IMPORTANT NOTICE

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

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

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

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

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

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

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

PROSPECTUS DATED 11 APRIL 2014

Darrowby No. 3 plc

(*incorporated with limited liability in England and Wales under number 8603124)*

Notes	Initial Principal Amount	Issue Price	Interest Rate	Margin/ Step-Up Margin	Step-Up Date	Pre-enforcement Redemption Profile	Final Maturity Date	Ratings (Fitch/Moody's)
Class A	GBP 400,000,000	100%	3 month GBP LIBOR (interpolated for 2 and 3 month GBP LIBOR in respect of the first Interest Payment Date) plus a Margin or Step-Up Margin, as applicable	Up to and excluding the Step-Up Date, 0.57% p.a./From and including the Step-Up Date, 1.14% p.a	The Interest Payment Date falling in March 2019	Pass through amortisation	The Interest Payment Date falling in March 2047	AAAsf/Aaa(sf)
Class B	GBP 47,000,000	100%	3 month GBP LIBOR (interpolated for 2 and 3 month GBP LIBOR in respect of the first Interest Payment Date) plus a Margin	0% p.a	The Interest Payment Date falling in March 2019	Pass through amortisation	The Interest Payment Date falling in March 2047	Unrated

Issue Date	The Issuer will issue the Notes in the Classes set out above on the Closing Date.
Stand alone/programme issuance	Stand alone issuance.
Underlying Assets	The Issuer will make payments on the Notes from, *inter alia*, payments of principal and revenue on a portfolio comprising mortgage loans originated by Skipton Building Society and secured over residential properties located in England, Wales and Scotland (the "**Portfolio**") which will be purchased by the Issuer on the Closing Date. Substitution of the Loans contained in the Portfolio may occur in accordance with the terms described herein. Please refer to the section entitled "*The Portfolio*" for further information.
Credit Enhancement	• Subordination of junior ranking Notes; • General Reserve Fund; and • excess Available Revenue Receipts. Please refer to sections entitled "*Key Structural Features*" and "*Cashflows and Cash Management"* for further information.
Liquidity Support	Liquidity Support Features for the Class A Notes • General Reserve Fund; and • Principal Receipts applied to make up any Remaining Income Deficit. Please refer to the section entitled "*Key Structural Features*" for further information.
Redemption Provisions	Information on any optional and mandatory redemption of the Notes is summarised on page 40 ("*Transaction Overview – Overview of the Terms and Conditions of the Notes*") and is set out in full in Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).
Rating Agencies	Credit ratings included or referred to in this Prospectus have been or, as applicable, may be issued by Fitch Ratings Limited ("**Fitch**") and Moody's Investors Service Limited ("**Moody's**"). As of the date hereof, each of Fitch and Moody's is a credit rating agency established in the European Community and registered under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies (the "**CRA Regulation**").

Credit Ratings	Ratings are expected to be assigned to the Class A Notes by the Rating Agencies as set out above on or before the Closing Date. The ratings reflect the views of the Rating Agencies and are based on the Loans, the Related Security and the Properties and the structural features of the transaction, including, *inter alia*, the current ratings of the Swap Provider. The ratings assigned by Fitch address the likelihood of full and timely payment to the Noteholders (i) of interest due on each Interest Payment Date and (ii) of principal on a date that is not later than the Final Maturity Date. The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Notes held by the Noteholder by the Final Maturity Date. In Moody's opinion, the structure allows for timely payment of interest and principal at par on or before the Final Maturity Date. The assignment of ratings to the Class A Notes is not a recommendation to invest in the Class A Notes and ratings may be suspended, revised or withdrawn at any time by the assigned rating agency. The Class B Notes will not be rated.
Listings	This document comprises a prospectus for the purpose of Directive 2003/71/EC (as amended) (the "**Prospectus Directive**"). The Central Bank of Ireland (the "**Central Bank**") has approved this Prospectus as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange Limited (the "**Irish Stock Exchange**") for the Notes to be admitted to the official list of the Irish Stock Exchange (the "**Official List**") and to trading on its regulated market. References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Irish Stock Exchange's regulated market.
Obligations	The Notes will be obligations of the Issuer alone and will not be guaranteed by, or be the responsibility of, any other entity. The Notes will not be obligations of any Transaction Party other than the Issuer.
Retention Undertaking	Skipton Building Society will undertake to the Issuer, the Swap Provider and the Trustee, on behalf of the Noteholders, that it will retain a material net economic interest of at least 5% of the nominal value of the securitised exposures in accordance with Articles 405-409 of Regulation (EU) No. 575/2013 (which does not take into account any implementation rules in any relevant jurisdiction), referred to as the Capital Requirements Regulation ("**CRR**") and Article 51 of Commission Delegated Regulation (EU) No 231/2013 as it is interpreted and applied on the date hereof (the "**AIFM Regulation**") by holding a sufficient amount of the Class B Notes. In exceptional circumstances Skipton Building Society may hold a material net economic interest in another manner permitted by the CRR or the AIFM Regulation. Please refer to the section entitled "*Subscription and Sale*" for further information.
Significant Investor	Skipton Building Society, will, on the Closing Date, purchase all of the Class B Notes. Please refer to the section entitled "*Subscription and Sale*" for further information.

