payment rates for the BTL loans, would be as follows:

Constant payment rate (% per annum)	Possible average life of the series[•] class [•] notes (in years)
5%	[•]
10%	[•]
15%	[•]
20%	[•]
25%	[•]
30%	[•]
35%	[•]

The average lives of each class of the series [•] notes are subject to factors largely outside the control of the issuer and consequently no assurance can be given that these assumptions and estimates are realistic and they must therefore be viewed with considerable caution. For more information relating to the risks involved in the use of these estimated average lives, see "*Risk factors – The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the BTL loans or repurchases on the BTL loans or repurchases of BTL loans by the seller*" in the base prospectus.

### The cut-off date loan portfolio

The statistical and other information contained in these final terms has been compiled by reference to the BTL loans in the cut-off date loan portfolio as of [specify date] (the "**cut-off date**"). The cut-off date loan portfolio comprised an aggregate current principal balance of £[•]. The BTL loans in the cut-off date loan portfolio were originated between [•] and [•].

[The portfolio of BTL loans from which the seller will select the BTL loans to be assigned to the mortgages trustee on the [closing date]/[applicable assignment date] will comprise (a) certain of the BTL loans in the cut-off date loan portfolio (the selection process for which is described below), (b) other BTL loans also originated between [•] and [•].]

A BTL loan included in the cut-off date loan portfolio (and which has not been assigned to the mortgages trustee pursuant to the terms of the mortgage sale agreement) will not be so assigned to the mortgages trustee if, in the period up to (and including) the [closing date]/[applicable assignment date], it is repaid in full or if it does not comply with the terms of the mortgage sale agreement on or about the [closing date]/[applicable assignment date].

[In addition to the BTL loans assigned from the cut-off date loan portfolio, the seller is also expected to assign to the mortgages trustee on the [closing date]/[applicable assignment date] other BTL loans originated between [•] and [•]. No such BTL loan will be so assigned to the mortgages trustee if it does not comply with the terms of the mortgage sale agreement on or about the [closing date]/[applicable assignment date]. These BTL loans have not been included in the statistical and other information contained in these final terms relating to the cut-off date loan portfolio. The statistical and other information contained in these final terms relating to the cut-off date portfolio is therefore merely representative of the BTL loans to be assigned to the mortgages trustee on the closing date.]

Once the determination has been made as to the anticipated principal balances of the notes to be issued and the corresponding size of the trust that would be required ultimately to support payments on the notes, the seller will then randomly select the BTL loans to be assigned to the mortgages trustee on the closing date from the BTL loans available to be so assigned on such date. It is expected that the aggregate current principal balance of the loans to be assigned to the mortgages trustee on the [closing date]/[applicable assignment date] will not exceed £[•].

Unless indicated otherwise, the following description relates to types of BTL loans that could be included in the loan portfolio as of the [closing date]/[applicable assignment date] or on any subsequent date.

The borrowers in respect of [•]% of the aggregate current principal balance of the BTL loans in the cut-off date loan portfolio as of [•] have agreed to have their scheduled mortgage payments to the originators directly debited from their bank accounts.

[•]% of the aggregate current principal balance of the BTL loans in the cut-off date loan portfolio as of the cut-off date were fixed rate BTL loans. The remaining [•]% of the aggregate current principal balance of the BTL loans in the cut-off date loan portfolio as of the cut-off date were standard variable rate BTL loans, variable rate BTL loans, capped rate BTL loans, discount rate BTL loans or tracker rate BTL loans, as described below.

[A small proportion of BTL loans (approximately [•]% of the aggregate current principal balance of the BTL loans to be assigned to the mortgages trustee on the [closing date]/[applicable assignment date]) are BTL loans extended to the relevant borrowers in connection with the purchase by those borrowers of properties from local authorities or certain other landlords under the right-to-buy schemes governed by the Housing Act 1985 (as amended by the Housing Act 2004) or (as applicable) the Housing (Scotland) Act 1987 (as amended by the Housing (Scotland) Act 2001).]

As of the cut-off date, the seller's standard variable BTL rate for existing and new borrowers was [•]% per annum.

The tables set out in "*loan portfolio*" show statistical and other information relating to all BTL loans in the cut-off date loan portfolio as of the cut-off date.

Columns stating percentage amounts may not add up to 100% due to rounding.

## loan portfolio

### Originators

Originator	Aggregate current balance (£)	% of total	Number of BTL loans	% of total
Clydesdale Bank .....	[•]	[•]	[•]	[•]
YBHL .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

### Types of BTL loan

Type of BTL loan	Aggregate current balance (£)	% of total	Number of BTL loans	% of total
[•] .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

### Tenure

Tenure	Aggregate current balance (£)	% of total	Number of BTL loans	% of total
Freehold .....	[•]	[•]	[•]	[•]
Freehold .....	[•]	[•]	[•]	[•]
Leasehold .....	[•]	[•]	[•]	[•]
Unknown .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

### Seasoning of BTL loans at closing

The following table shows length of time since the BTL loans were originated as of the [cut-off date].

Age of BTL loans (months)	Aggregate current balance (£)	% of total	Number of BTL loans	% of total
[•] .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

The weighted average seasoning of BTL loans, as of the cut-off date, was [•] months. The maximum seasoning of such BTL loans, as of the cut-off date, was [•] months and the minimum seasoning of such BTL loans, as of the cut-off date, was [•] months.

### Years to maturity at closing

Years to maturity	Aggregate current balance (£)	% of total	Number of BTL loans	% of total
[•] .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

The weighted average remaining term of the BTL loans, as of the cut-off date, was [•] years. The maximum remaining term, as of the cut-off date, was [•] years.

### Geographical distribution of mortgaged properties

The following table shows the spread of mortgaged properties securing the BTL loans throughout England, Wales and Scotland as of the cut-off date. No properties are situated outside England, Wales and Scotland. The geographical location of a property has no impact upon the lending criteria and credit scoring tests.

<b>Region</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
East Anglia .....	[•]	[•]	[•]	[•]
East Midlands .....	[•]	[•]	[•]	[•]
Greater London .....	[•]	[•]	[•]	[•]
North .....	[•]	[•]	[•]	[•]
North West .....	[•]	[•]	[•]	[•]
Scotland .....	[•]	[•]	[•]	[•]
South East (excluding London) .....	[•]	[•]	[•]	[•]
South West .....	[•]	[•]	[•]	[•]
Wales .....	[•]	[•]	[•]	[•]
West Midlands .....	[•]	[•]	[•]	[•]
Yorkshire .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

### *Original loan-to-value ratios*

The following table shows the range of original loan-to-value ratios, which express the current balance of a BTL loan, as at the date of its origination, divided by the value of the mortgaged property securing that BTL loan at the same date.

No mortgaged property has been revalued since the date of origination of the related BTL loan other than where additional lending or re-mortgaging has been applied for since the date of origination [or where the mortgage loan was mortgage loan originated by either originator prior to 10 April 2006 (unless originated through the intermediary/broker network) where a self assessment of the property valuation from the potential borrower was used for the valuation of the property, and in applying that self assessment to an LTV calculation, an LTV ratio of less than 75% was determined. In each of the aforementioned cases, the original valuation may have been updated with a more recent valuation, which recent valuation has been used in formulating this data.

<b>Original LTV</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•] .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

The weighted average original loan-to-value ratio of the BTL loans, as of the cut-off date was [•] %.

### *Current loan-to-value ratios*

The following table shows the range of current loan-to-value ratios, or LTV ratios, which express the current balance of a BTL loan, as of the cut-off date, divided by the value of the mortgaged property securing that BTL loan at the same date.

<b>Current LTV</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•] .....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

The weighted average current loan-to-value ratio of the BTL loans, as of the cut-off date was [•] %.

### *Current indexed loan-to-value ratios*

The following table shows the range of current indexed loan-to-value ratios, or LTV ratios, which express the current balance of a BTL loan, as of the cut-off date, divided by the indexed value of the mortgaged property securing that BTL loan, as of the same date [(calculated using the Halifax House Price Index)].

<b>Current LTV</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	[•]	[•]	[•]	[•]

The weighted average current indexed loan-to-value ratio of the BTL loans, as of the cut-off date, was [•]%.

#### ***Current balances***

The following table shows the current balances of the BTL loans (including capitalised fees and/or charges, if applicable), as of the cut-off date:

<b>Range of current principal balance</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	[•]	[•]	[•]	[•]

The largest BTL loan had a current balance, as of the cut-off date, of £[•]or \$[•]. The average current balance, as of the cut-off date, was approximately £[•] or \$[•].