A "RISK FACTORS" SECTION BEGINNING ON PAGE 5 OF THIS PROSPECTUS CONTAINS DETAILS OF CERTAIN RISKS AND OTHER FACTORS THAT SHOULD BE GIVEN PARTICULAR CONSIDERATION BEFORE INVESTING IN THE NOTES. PROSPECTIVE INVESTORS SHOULD BE AWARE OF THE ISSUES SUMMARISED WITHIN THAT SECTION.

Arrangers and Joint Lead Managers

HSBC **The Royal Bank of Scotland**

The date of this Prospectus is 11 April 2014.

IMPORTANT NOTICES

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

Skipton Building Society accepts responsibility for the information set out in the section headed "*Skipton Building Society*". To the best of the knowledge and belief of Skipton Building Society (having taken all reasonable care to ensure that such is the case), the information contained in such section is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by Skipton Building Society as to the accuracy or completeness of any information contained in this Prospectus (other than in the section referred to above) or any other information supplied in connection with the Notes or their distribution.

HSBC Bank plc accepts responsibility for the information set out in the section headed "*The Swap Provider*". To the best of the knowledge and belief of HSBC Bank plc (having taken all reasonable care to ensure that such is the case), the information contained in such section is in accordance with the facts and does not omit anything likely to affect the import of such information. No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by HSBC Bank plc as to the accuracy or completeness of any information contained in this Prospectus (other than in the sections referred to above) or any other information supplied in connection with the Notes or their distribution.

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

Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this Prospectus comes are required by the Issuer, the Joint Lead Managers and the Arrangers to inform themselves about and to observe any such restriction. For a further description of certain restrictions on offers and sales of the Notes and distribution of this Prospectus (or any part hereof), see the section entitled "*Subscription and Sale*" below.

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

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

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

None of the Issuer, the Joint Lead Managers or the Arrangers makes any representation to any prospective investor or purchaser of the Notes regarding the legality of investment therein by such prospective investor or purchaser under applicable legal investment or similar laws or regulations.

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

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

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

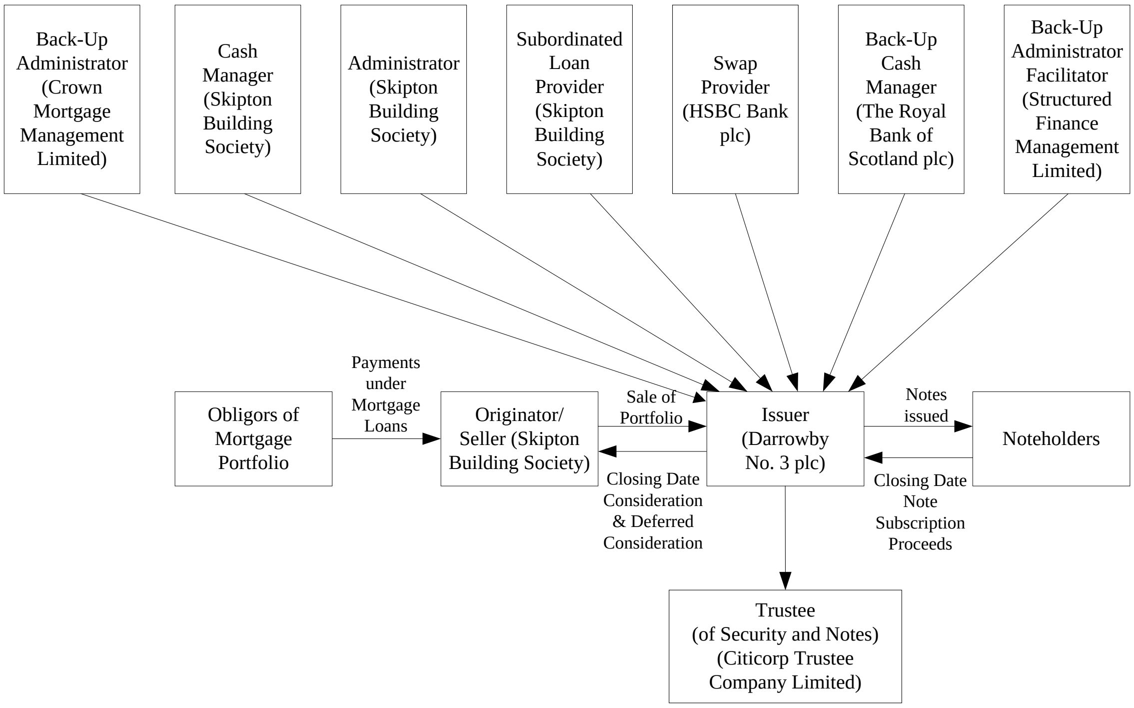
References in this Prospectus to "**£**", "**Sterling**" or "**GBP**" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