#### ***Flexible Offset Product Type***

<b>Originator</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
Flexible Offset .....	[•]	[•]	[•]	[•]
Product Type.....	[•]	[•]	[•]	[•]
<b>Total</b> .....	[•]	[•]	[•]	[•]

#### ***BTL loan products***

<b>BTL loan products</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	[•]	[•]	[•]	[•]

#### ***Employment status***

<b>Employment status</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	[•]	[•]	[•]	[•]

[Approximately [•]% of the aggregate current balance of the BTL loans, as of the cut-off date, were made to borrowers under the non-verified income program as described in the base prospectus under "*The BTL loans – Characteristics of the BTL loans – Lending criteria*".]



***Distribution of fixed rate BTL loans***

Fixed rate BTL loans remain at the relevant fixed rate for a period of time as specified in the offer of advance, after which they move to the standard variable rate of the originators or some other rate as specified in the offer of advance.

<b>Fixed rate %</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

***Month/year in which fixed rate period ends***

<b>Month/year in which fixed rate period ends</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

***Repayment terms***

<b>Type of repayment plan</b>	<b>Aggregate current balance (£)</b>	<b>% of total</b>	<b>Number of BTL loans</b>	<b>% of total</b>
[•].....	[•]	[•]	[•]	[•]
<b>Total</b> .....	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>	<b>[•]</b>

## Characteristics of the United Kingdom Residential Mortgage Market

The housing market in the UK is primarily one of owner-occupier housing. The remaining occupants are in some form of public/private landlord or social ownership.

Set out in the following tables are certain characteristics of the United Kingdom mortgage market. The final terms for each series of notes will contain information supplemental to such tables together with other information regarding the characteristics of the United Kingdom mortgage market.

### *CPR rates*

The quarterly constant payment rate ("**CPR**") data presented below was calculated by dividing the amount of scheduled and unscheduled repayments of BTL loans in a quarter by the quarterly balance of BTL loans outstanding. You should note that the data presented below is based upon a percentage of the total UK residential mortgage market, [but because the seller's CPR data (which calculates the amount of scheduled and unscheduled repayments on a monthly basis for all BTL loans originated by the originators (and thus gives an indication of anticipated CPR for the mortgages trust)) includes the effect of further advances and product switches, which results in a higher CPR, the data presented below is on a basis which undercounts CPR relative to the seller's method of calculating CPR.]

The following table sets out the quarterly CPR rates experienced in respect of residential BTL loans by UK [building societies] since March 1970.

Date	CPR for the Quarter (%)	Four quarter rolling average (%)	Date	CPR for the quarter (%)	Four quarter rolling average (%)
March 1970.....	[•]	[•]	March 1977.....	[•]	[•]
June 1970.....	[•]	[•]	June 1977.....	[•]	[•]
September 1970.....	[•]	[•]	September 1977.....	[•]	[•]
December 1970.....	[•]	[•]	December 1977.....	[•]	[•]
March 1971.....	[•]	[•]	March 1978.....	[•]	[•]
June 1971.....	[•]	[•]	June 1978.....	[•]	[•]
September 1971.....	[•]	[•]	September 1978.....	[•]	[•]
December 1971.....	[•]	[•]	December 1978.....	[•]	[•]
March 1972.....	[•]	[•]	March 1979.....	[•]	[•]
June 1972.....	[•]	[•]	June 1979.....	[•]	[•]
September 1972.....	[•]	[•]	September 1979.....	[•]	[•]
December 1972.....	[•]	[•]	December 1979.....	[•]	[•]
March 1973.....	[•]	[•]	March 1980.....	[•]	[•]
June 1973.....	[•]	[•]	June 1980.....	[•]	[•]
September 1973.....	[•]	[•]	September 1980.....	[•]	[•]
December 1973.....	[•]	[•]	December 1980.....	[•]	[•]
March 1974.....	[•]	[•]	March 1981.....	[•]	[•]
June 1974.....	[•]	[•]	June 1981.....	[•]	[•]
September 1974.....	[•]	[•]	September 1981.....	[•]	[•]
December 1974.....	[•]	[•]	December 1981.....	[•]	[•]
March 1975.....	[•]	[•]	March 1982.....	[•]	[•]
June 1975.....	[•]	[•]	June 1982.....	[•]	[•]
September 1975.....	[•]	[•]	September 1982.....	[•]	[•]
December 1975.....	[•]	[•]	December 1982.....	[•]	[•]
March 1976.....	[•]	[•]	March 1983.....	[•]	[•]
June 1976.....	[•]	[•]	June 1983.....	[•]	[•]
September 1976.....	[•]	[•]	September 1983.....	[•]	[•]
December 1976.....	[•]	[•]	December 1983.....	[•]	[•]

Source of repayment and outstanding mortgage information: Bank of England

Date	CPR for the quarter (%)	Four quarter rolling average (%)	Date	CPR for the quarter (%)	Four quarter rolling average (%)
March 1984.....	[.]	[.]	September 1996.....	[.]	[.]
June 1984.....	[.]	[.]	December 1996.....	[.]	[.]
September 1984.....	[.]	[.]	March 1997.....	[.]	[.]
December 1984.....	[.]	[.]	June 1997.....	[.]	[.]
March 1985.....	[.]	[.]	September 1997.....	[.]	[.]
June 1985.....	[.]	[.]	December 1997.....	[.]	[.]
September 1985.....	[.]	[.]	March 1998.....	[.]	[.]
December 1985.....	[.]	[.]	June 1998.....	[.]	[.]
March 1986.....	[.]	[.]	September 1998.....	[.]	[.]
June 1986.....	[.]	[.]	December 1998.....	[.]	[.]
September 1986.....	[.]	[.]	March 1999.....	[.]	[.]
December 1986.....	[.]	[.]	June 1999.....	[.]	[.]
March 1987.....	[.]	[.]	September 1999.....	[.]	[.]
June 1987.....	[.]	[.]	December 1999.....	[.]	[.]
September 1987.....	[.]	[.]	March 2000.....	[.]	[.]
December 1987.....	[.]	[.]	June 2000.....	[.]	[.]
March 1988.....	[.]	[.]	September 2000.....	[.]	[.]
June 1988.....	[.]	[.]	December 2000.....	[.]	[.]
September 1988.....	[.]	[.]	March 2001.....	[.]	[.]
December 1988.....	[.]	[.]	June 2001.....	[.]	[.]
March 1989.....	[.]	[.]	September 2001.....	[.]	[.]
June 1989.....	[.]	[.]	December 2001.....	[.]	[.]
September 1989.....	[.]	[.]	March 2002.....	[.]	[.]
December 1989.....	[.]	[.]	June 2002.....	[.]	[.]
March 1990.....	[.]	[.]	September 2002.....	[.]	[.]
June 1990.....	[.]	[.]	December 2002.....	[.]	[.]
September 1990.....	[.]	[.]	March 2003.....	[.]	[.]
December 1990.....	[.]	[.]	June 2003.....	[.]	[.]
March 1991.....	[.]	[.]	September 2003.....	[.]	[.]
June 1991.....	[.]	[.]	December 2003.....	[.]	[.]
September 1991.....	[.]	[.]	March 2004.....	[.]	[.]
December 1991.....	[.]	[.]	June 2004.....	[.]	[.]
March 1992.....	[.]	[.]	September 2004.....	[.]	[.]
June 1992.....	[.]	[.]	December 2004.....	[.]	[.]
September 1992.....	[.]	[.]	March 2005.....	[.]	[.]
December 1992.....	[.]	[.]	June 2005.....	[.]	[.]
March 1993.....	[.]	[.]	September 2005.....	[.]	[.]
June 1993.....	[.]	[.]	December 2005.....	[.]	[.]
September 1993.....	[.]	[.]	March 2006.....	[.]	[.]
December 1993.....	[.]	[.]	June 2006.....	[.]	[.]
March 1994.....	[.]	[.]	September 2006.....	[.]	[.]
June 1994.....	[.]	[.]	December 2006.....	[.]	[.]
September 1994.....	[.]	[.]	March 2007.....	[.]	[.]
December 1994.....	[.]	[.]	June 2007.....	[.]	[.]
March 1995.....	[.]	[.]	September 2007.....	[.]	[.]
June 1995.....	[.]	[.]	December 2007.....	[.]	[.]
September 1995.....	[.]	[.]	March 2008.....	[.]	[.]
December 1995.....	[.]	[.]	June 2008.....	[.]	[.]
March 1996.....	[.]	[.]	September 2008.....	[.]	[.]
June 1996.....	[.]	[.]	December 2008.....	[.]	[.]
			March 2009.....	[.]	[.]
			June 2009.....	[.]	[.]
			September 2009.....	[.]	[.]
			December 2009.....	[.]	[.]
			March 2010.....	[.]	[.]
			June 2010.....	[.]	[.]
			September 2010.....	[.]	[.]
			December 2010.....	[.]	[.]
			March 2011.....	[.]	[.]
			June 2011.....	[.]	[.]
			[.].....	[.]	[.]

Source of repayment and outstanding mortgage information: Bank of England

**House price index**

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

The housing market has been through three economic cycles since 1976. High year to year increases in the Housing Indices occurred in the late 1970s and late 1980s with greatest decrease in the early 1990s.

The following table sets out the quarterly housing price indices experienced in respect of residential BTL loans by building societies since the fourth quarter of 1985.

Time	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>
1985.....	[•]	[•]	[•]	[•]	[•]	[•]
1986.....	[•]	[•]	[•]	[•]	[•]	[•]
1987.....	[•]	[•]	[•]	[•]	[•]	[•]
1988.....	[•]	[•]	[•]	[•]	[•]	[•]
1989.....	[•]	[•]	[•]	[•]	[•]	[•]
1990.....	[•]	[•]	[•]	[•]	[•]	[•]
1991.....	[•]	[•]	[•]	[•]	[•]	[•]
1992.....	[•]	[•]	[•]	[•]	[•]	[•]
1993.....	[•]	[•]	[•]	[•]	[•]	[•]
1994.....	[•]	[•]	[•]	[•]	[•]	[•]
1995.....	[•]	[•]	[•]	[•]	[•]	[•]
1996.....	[•]	[•]	[•]	[•]	[•]	[•]
1997.....	[•]	[•]	[•]	[•]	[•]	[•]
1998.....	[•]	[•]	[•]	[•]	[•]	[•]
1999.....	[•]	[•]	[•]	[•]	[•]	[•]
2000 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2000 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2000 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2000 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2001 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2001 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2001 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2001 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2002 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2002 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2002 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2002 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2003 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2003 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2003 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2003 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2004 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2004 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2004 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2004 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2005 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2005 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2005 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2005 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2006 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2006 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2006 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2006 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2007 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2007 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2007 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2007 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2008 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2008 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2008 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2008 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2009 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]
2009 Q2.....	[•]	[•]	[•]	[•]	[•]	[•]
2009 Q3.....	[•]	[•]	[•]	[•]	[•]	[•]
2009 Q4.....	[•]	[•]	[•]	[•]	[•]	[•]
2010 Q1.....	[•]	[•]	[•]	[•]	[•]	[•]

Time	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>	Index	% annual change <sup>1</sup>
2010 Q2 .....	[•]	[•]	[•]	[•]	[•]	[•]
2010 Q3 .....	[•]	[•]	[•]	[•]	[•]	[•]
2010 Q4 .....	[•]	[•]	[•]	[•]	[•]	[•]
2011 Q1 .....	[•]	[•]	[•]	[•]	[•]	[•]

Provided by Clydesdale Bank PLC.

<sup>1</sup> The percentage annual change is calculated in accordance with the following formula:

In (x/y) where "x" is equal to the current quarter's index value and "y" is equal to the index value of the previous year's corresponding quarter.

Sources: Office for National Statistics, Nationwide, Halifax.

### 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.....	[•]	1993.....	[•]	2001.....	[•]
1986.....	[•]	1994.....	[•]	2002.....	[•]
1987.....	[•]	1995.....	[•]	2003.....	[•]
1988.....	[•]	1996.....	[•]	2004.....	[•]
1989.....	[•]	1997.....	[•]	2005.....	[•]
1990.....	[•]	1998.....	[•]	2006.....	[•]
1991.....	[•]	1999.....	[•]	2007.....	[•]
1992.....	[•]	2000.....	[•]	2008.....	[•]
1993.....	[•]	2001.....	[•]	2009.....	[•]
1994.....	[•]	2002.....	[•]	2010.....	[•]

Source: Council of Mortgage Lenders

### 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 CML's earnings survey figures referring to weekly earnings in April of each year for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a BTL loan.

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1994.....	[•]	2002.....	[•]
1995.....	[•]	2003.....	[•]
1996.....	[•]	2004.....	[•]
1997.....	[•]	2005.....	[•]
1998.....	[•]	2006.....	[•]
1999.....	[•]	2007.....	[•]
2000.....	[•]	2008.....	[•]
2001.....	[•]	2009.....	[•]
2002.....	[•]	2010.....	[•]

Source: Council of Mortgage Lenders

All information sourced from a third party has been accurately reproduced and that so 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.

### **Mortgage sale agreement – Conditions to assignment**

For the purposes of the conditions to be met on each assignment date in order to effect a sale and assignment of a loan portfolio:

- (a) the aggregate arrearage of interest threshold shall be [•]%
- (b) the aggregate current principal balance in arrearage threshold shall be [•]%
- (c) the aggregate current principal balance threshold shall be [•]%
- (d) the Moody's portfolio variation test margin shall be [•]%
- (e) the weighted average yield threshold shall be [•]%; and
- (f) the weighted average LTV ratio margin shall be [•]%

For the purposes of the Fitch conditions:

- (a) the original weighted average LTV threshold shall be [•]%
- (b) the current weighted average LTV threshold shall be [•]%
- (c) the weighted average Fitch interest coverage ratio amount shall be [•]; and
- (d) the Fitch original LTV threshold shall be [•]%

## USE OF PROCEEDS

The gross proceeds from the issue of the series [•] notes will (after exchanging, where applicable, the proceeds of the notes for sterling, calculated by reference to the applicable specified currency exchange rate) be used by the issuer to make available loan tranches to Funding pursuant to the terms of the global intercompany loan agreement. Funding will use the gross proceeds of each loan tranche to [•].

The fees (including selling and underwriting commissions) and expenses of the issuer will be approximately [•] and will be funded by the issuer from the proceeds of the start-up loan to be made on the closing date specified herein.

### **Interests of natural and legal persons involved in the issue**

[Include a description of any interest, including conflicting ones, that are material to the issue, detailing the persons involved and the nature of the interest.]

### **Listing and admission to trading application**

These final terms comprise the final terms required for the notes described herein to be admitted to the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange's regulated market pursuant to the £10 billion Residential Buy-To-Let Mortgage Backed Note Programme of Lannraig Master Issuer plc.

### **Responsibility**

The issuer accepts responsibility for the information contained in these final terms.

Signed on behalf of the issuer:

By: .....  
**Duly authorised**

**[END OF FINAL TERMS]**

## GLOSSARY

Set forth below in this glossary are definitions of certain defined terms used and not defined elsewhere in this base prospectus.

<b>"AAA loan tranches"</b>	The loan tranches made by an issuer to Funding pursuant to the terms of a Funding intercompany loan agreement from the proceeds of issue of the class A notes of any series of notes by such issuer
<b>"AA loan tranches"</b>	The loan tranches made by an issuer to Funding pursuant to the terms of a Funding intercompany loan agreement from the proceeds of issue of the class B notes of any series of notes by such issuer
<b>"all moneys mortgage principal receipts"</b>	Following enforcement with respect to an all moneys mortgage trust, such receipts which are distributable to the mortgages trustee and allocated as representing principal outstanding on the relevant BTL loan
<b>"all moneys mortgage revenue receipts"</b>	Following enforcement with respect to an all moneys mortgage trust, such receipts which are distributable to the mortgages trustee and allocated as representing interest outstanding on the relevant BTL loan
<b>"A loan tranches"</b>	The loan tranches made by an issuer to Funding pursuant to the terms of a Funding intercompany loan agreement from the proceeds of issue of the class C notes of any series of notes by such issuer
<b>"AAA principal deficiency sub-ledger"</b>	One of six sub-ledgers on the Funding principal deficiency ledger which records any principal deficiency in respect of any AAA loan tranche
<b>"AA principal deficiency sub-ledger"</b>	One of six sub-ledgers on the Funding principal deficiency ledger which records any principal deficiency in respect of any AA loan tranche
<b>"A principal deficiency sub-ledger"</b>	One of six sub-ledgers on the Funding principal deficiency ledger which records any principal deficiency in respect of any A loan tranche
<b>"adjusted Funding reserve fund level"</b>	The sum of: <ul style="list-style-type: none"><li>(a) the aggregate amount standing to the credit of the issuer reserve ledger and the Funding reserve ledger; and</li><li>(b) the amount (if any) then to be credited to the issuer reserve ledger in accordance with to the issuer pre-enforcement principal priority of payments and the amount (if any) then to be credited to the Funding reserve ledger in accordance with to the Funding pre-enforcement principal priority of payments</li></ul>
<b>"authorised investments"</b>	<ul style="list-style-type: none"><li>(a) sterling gilt-edged securities; and</li><li>(b) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits in any account which earns a rate of interest related to LIBOR) provided that in all cases such investments (A) have a maturity date of 90 days or less and mature on or before</li></ul>



the next following note payment date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or entity with which the demand or time deposits are made (being an authorised institution under the Financial Services and Markets Act 2000) are rated at least "F1+" by Fitch and "P-1" by Moody's or (B) are otherwise acceptable to the rating agencies (if they are notified in advance) to maintain the then current ratings of the notes