Forward-Looking Statements and Statistical Information

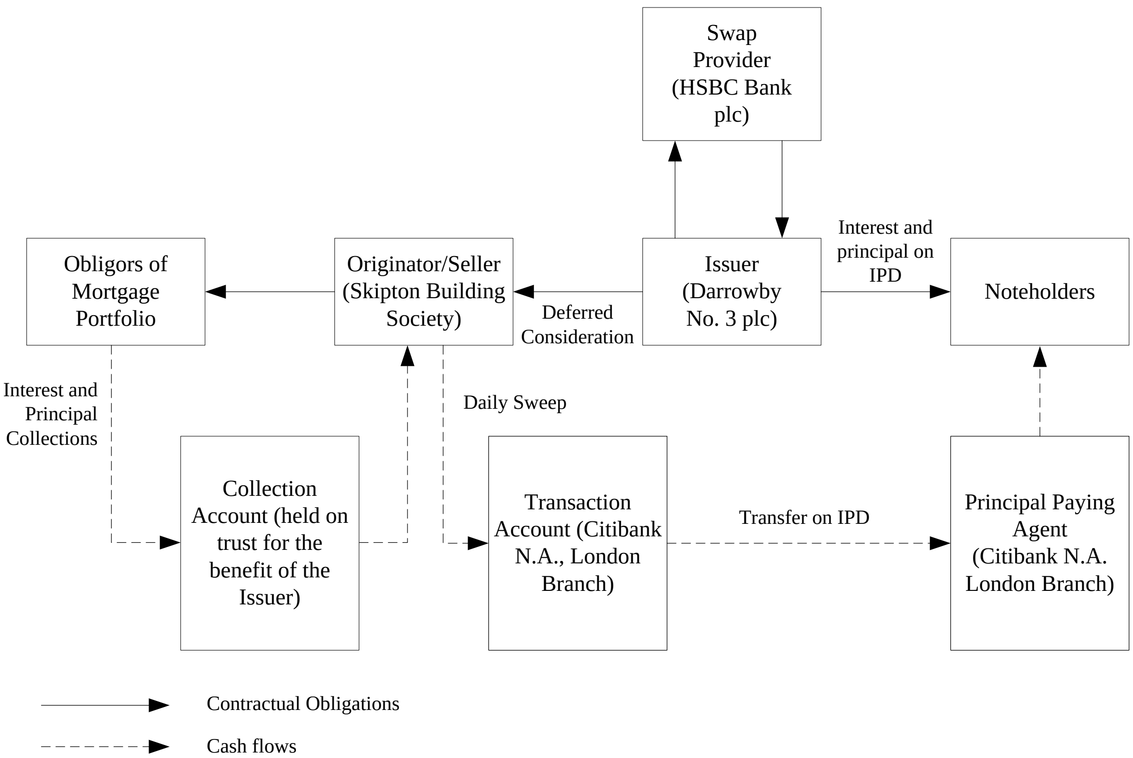
Certain matters contained in this Prospectus are forward-looking statements. Such statements appear in a number of places in this Prospectus, including with respect to assumptions on prepayment and certain other characteristics of the Loans, and reflect significant assumptions and subjective judgments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