<b>"arranger"</b>	Barclays Bank PLC
<b>"bank account agreement"</b>	The bank account agreement entered into on the programme date, among the account bank for the mortgage trustee and for Funding, the cash manager, the mortgages trustee, Funding and the Funding security trustee which provides for the operation of the mortgages trustee bank accounts and the Funding bank accounts, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, as further described under "Cash management for the mortgages trustee and Funding"
<b>"base prospectus"</b>	The base prospectus of the issuer from time to time, the first being the base prospectus dated 27 September 2011
<b>"BBB loan tranches"</b>	The loan tranches made by an issuer to Funding pursuant to the terms of a Funding intercompany loan agreement from the proceeds of issue of the class D notes of any series of notes by such issuer
<b>"BB loan tranches"</b>	The loan tranches made by an issuer to Funding pursuant to the terms of a Funding intercompany loan agreement from the proceeds of issue of the class E notes of any series of notes by such issuer
<b>"BBB principal deficiency sub-ledger"</b>	One of six sub-ledgers of the Funding principal deficiency ledger which records any principal deficiency in respect of any BBB loan tranches
<b>"BB principal deficiency sub-ledger"</b>	One of six sub-ledgers of the Funding principal deficiency ledger which records any principal deficiency in respect of any BB loan tranches
<b>"beneficiaries deed"</b>	The beneficiaries deed entered into on or about the programme date, among the seller and Funding, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"borrower"</b>	For each BTL loan, the person or persons who is or are named and defined as such in the relevant mortgage deed, or the other person or persons (other than a guarantor) who shall become legally obligated to comply with the borrower's obligations with respect to the related BTL loan
<b>"BTL loan"</b>	Any mortgage loan intended for borrowers who wish to use the relevant mortgage loan as a means to purchase or refinance residential property which is not the borrower's main dwelling, including for the purpose of letting to third parties and originated by an originator, referenced by its mortgage loan identifier number and comprising the aggregate of all principal sums,

interest, costs, charges, expenses and other monies (including all further advances and flexible loan reserve advances) due or owing with respect to that mortgage loan under the relevant mortgage conditions by a borrower on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same but excluding, for the avoidance of doubt, any associated debt

<b>"BTL loan agreement"</b>	In relation to any BTL loan, the agreement, facility letter or accepted offer of advance pursuant to which the monies secured by the relevant mortgage were advanced to the borrower (as varied from time to time in accordance with the applicable mortgage conditions and including any modifying agreement within the meaning of Section 82 of the Consumer Credit Act 1974 insofar as it relates to that BTL loan)
<b>"BTL loan files"</b>	For each BTL loan, the file or files (including files kept in microfiche format or similar electronic data retrieval system) containing correspondence between the borrower and the relevant originator and including the mortgage documentation applicable to that BTL loan, each letter of offer for that BTL loan and other relevant documents
<b>"bullet loan amount"</b>	The amount required to be repaid on the bullet redemption date in respect of a bullet loan tranche in order to repay such loan tranche in full
<b>"bullet loan tranche"</b>	<p>Any loan tranche which is scheduled to be repaid in full on one loan payment date. A bullet loan tranche will become a pass-through loan tranche on the earlier to occur of:</p> <ul style="list-style-type: none"><li>(a) a date specified in relation to the same for such loan tranche in the applicable loan tranche supplement; and</li><li>(b) a pass-through trigger event</li></ul>
<b>"bullet notes"</b>	<p>Any series and class of notes which is scheduled to be repaid in full on one note payment date. A bullet note will become a pass-through note on the earlier to occur of:</p> <ul style="list-style-type: none"><li>(a) a date specified in relation to the same for such note in the applicable final terms</li><li>(b) a pass-through trigger event; and</li><li>(c) the step-up date (if any) in relation to such note</li></ul>
<b>"bullet redemption date"</b>	<p>The bullet redemption date:</p> <ul style="list-style-type: none"><li>(a) for any series and class of bullet notes will be the monthly payment date specified as such for such series and class of notes in the applicable final terms or prospectus supplement (as applicable)</li><li>(b) for any bullet loan tranche will be the monthly payment date specified as such for loan tranche in the applicable loan tranche supplement</li></ul>
<b>"calculation date"</b>	The last day of the trust calculation period or, if such day is not a London business day, the next following London business day and, the <b>"relevant calculation date"</b> means, with respect to any

	determination date, the immediately preceding calculation date
"calendar year"	A year from the beginning of January 1 to the end of December 31
"capitalised"	In respect of a fee, an interest amount or any other amount, means that amount which is added to the current principal balance of a BTL loan
"capitalised arrears"	For any BTL loan at any date, interest or other amounts which are overdue in respect of that BTL loan and which as at that date have been added to the current principal balance of that BTL loan either in pursuant to the terms of the mortgage conditions or otherwise by arrangement with the relevant borrower
"capitalised interest"	For any BTL loan at any date, interest which is overdue in respect of that BTL loan and which as at that date has been added to the current principal balance of that BTL loan pursuant to the terms of 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"	The cash management agreement entered into on the programme date, among the cash manager, the mortgages trustee, the seller, Funding and the Funding security trustee which provides for the management of the revenue and payment obligations and the administration of the bank accounts of each of the mortgages trustee and Funding, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, as further described under " <i>Cash management for the mortgages trustee and Funding</i> "
"common depositary"	a common depositary appointed by Euroclear and Clearstream, Luxembourg
"common safekeeper"	a common safekeeper for Euroclear and Clearstream, Luxembourg
"common service provider"	the common service provider appointed by Euroclear and Clearstream, Luxembourg to service the notes held under the NSS
"contribution"	The consideration in the form of cash provided to the mortgages trustee by any beneficiary in respect of the share of that beneficiary in the trust property pursuant to the terms of the mortgages trust deed, being either of an initial contribution or a deferred contribution
"controlled amortisation amount"	On any controlled amortisation date: <ul style="list-style-type: none"> <li>(a) before the occurrence of a trigger event or the delivery by the Funding security trustee of a Funding enforcement notice to Funding, for any controlled amortisation loan tranche, the principal amount which Funding would have to repay to the issuer on that controlled amortisation date so that the principal amount outstanding of such loan tranche on that controlled amortisation date (after giving effect to such payment) would be reduced to (but not less than) the "<b>target balance</b>" specified for such loan tranche in the</li> </ul>

applicable loan tranche supplement

- (b) before the occurrence of a trigger event or the delivery by the note trustee of an issuer enforcement notice to the issuer, for any series and class of controlled amortisation notes, the principal amount which the issuer would have to pay to the relevant noteholder or noteholders of such notes on that controlled amortisation date so that the principal amount outstanding of such notes on that controlled amortisation date (after giving effect to such payment) would be reduced to (but not less than) the "**target balance**" specified for such notes in the applicable final terms

**"controlled amortisation dates"**

The controlled amortisation dates:

- (a) for any series and class of controlled amortisation notes will be the monthly payment dates specified as such for such series and class of notes in the accompanying final terms
- (b) for any controlled amortisation loan tranche will be the monthly payment dates specified as such for such loan tranche in the applicable loan tranche supplement

**"controlled amortisation loan tranche"**

Any loan tranche which by its terms imposes a limit on the amount of principal which may be repaid on such loan tranche on any controlled amortisation date for such loan tranche. A controlled amortisation loan tranche will become a pass-through loan tranche on the earlier to occur of:

- (a) a date specified in relation to the same for such loan tranche in the applicable loan tranche supplement;
- (b) a pass-through trigger event; and
- (c) the step-up date (if any) in relation to such loan tranche

**"controlled amortisation notes"**

Any series and class of notes the conditions of which impose a limit on the amount of principal which may be repaid on such notes on each controlled redemption date for such notes. A controlled amortisation note will become a pass-through note on the earlier to occur of:

- (a) a date specified in relation to the same for such note in the applicable final terms; and
- (b) a pass-through trigger event

**"corporate services agreement"**

With respect to (1) the issuer and Funding, the corporate services agreement entered into on or about the programme date among, *inter alios*, the corporate services provider, Holdings, Funding and the issuer, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time and (2) the mortgages trustee, the corporate services agreement entered into on or about the programme date between the corporate services provider and the mortgages trustee, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time

**"corporate services provider"** With respect to (1) the issuer and Funding, Structured Finance Management Limited (2) the mortgages trustee Structured Finance Management Offshore Limited, in each case, any other person or persons for the time being acting as corporate services provider under the applicable corporate services agreement

**"credit support annex"** The 1995 Credit Support Annex (Bilateral Form – Transfer) published by the International Swaps and Derivatives Association, Inc., entered into or to be entered into by Funding or the issuer and a swap provider

**"current balance"** For any BTL loan as at any given date, the aggregate (but avoiding double counting) of:

- (1) the current principal balance of such BTL loan; and
- (2) any other amount (including unpaid 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 but which is secured or intended to be secured by the related mortgage,

as at the end of the London business day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the London 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 London business day immediately preceding that given date.

**"current principal balance"** For any BTL loan as at any given date, the aggregate (but avoiding double counting) of:

- (1) the original principal amount advanced to the relevant borrower and any further amount advanced on or before the given date to the relevant borrower secured or intended to be secured by the related mortgage; and
- (2) the amount of any re-draw under any flexible BTL loan secured or intended to be secured by the related mortgage; and
- (3) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised in accordance with the relevant mortgage conditions or with the relevant borrower's consent and added to the amounts secured or intended to be secured by the related mortgage (including interest capitalised on any re-draw under a flexible BTL loan);

as at the end of the London business day immediately preceding that given date less any repayment or payment of any of the foregoing made on or before the end of the London business day immediately preceding that given date and excluding any retentions made but not released and any further advances or flexible loan reserve advances committed to be made but not made by the end of the London business day immediately preceding that given date

<b>"cut-off date"</b>	The cut-off date in relation to the sale of BTL loans by the seller to the mortgages trustee pursuant to the terms of the mortgage sale agreement (which will be specified in each final terms)
<b>"deferred contribution"</b>	The consideration in the form of cash payable by Funding to the mortgages trustee from time to time in respect of the Funding share of the trust property pursuant to the terms of the mortgages trust deed and the Funding deed of charge, which contribution will fund the payment by the mortgages trustee to the seller of the deferred purchase price from time to time pursuant to the terms of the mortgage sale agreement
<b>"deferred purchase price"</b>	That portion of the purchase price for BTL loans assigned to the mortgages trustee which was not paid to the seller on the assignment date in respect of any such BTL loans and which is to be paid by the mortgages trustee from time to time to the seller from deferred contributions received by the mortgages trustee from Funding and otherwise pursuant to the terms of the mortgage sale agreement
<b>"distribution date"</b>	The date on which the mortgages trust terminates and the 15th day or each calendar month or, if such day is not a London business day, the next following London business day
<b>"EURIBOR"</b>	The Euro-zone inter-bank offered rate, as determined by the agent bank in accordance with the issuer paying agent and agent bank agreement
<b>"event of default"</b>	As the context requires, any of the following: <ul style="list-style-type: none"> <li>(a) for any notes, an event of default pursuant to the terms and condition of those notes; or</li> <li>(b) for any Funding intercompany loan, an event of default pursuant to the terms of the applicable Funding intercompany loan agreement</li> </ul>
<b>"final maturity date"</b>	<ul style="list-style-type: none"> <li>(c) In respect of any series and class of notes, the date specified as such for such notes in the applicable final terms</li> <li>(d) In relation to any loan tranche, the date specified as such for such loan tranche in the applicable loan tranche supplement</li> </ul>
<b>"fixed rate note"</b>	A note, the interest basis of which is specified, in the applicable final terms, as being fixed rate
<b>"fixed rate period"</b>	For any fixed rate BTL loan or other BTL loan offered with a fixed rate, the period agreed between the borrower and the relevant originator as set out under the mortgage conditions, during which the interest rate applicable to that BTL loan will remain fixed and after which the borrower may be entitled to apply for a new fixed rate of interest
<b>"fixed security"</b>	A form of security which means that the chargor is not allowed to deal with the assets subject to the charge without the consent of the chargee
<b>"floating rate note"</b>	A note, the interest basis of which is specified, in the applicable final terms, as being floating rate

<b>"FSA"</b>	The Financial Services Authority or any successor regulatory body or authority
<b>"Funding basis rate swap agreement"</b>	The ISDA master agreement, the schedule thereto and the confirmations thereunder entered into on or about the programme date, and any credit support annex entered into at any time between Funding and the Funding basis rate swap provider as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"Funding basis rate swap excluded termination amount"</b>	In relation to the Funding basis rate swap agreement, an amount equal to: <ul style="list-style-type: none"> <li>(a) the amount of any swap termination payment due and payable to the Funding basis rate swap provider as a result of a swap provider default in respect of the Funding basis rate swap provider; less</li> <li>(b) the swap replacement premium (if any) received by Funding upon entry by Funding into an agreement to replace such swap agreement which has terminated as a result of such swap provider default</li> </ul>
<b>"Funding charged property"</b>	The property, assets and undertaking of Funding which from time to time are or are expressed to be mortgaged, charged, assigned, pledged or otherwise encumbered to, or in favour of the Funding security trustee for itself and for the Funding secured creditors pursuant to the terms of the Funding deed of charge
<b>"Funding deed of charge"</b>	The deed of charge to be entered into on or about the programme date among Funding, the Funding security trustee and the Funding secured creditors, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time and each deed of accession or supplement entered into in connection therewith
<b>"Funding enforcement notice"</b>	An enforcement notice which may be delivered by the Funding security trustee to Funding in relation to the enforcement of the Funding security following the occurrence of a Funding intercompany loan event of default
<b>"Funding GIC account"</b>	An account in the name of Funding held at the account bank to Funding and maintained pursuant to the terms of the bank account agreement
<b>"Funding intercompany loan"</b>	A loan (or the aggregate of a number of separate loans) of the net proceeds of any issue (or all issues) of notes by an issuer, such loan(s) being advanced to Funding by such issuer pursuant to the terms of a Funding intercompany loan agreement
<b>"Funding intercompany loan agreement"</b>	An agreement evidencing or otherwise entered into in relation to a Funding intercompany loan entered into between, among others, Funding and an issuer, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time

<b>"Funding intercompany loan event of default"</b>	The occurrence of an event of default pursuant to the terms of the global intercompany loan agreement and/or the terms of any other Funding intercompany loan agreement
<b>"Funding liquidity reserve fund"</b>	The liquidity reserve fund in Funding's name which Funding will be required to establish if the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least "A3" by Moody's or "A-" by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the notes will not be adversely affected).
<b>"Funding liquidity reserve ledger"</b>	A ledger maintained by the cash manager to record the balance from time to time of the Funding liquidity reserve fund, if any and withdrawals from and deposits into the Funding liquidity reserve fund
<b>"Funding principal deficiency ledger"</b>	The ledger maintained by the cash manager which will be established on the programme date and will be sub-divided into five sub-ledgers, each corresponding to a class of loan tranche made pursuant to the terms of the global intercompany loan agreement and each other Funding intercompany loan agreement in order to record losses allocated to the loan tranches which are to be applied to the notes or the application of Funding available principal receipts in paying interest on the loan tranches and certain amounts ranking in priority thereto in accordance with the Funding pre-enforcement revenue priority of payments and the application of Funding available principal receipts to fund the Funding liquidity reserve fund (if any)
<b>"Funding principal deficiency sub-ledger"</b>	Any of the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the BB principal deficiency sub-ledger and the Z principal deficiency sub-ledger, as applicable and Funding principal deficiency sub-ledgers means all of such sub-ledgers
<b>"Funding principal ledger"</b>	The ledger on which Funding available principal receipts (other than amounts recorded on the Funding cash accumulation ledger) received and disbursed by Funding will be recorded by the cash manager
<b>"Funding priority of payments"</b>	As the context requires, any of the Funding pre-enforcement revenue priority of payments, the Funding pre-enforcement principal priority of payments and/or the Funding post-enforcement priority of payments
<b>"Funding reserve fund"</b>	A reserve fund established in the name of Funding
<b>"Funding reserve fund threshold"</b>	On any date, the lesser of: <ul style="list-style-type: none"> <li>(a) the target reserve required amount; or</li> <li>(b) the highest amount which the adjusted Funding Reserve fund level has been since the first loan payment date upon which interest is due and payable in respect of loan tranches advanced or the closing date of the then most recent issue of notes by an issuer</li> </ul>
<b>"Funding reserve ledger"</b>	A ledger to be maintained by the cash manager to record the balance from time to time of the Funding reserve fund and withdrawals from and deposits into the Funding reserve fund