CONTENTS

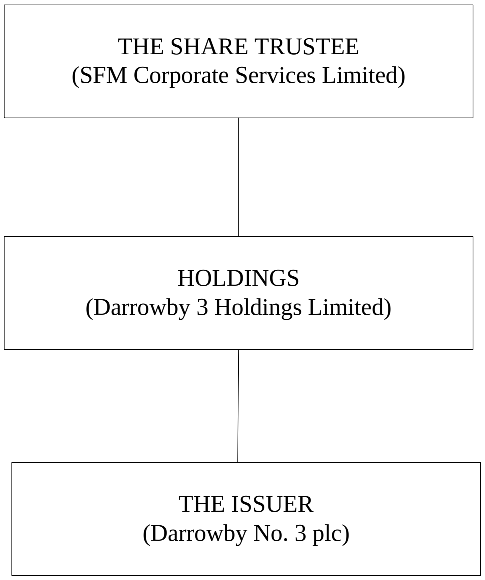
DIAGRAMMATIC OVERVIEW OF TRANSACTION



DIAGRAMMATIC OVERVIEW OF ON-GOING CASHFLOW



OWNERSHIP STRUCTURE DIAGRAM



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

The entire issued share capital of Holdings is beneficially owned by the Share Trustee on discretionary trust.

TRANSACTION OVERVIEW

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

TRANSACTION PARTIES ON THE CLOSING DATE

Party	Name	Address	Document under which appointed / Further Information
Issuer:	Darrowby No. 3 plc	35 Great St. Helen's, London EC3A 6AP	N/A (Please refer to the section entitled "*Issuer*" for further information on this.)
Holdings:	Darrowby 3 Holdings Limited	35 Great St. Helen's, London EC3A 6AP	N/A (Please refer to the section entitled "*Holdings*" for further information on this.)
Seller:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	N/A (Please refer to the section entitled "*Skipton Building Society*" for further information on this.)
Administrator:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	Administration Agreement (Please refer to the section entitled "*The Administrator*" for further information on this.)
Back-Up Administrator Facilitator	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Administration Agreement (Please refer to the section entitled "*The Administrator The Administration Agreement*" for further information on this.)
Back-Up Administrator	Crown Mortgage Management Limited	Crown House, Crown Street, Ipswich, Suffolk IP1 3MS	Back-Up Administration Agreement
Cash Manager:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	Cash Management Agreement (Please refer to the section entitled "*Cashflows and Cash Management*" for further information on

Party	Name	Address	Document under which appointed / Further Information
			this.)
Back-Up Cash Manager:	The Royal Bank of Scotland plc	250 Bishopsgate London EC2M 4AA	Back-Up Cash Management Agreement
Subordinated Loan Provider:	Skipton Building Society	The Bailey, Skipton, North Yorkshire BD23 1DN	Subordinated Loan Agreement (Please refer to the section entitled "*Key Structural Features*" for further information on this.)
Swap Provider:	HSBC Bank plc	8 Canada Square, London E14 5HQ	Swap Agreement
Trustee:	Citicorp Trustee Company Limited	Citigroup Centre, Canada Square, London E14 5LB	Trust Deed (See the Conditions for further information on this.)
Principal Paying Agent:	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Agency Agreement
Agent Bank:	Citibank, N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Agency Agreement
Registrar:	Citibank N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Agency Agreement
Account Bank:	Citibank N.A., London Branch	Citigroup Centre, Canada Square, London E14 5LB	Account Bank Agreement
Collection Account Bank:	Barclays Bank PLC	1 Churchill Place, London E14 5HP	(Please refer to the section entitled "*The Administrator—Administration Procedures—Collections*" for further information on this.)
Corporate Services Provider:	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Services Agreement
Arrangers and Joint Lead Managers	HSBC Bank plc	8 Canada Square, London E14 5HQ	N/A
	The Royal Bank of Scotland plc	135 Bishopsgate London EC2M 3UR	N/A

RISK FACTORS

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

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

The Issuer believes that the risks described below are the material risks inherent in the transaction for Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Notes may occur for other reasons and the Issuer does not represent that the statements below regarding the risks relating to the Notes are exhaustive. Additional risks or uncertainties not presently known to the Issuer or that the Issuer currently considers immaterial may also have an adverse effect on the Issuer's ability to pay interest, principal or other amounts in respect of the Notes. Prospective Noteholders should read the detailed information set out in this Prospectus and reach their own views, together with their own professional advisers, prior to making any investment decision.