<b>"Funding secured creditors"</b>	The Funding security trustee (and any receiver appointed pursuant to the terms of the Funding deed of charge), the issuer, each other issuer, the Funding basis rate swap provider, the corporate services provider for Funding, the account bank for Funding, the cash manager, the mortgages trustee and any new Funding secured creditor who accedes to the Funding deed of charge from time to time under a deed of accession or a supplemental deed
<b>"Funding security"</b>	The mortgages, charges, assignments, pledges and/or any other security created by Funding under or pursuant to the terms of the Funding deed of charge in favour of the Funding security trustee for the benefit of the Funding secured creditors
<b>"Funding swap collateral accounts"</b>	The accounts, if any, opened in the name of Funding for the purpose of holding swap collateral delivered to Funding and maintained in accordance with the terms of the cash management agreement
<b>"Funding swap collateral ledger"</b>	A ledger maintained by the cash manager to record all payments, deliveries, transfers and receipts in connection with swap collateral relating to the Funding basis rate swap agreement
<b>"global intercompany loan agreement"</b>	The Funding intercompany loan agreement to be entered into on or about the programme date among Funding, the Funding security trustee, the issuer and the agent bank which will provide for the making of loan tranches by the issuer to Funding, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time and including any loan tranche supplements ancillary thereto, as further described under " <i>The global intercompany loan agreement</i> "
<b>"initial purchase price"</b>	That portion of the purchase price paid by the mortgages trustee to the seller on each assignment date in consideration for the assignment by the seller to the mortgages trustee of BTL loans, in each case pursuant to the terms of the mortgage sale agreement
<b>"insolvency event"</b>	For the seller, the servicer, the cash manager or the issuer cash manager (each, for the purposes of this definition, a " <b>relevant entity</b> "): <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity or the appointment of a liquidator or administrator over the relevant entity (except, in any such case, a winding-up or dissolution for the purpose of a reconstruction or amalgamation the terms of which have been previously approved by the issuer security trustee);</li> <li>(b) the relevant entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of section 123(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amounts of its liabilities (taking into account, for both these purposes, contingent and prospective liabilities) or otherwise becomes insolvent; and</li> <li>(c) <ul style="list-style-type: none"> <li>(i) proceedings are initiated against the relevant</li> </ul> </li> </ul>

- entity under any applicable liquidation, insolvency, composition, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws (including, but not limited to, application or pending application for an administration order or presentation of a petition for a winding up order), except where these proceedings are being contested in good faith; or
- (ii) an administration order being granted or, an administrative or other receiver, administrator, liquidator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the relevant entity; or
  - (iii) a bank insolvency order or a bank administration order is made pursuant to the Banking Act 2009; or
  - (iv) a distress, execution, diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 30 London business days; or
  - (v) if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally
- "interest commencement date"**
- (a) in respect of any series and class of notes, the closing date of such notes or such other date as may be specified as such for such notes in the applicable final terms; and
  - (b) in respect of any loan tranche, the closing date of the related series and class of notes or such other date as may be specified as such for such loan tranche in the applicable loan tranche supplement
- "interest period"**
- (a) In respect of any series and class of notes, (i) with respect to the first note payment date for such notes, the period from (and including) the applicable interest commencement date to (but excluding) such first note payment date, and (ii) thereafter, with respect to each note payment date for such notes, the period from (and including) the preceding note payment date to (but excluding) such current note payment date; and
  - (b) In respect of any loan tranche, (i) with respect to the first loan payment date for such loan tranche, the period from (and including) the applicable interest commencement date to (but excluding) such first loan payment date, and (ii) thereafter, with respect to each loan payment date for such loan tranche, the period from (and including) the preceding loan payment date to

(but excluding) such current loan payment date

<b>"investment plan"</b>	For an interest-only loan, a repayment mechanism selected by the borrower and intended to provide sufficient funds to redeem the full principal of a BTL loan at maturity
<b>"issuance fees"</b>	The fees payable by Funding to the issuer pursuant to the terms of the global intercompany loan agreement, being an amount equal to the expenses incurred by the issuer and Funding (and to be paid by the issuer pursuant to the terms of the global intercompany loan agreement) in connection with the issuance of notes, the making of loan tranches and the acquisition by Funding of an additional share of the trust property
<b>"issuer bank account agreement"</b>	The issuer bank account agreement to be entered into on or about the programme date, among the issuer account bank, the issuer cash manager, the issuer and the issuer security trustee which will provide for the operation of the issuer bank accounts, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, as further described under " <i>Cash management for the issuer</i> "
<b>"issuer cash management agreement"</b>	The issuer cash management agreement to be entered into on or about the programme date, among the issuer cash manager, the issuer and the issuer security trustee which provides for the management of the revenue and payment obligations and the administration of the bank accounts of the issuer, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, as further described under " <i>Cash management for the issuer</i> "
<b>"issuer corporate services agreement"</b>	The corporate services agreement entered into on the programme date among the issuer corporate services provider, Holdings, Funding and the issuer, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"issuer deed of charge"</b>	The deed of charge to be entered into on or about the programme date among the issuer, the issuer security trustee and the issuer secured creditors, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time and each deed of accession or supplement entered into in connection therewith
<b>"issuer master definitions schedule"</b>	The issuer master definitions schedule to be entered into on or about the programme date, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time which is a schedule of definitions used in the issuer transaction documents
<b>"issuer paying agent and agent bank agreement"</b>	The paying agent and agent bank agreement to be entered into on or about the programme date among the issuer, the note trustee, the issuer security trustee, the paying agents, the transfer agent, the registrar and the agent bank as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"issuer principal ledger"</b>	The ledger on which the issuer cash manager records issuer available principal receipts received and paid out by the issuer
<b>"issuer priority of payments"</b>	The issuer pre-enforcement revenue priority of payments, the issuer pre-enforcement principal priority of payments and/or the issuer post-enforcement priority of payments, as the context

	requires
<b>"issuer profit amount"</b>	<p>With respect to:</p> <p>(a) any monthly payment date falling on or up to 30 September 2012, an amount of £1,750; and</p> <p>(b) any monthly payment date falling after 30 September 2012, an amount rounded up to the nearest penny, equal to the lesser of one-twelfth of (i) £12,000 and (ii) the aggregate of £1,200 per series of notes outstanding during the course of the previous 11 monthly periods</p>
<b>"issuer swap agreements"</b>	The ISDA master agreements, schedules thereto and confirmations thereunder relating to the currency and/or interest rate swaps to be entered into in connection with the notes, and any credit support annexes or other credit support documents entered into at any time among the issuer and the applicable issuer swap provider and/or any credit support provider, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"issuer swap excluded termination amount"</b>	<p>In relation to any issuer swap agreement an amount equal to:</p> <p>(a) the amount of any swap termination payment due and payable to the relevant swap provider as a result of a swap provider default in relation to such issuer swap provider</p> <p>less</p> <p>(b) the swap replacement premium (if any) received by the issuer upon entry by the issuer into an agreement to replace such swap agreement which has terminated as a result of such swap provider default</p>
<b>"issuer transaction documents"</b>	<p>In respect of the issuer, each of the following documents:</p> <p>(a) the programme agreement;</p> <p>(b) the global intercompany loan agreement;</p> <p>(c) the Funding deed of charge;</p> <p>(d) the issuer trust deed;</p> <p>(e) the issuer deed of charge;</p> <p>(f) the issuer paying agent and agent bank agreement;</p> <p>(g) the issuer corporate services agreement;</p> <p>(h) the issuer bank account agreement;</p> <p>(i) the issuer cash management agreement;</p> <p>(j) the start-up loan agreement;</p> <p>(k) the issuer master definitions schedule;</p> <p>(l) each programme issuance document to which the issuer is a party;</p>

- (m) each other programme document to which the issuer is a party; and
- (n) each other deed, document, agreement, instrument or certificate entered into or to be entered into by the issuer under or in connection with any of the documents set out in paragraphs (a) through (n) above or the transactions contemplated in them

In respect of any other issuer, the deeds, documents, agreements, instruments and/or certificates identified as such for such issuer

<b>"issuer trust deed"</b>	The issuer trust deed entered into on or around the programme date between the issuer and the note trustee constituting the notes, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"LIBOR"</b>	The London Interbank Offered Rate for deposits in the relevant currency, as determined by the agent bank in accordance with the issuer paying agent and agent bank agreement
<b>"loan payment date"</b>	In respect of a loan tranche, the monthly payment date(s) specified as such for such loan tranche in the applicable loan tranche supplement
<b>"loan tranche supplement"</b>	In relation to any loan tranche, the supplement to the global intercompany loan agreement entered into on or around the applicable closing date among, among others, Funding and the issuer recording the principal terms of such loan tranche
<b>"London business day"</b>	A day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in London
<b>"LTV ratio" or "loan to value ratio"</b>	In respect of (a) any BTL loan in the loan portfolio, the ratio of the current principal balance of such BTL loan to the value of the mortgaged property securing such BTL loan and (b) the relevant originator's decision as to whether to make a BTL loan to a prospective borrower, the ratio of the current principal balance of such BTL loan to the lower of the purchase price or valuation of the mortgaged property securing such BTL loan as determined by the relevant valuation by the relevant originator
<b>"LTV test"</b>	A test which assign a credit enhancement value to each BTL loan in the loan portfolio based on its current LTV ratio. The weighted average credit enhancement value for the loan portfolio is then determined
<b>"managers"</b>	In respect of any series and class of notes, the institutions identified as the managers for such notes in the applicable final terms
<b>"master definitions schedule"</b>	The master definitions schedule to be entered into on or about the programme date, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time which is a schedule of definitions used in the programme documents
<b>"maturity purchaser"</b>	the entity (if any) named as such in the applicable final terms
<b>"monthly payment date"</b>	The date falling on the 19th day of each calendar month, subject to the applicable business day convention (if any)

<b>"Moody's portfolio variation test"</b>	The calculation methodology provided by Moody's to the servicer from time to time for the purpose of calculating the Moody's portfolio variation test value
<b>"Moody's portfolio variation test value"</b>	A certain percentage resulting from the application of the Moody's portfolio variation test
<b>"mortgage"</b>	In respect of any BTL loan, the first priority charge by way of legal mortgage (in relation to English BTL loans) or first ranking standard security (in relation to Scottish BTL loans), in each case which secures the repayment of that BTL loan and includes the mortgage conditions applicable to it
<b>"mortgage account"</b>	As the context requires, either (1) all BTL loans secured on the same mortgaged property and thereby forming a single mortgage account or (2) an account maintained by the servicer in respect of a particular BTL loan to record all amounts due in respect of that BTL loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof
<b>"mortgage conditions"</b>	For any BTL loan, the terms and conditions applicable to that BTL loan and its related security as set out in the relevant originator's relevant "home loan conditions" and "home loan general offer conditions" booklets, and in relation to each as from time to time varied by the relevant BTL loan agreement and the relevant mortgage deed
<b>"mortgage deed"</b>	In respect of any BTL loan, the deed creating that mortgage including, unless the context otherwise requires, the mortgage conditions applicable to that mortgage
<b>"mortgage related security"</b>	As defined in the United States Secondary Mortgage Markets Enhancement Act 1984, as amended
<b>"mortgage sale agreement"</b>	The mortgage sale agreement to be entered into on or about the programme date among the seller, YBHL, the mortgages trustee, Funding and the Funding security trustee which will provide for the assignment of BTL loans to the mortgages trustee, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time and including any documents ancillary thereto, as further described under " <i>Assignment of the BTL loans and their related security</i> "
<b>"mortgaged property"</b>	For any BTL loan, the freehold or leasehold property in England and Wales or (as applicable) the heritable or long leasehold property in Scotland and (in each case) all rights and security attached or appurtenant or related thereto and all buildings and fixtures on the property which are subject to the mortgage securing repayment of that BTL loan
<b>"mortgages trust deed"</b>	The mortgages trust deed entered into on the programme date among the mortgages trustee, the seller and Funding which provides for the creation of the mortgages trust and the administration of the trust property, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, as further described under " <i>The mortgages trust</i> "
<b>"mortgages trustee available principal receipts"</b>	On any distribution date, any mortgages trustee retained principal receipts plus the principal receipts received by the mortgages trustee in the immediately preceding trust calculation

	period plus any all moneys mortgage principal receipts, which may be distributed by the mortgages trustee
<b>"mortgages trustee fee"</b>	An amount of £1,000 per annum payable in accordance with the mortgages trust allocation of revenue receipts in remuneration for the services provided by the mortgages trustee, in accordance with the mortgages trust deed
<b>"new notes"</b>	Debt securities issued by any issuer (other than the issuer), the proceeds of which are used to fund a Funding intercompany loan to be made to Funding
<b>"NSS"</b>	The new safekeeping structure for registered global securities which are intended to constitute eligible collateral for Eurosystem monetary policy operations
<b>"original bullet loan tranche"</b>	A loan tranche which has, at any time, been a bullet loan tranche, whether or not the loan tranche is not, at the relevant time, a bullet loan tranche
<b>"original bullet note"</b>	A note which has, at any time, been a bullet note, whether or not the step-up date in respect of such note has occurred
<b>"original pass-through loan tranche"</b>	A loan tranche which, at the time it was advanced, was a pass-through loan tranche
<b>"pass-through loan tranche"</b>	A loan tranche which has no specified redemption dates other than the final maturity date. A bullet loan tranche or a controlled amortisation loan tranche will become a pass-through loan tranche on the earlier to occur of: <ul style="list-style-type: none"> <li>(a) a date specified in relation to the same for such loan tranche in the applicable loan tranche supplement; and</li> <li>(b) a pass-through trigger event</li> </ul>
<b>"pass-through notes"</b>	Any series and class of notes which has no specified redemption dates other than a final maturity date. A bullet note or a controlled amortisation note will become a pass-through note on the earlier to occur of: <ul style="list-style-type: none"> <li>(a) a date specified in relation to the same for such note in the applicable final terms; and</li> <li>(b) a pass-through trigger event</li> </ul>
<b>"permitted redemption date"</b>	As applicable, a bullet redemption date, a controlled amortisation date or the date on or after which principal repayments of pass-through notes may be made
<b>"principal amount outstanding"</b>	For each series and class of notes and as of any date of determination, the initial principal amount of such notes less (in each case) the aggregate amount of all principal payments in respect of such notes that have been paid since the closing date for such notes and on or prior to that determination date <p>For each loan tranche made under the global intercompany loan agreement and as of any date of determination, the initial principal amount of such loan tranche less (in each case) the aggregate amount of all principal payments in respect of such loan tranche that have been paid since the closing date for such</p>

	loan tranche and on or prior to that determination date
<b>"principal receipts"</b>	Any payment in respect of principal received in respect of any BTL loan, whether as all or part of a monthly payment, on redemption (including partial redemption), on enforcement or on the disposal of that BTL loan (including any all moneys mortgage principal receipts) or otherwise (including payments pursuant to any insurance policy) and which may also include the amount of any initial contribution made by Funding or the seller from time to time
<b>"programme agreement"</b>	The agreement to be entered into on or about the programme date among, among others, the issuer, Funding, Barclays Bank PLC and the managers named therein, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"programme date"</b>	30 September 2011
<b>"programme documents"</b>	Each of the following documents: <ul style="list-style-type: none"> <li>(a) the mortgages trust deed;</li> <li>(b) the beneficiaries deed;</li> <li>(c) the mortgage sale agreement;</li> <li>(d) each Scottish declaration of trust;</li> <li>(e) the servicing agreement;</li> <li>(f) each Funding intercompany loan agreement;</li> <li>(g) the Funding deed of charge;</li> <li>(h) the corporate services agreements;</li> <li>(i) the bank account agreement;</li> <li>(j) the Funding basis rate swap agreement;</li> <li>(k) the cash management agreement;</li> <li>(l) the collection bank agreement;</li> <li>(m) the master definitions schedule;</li> <li>(n) the issuer transaction documents for each issuer;</li> <li>(o) each other document to which Funding or the mortgages trustee is a party; and</li> <li>(p) each other deed, document, agreement, instrument or certificate entered into or to be entered into by Funding or the mortgages trustee under or in connection with any of the documents set out in paragraphs (a) through (n) above or the transactions contemplated in them</li> </ul>
<b>"programme issuance documents"</b>	In respect of each issuance of a series and class of notes, each of the following documents: <ul style="list-style-type: none"> <li>(a) the subscription agreement;</li> </ul>



- (b) the loan tranche supplement;
- (c) the supplemental trust deed to the issuer trust deed;
- (d) the notes
- (e) each issuer swap agreement and issuer swap collateral ancillary document in relation to a class of notes of the applicable series;
- (f) each deed of accession or supplemental deed to the issuer deed of charge;
- (g) each start-up loan supplement;
- (h) any remarketing agreement;
- (i) any conditional note purchase agreement;
- (j) any conditional maturity purchase note deed; and
- (k) each other deed, document, agreement, instrument or certificate entered into or to be entered into by the issuer under or in connection with any of the documents set out in paragraphs (a) through (g) above or the transactions contemplated in them

<b>"prospectus rules"</b>	The rules contained in the Prospectus Rules Instrument 2005, made pursuant to Part VI of FSMA
<b>"rating agencies"</b>	Moody's and Fitch
<b>"receiver"</b>	In relation to the issuer security, a receiver appointed by the issuer security trustee under the issuer deed of charge and in relation to the Funding security, a receiver appointed by the Funding security trustee under the Funding deed of charge
<b>"registered land"</b>	Land in England and Wales, title to which is registered at the Land Registry
<b>"reinstatement"</b>	For a mortgaged property that has been damaged, repairing or rebuilding that mortgaged property to the condition that it was in before the occurrence of the damage
<b>"related security"</b>	The security for the repayment of a BTL loan including the relevant mortgage, the mortgages trustee's beneficial interest in the all moneys mortgage trusts and all other matters applicable to the BTL loan. All references made in this base prospectus to related security forming part of the trust property, shall with respect to any related security that constitutes an all moneys mortgage, be deemed to refer to the beneficial interest of the mortgages trustee in the all moneys mortgage trust declared in respect of that mortgage (see " <i>Assignment of the BTL loans and related security – All moneys mortgages</i> ")
<b>"repayment tests"</b>	The tests which determine whether any loan tranche (or any part thereof) and, consequently, the related series and class of notes (or any part thereof) may be repaid from principal as set out in " <i>Cashflows – Distribution of Funding available principal receipts prior to the enforcement of the Funding security – Rules for application of Funding available principal receipts</i> "

<b>"revenue receipts"</b>	Any payment received in respect of any BTL loan, whether as all or part of a monthly payment, on redemption (including partial redemption), on enforcement or on the disposal of that BTL loan (including any all moneys mortgage revenue receipts) or otherwise (including payments pursuant to any insurance policy) which in any such case is not a principal receipt
<b>"revenue shortfall"</b>	<p>In relation to Funding, the deficiency of Funding available revenue receipts on a monthly payment date over the amounts due by Funding on such date</p> <p>In relation to the issuer, the deficiency of issuer available revenue receipts on a monthly payment date over the amounts due by the issuer on such date</p>
<b>"scheduled payment date"</b>	In respect of any BTL loan, the date in each week, fortnight or month on which the relevant borrower is required to make a payment of interest and, if applicable, principal for that BTL loan, as required by the applicable Mortgage Conditions;
<b>"Scottish assets"</b>	Any asset, property, right or benefit situated in or the rights to which are governed by and construed in accordance with Scots law
<b>"self certified BTL loans"</b>	BTL loans where the lender markets the fact that it will not verify income and charges a premium for the greater risk incurred
<b>"servicing agreement"</b>	The servicing agreement to be entered into on or about the programme date, among the servicer, the mortgages trustee, the seller, Funding and the Funding security trustee which will provide for the administration of the BTL loans in the loan portfolio, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time, as further described under " <i>The servicer and the servicing agreement</i> "
<b>"special distribution"</b>	<p>A payment made by the mortgages trustee:</p> <p>(a) to the seller (excluding any payment of initial purchase price) which is funded by an initial contribution made to the mortgages trustee by Funding; or</p> <p>(b) to Funding which is funded by any other initial contribution made to the mortgages trustee</p>
<b>"specified currency exchange rate"</b>	In relation to a series and class of notes, the exchange rate specified in the issuer swap agreement relating to such series and class of notes or, if the issuer swap agreement has been terminated, the applicable spot rate
<b>"specified denomination"</b>	In respect of any series and class of notes, the denomination specified as such for such notes in the applicable final terms, which shall be no less than €100,000 or, in respect of any note issued which has a maturity of less than a year, £100,000 (or, in each case, its equivalent in the relevant currencies as at the date of issue of such notes)
<b>"stabilised BTL loan"</b>	A BTL loan in respect of which either (i) no expiry date for the rate of interest is specified in the offer of advance or (ii) the expiry date for the rate of interest specified in the offer of advance has passed and in respect of which the applicable interest rate is either the standard variable BTL rate or the Bank

of England base rate, in each case plus or minus any applicable margin.

<b>"stabilised loan margin"</b>	(i) in respect of a stabilised BTL loan, the current rate of interest minus three month LIBOR and (ii) in respect of a fixed rate BTL loan, such rate of interest which would be applicable if the period for which the fixed rate of interest, as specified on the offer of advance, expired and the BTL loan had reverted to the standard variable BTL rate or the Bank of England base rate, plus or minus any applicable margin (in each case as at the date that the stabilised loan margin is required to be calculated) minus three month LIBOR
<b>"start-up loan agreements"</b>	The Clydesdale start-up loan agreement and any new agreement entered into at any time after the programme date and the lender(s) identified therein as the start-up loan provider(s)
<b>"start-up loan provider"</b>	In relation to the Clydesdale start-up loan agreement, Clydesdale Bank and, in relation to any other start-up loan agreement, a lender identified therein as a start-up loan provider
<b>"step-up date"</b>	<p>In respect of any loan tranche, the monthly payment date specified as such for such loan tranche in the applicable loan tranche supplement</p> <p>In respect of any series and class of notes, the monthly payment date specified as such for such notes in the applicable final terms</p>
<b>"sterling equivalent"</b>	In relation to a note which is denominated in (a) currency other than sterling, the sterling equivalent of such amount ascertained using the specified currency exchange rates and (b) sterling, the applicable amount in sterling
<b>"sub-class"</b>	Any sub-class of a class of notes
<b>"subscription agreement"</b>	An agreement supplemental to the programme agreement, substantially in the form set out in the programme agreement (or in such other form as may be agreed between the issuer and the relevant managers) relating to the sale of a series or class of notes among the issuer and the managers designated therein, as amended, restated, supplemented or otherwise modified or replaced and in effect from time to time
<b>"subsidiary"</b>	A subsidiary within the meaning of Section 1159 of the Companies Act 2006, and unless the context otherwise requires, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006
<b>"swap collateral"</b>	At any time, any asset (including, without limitation, cash and/or securities) which is paid or transferred by a swap provider to, or held by, the issuer or to Funding, as applicable, as collateral to support the performance by such swap provider of its obligations under the relevant swap agreement together with any income or distributions received in respect of such asset (if the issuer or Funding, as applicable, is entitled to retain the same)
<b>"swap collateral account"</b>	An account opened in the name of the issuer and/or Funding, as applicable for the purpose of holding swap collateral and maintained in accordance with the issuer cash management agreement or the cash management agreement, as applicable

<b>"swap collateral ancillary document"</b>	<p>In relation to the issuer, any document (including, without limitation, any custodial agreement or bank account agreement but excluding the issuer swap agreements, the issuer cash management agreement, the issuer bank account agreement and the issuer deed of charge) as may be entered into by the issuer from time to time in connection with the swap collateral</p> <p>In relation to Funding, any document (including, without limitation, any custodial agreement or bank account agreement but excluding the Funding basis rate swap agreement, the cash management agreement, the bank account agreement and the Funding deed of charge) as may be entered into by Funding from time to time in connection with the swap collateral</p>
<b>"swap provider default"</b>	<p>(a) The occurrence of an event of default (as defined in the relevant swap agreement) where the relevant swap provider is the defaulting party (as defined in the relevant swap agreement); or</p> <p>(b) The occurrence of an additional termination event (as defined in the relevant swap agreement) as a result of the failure by the relevant swap provider to remedy a swap downgrade event in accordance with the relevant swap agreement where the relevant swap provider is the sole affected party (as defined in the relevant swap agreement); or</p> <p>(c) If applicable, the additional tax representation (as defined in the relevant swap agreement) proving to be incorrect or misleading in any material respect as a result of any action and/or any omission to take action by the relevant swap provider which could have prevented such breach of representation</p>
<b>"swap providers"</b>	Each of the Funding basis rate swap provider and the issuer swap providers, or any one of them as the context requires
<b>"swap replacement premium"</b>	Any payment received from a replacement swap provider in order to enter into a replacement swap agreement with such replacement swap provider replacing a swap agreement
<b>"swap termination payment"</b>	The amount payable because of a swap early termination event
<b>"swap transactions"</b>	The Funding basis rate swaps and the issuer swaps, or any of them
<b>"title deeds"</b>	For each BTL loan and its related security and the mortgaged property relating to it, all conveyancing deeds and documents which make up the title to the mortgaged property and the security for the BTL loan and all searches and inquiries undertaken in connection with the grant by the borrower of the related mortgage
<b>"transfer of equity"</b>	A transfer to third parties of, in the case of an English BTL loan, the equitable or beneficial and legal title or, in the case of a Scottish BTL loan, legal title by co-owners to one of the proprietors of a mortgaged property where the transferee remains a party to the original mortgage or enters into a new mortgage over the relevant mortgaged property in favour of the relevant originator

<b>"trust calculation period"</b>	The period from (and including) the first day of each calendar month to (and including) the last day of the same calendar month
<b>"trust determination date"</b>	The first day (or, if not a London business day, the next succeeding London business day) of each calendar month
<b>"UK Listing Authority"</b>	The Financial Services Authority in its capacity as competent authority under Part VI of the Financial Services and Markets Act 2000
<b>"underpayment"</b>	A situation where a borrower makes a monthly payment on its BTL loan which is less than the required monthly payment for that month
<b>"United Kingdom"</b>	The United Kingdom of Great Britain and Northern Ireland
<b>"unregistered land"</b>	Land in England or Wales, title to which is not registered at the Land Registry
<b>"variable mortgage rate"</b>	The rate of interest which determines the amount of interest payable each month on a variable rate BTL loan
<b>"variable rate BTL loan"</b>	A BTL loan where the interest rate payable by the borrower varies in accordance with a specified variable rate which at any time may be varied in accordance with the relevant mortgage conditions (and shall, for the avoidance of doubt, exclude fixed rate BTL loans and flexible BTL loans)
<b>"YBHL BTL loan"</b>	A BTL loan, the relevant originator of which is YBHL.
<b>"Z loan tranches"</b>	The loan tranches made by an issuer to Funding pursuant to the terms of a Funding intercompany loan agreement from the proceeds of issue of the class Z notes of any series of notes by such issuer
<b>"Z principal deficiency sub-ledger"</b>	One of six sub-ledgers on the Funding principal deficiency ledger which records any principal deficiency in respect of any Z loan tranche

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