Credit Structure

Notes obligations of Issuer only

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

Limited source of funds

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent solely on Revenue Receipts and Principal Receipts in respect of the Loans in the Portfolio, interest earned on the Transaction Account, income from Authorised Investments, the receipts under the Swap Agreement and amounts standing to the credit of the General Reserve Fund. Other than the foregoing, the Issuer is not expected to have any other funds available to it to meet its obligations under the Notes and/or any other payment obligation ranking in priority to, or *pari passu* with, the Notes under the applicable Priority of Payments. If such funds are insufficient, any such insufficiency will be borne by the Noteholders and the other Secured Creditors, subject to the applicable Priority of Payments. The Issuer will have no recourse to the Seller, save as provided in the Mortgage Sale Agreement (see further the section entitled "*The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement*").

Limited recourse

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

(a) the occurrence of either:

    (i) the Final Maturity Date or any earlier date upon which all of the Notes of each Class are due and payable; or

    (ii) the service of an Enforcement Notice; and

(b) realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Priority of Payments,

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority of Payments, to pay in full all amounts then due and payable under any Class of Notes, then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such Class of Notes (and any Class of Notes junior to that Class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer. "**Realisation**" is defined in Condition 10 (*Limited Recourse*).

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

Deferral of interest payments on the Notes

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

Credit risk

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

Liquidity risk

The Issuer is subject to the risk of insufficiency of funds on any Interest Payment Date as a result of payments being made late by Borrowers after the end of the relevant Collection Period. This risk is addressed in respect of the Notes by the provision of liquidity from alternative sources as described in the section entitled "*Key Structural Features*". However, no assurance can be made as to the effectiveness of such credit enhancement features, or that such credit enhancement features will protect the Noteholders from all risk of loss.

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

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

Basis risk

The Issuer is subject to:

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

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

The Fixed Rate Swap Transaction is not designed to provide a perfect hedge for the Loans included in the Portfolio or eliminate all risks associated with the rates payable in respect of such Loans. In particular, the notional amount of the Fixed Rate Swap Transaction will reflect, in respect of each calculation period thereunder the weighted average of the aggregate Current Balances (calculated, for each calendar month falling in that calculation period, at the end of the preceding calendar month) of the Fixed Rate Loans in the Portfolio (other than those which are in possession or in respect of which three or more monthly payments have become due and are unpaid by a Borrower), subject to a cap as set out in the Swap Agreement to provide flexibility for Further Advances, Product Switches and Substitutions.

Swap Provider Risk and Swap Termination Payment

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

If the Swap Agreement is terminated for any reason, the Cash Manager (on behalf of the Issuer) may be obliged to use available funds of the Issuer to pay any termination payment due to the Swap Provider under the Swap Agreement. Any termination payment due by the Issuer to the Swap Provider (after netting such amount against the value of any Swap Collateral in respect of the Swap Agreement) will be paid using available funds in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments. Any termination payment due by the Issuer to the Swap Provider (except for any Swap Subordinated Amounts) will rank in priority to amounts due on the Notes both in the Pre-Enforcement Revenue Priority of Payments and the Post-Enforcement Priority of Payments.

If the Issuer is obliged to make a termination payment to the Swap Provider, this may reduce or adversely affect the amount of funds which the Issuer has available to make payments on the Notes. There can be no assurance that the Issuer will have sufficient funds available to make any termination payment under the Swap Agreement or that the Issuer will have sufficient funds to make subsequent payments to the Noteholders in respect of the Notes.

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

In the event of the insolvency of the Swap Provider the Issuer will be treated as a general creditor of such Swap Provider. Consequently, the Issuer will be subject to the credit risk of the Swap Provider, as well as that of the Loans.

To mitigate this risk, under the terms of the Swap Agreement, in the event that the relevant ratings of the Swap Provider fail to meet the required ratings, the Swap Provider will, in accordance with the terms of the Swap Agreement, be required to elect to take certain remedial measures within the time frame stipulated in the Swap Agreement and at its own cost, which may include providing collateral for its obligations under the Swap Agreement, arranging for its obligations under the Swap Agreement to be transferred to an entity with the required ratings, procuring another entity with the required ratings to become co-obligor or guarantor, as applicable, in respect of its obligations under the Swap Agreement or such other action that would result in the Rating Agencies continuing the then current rating of the Class A Notes or restoring such rating to the level prior to the downgrade event. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be provided by the Swap Provider or that another entity with the required rating will be available or willing to become a replacement swap provider, co-obligor or guarantor. Other than a Swap Collateral Account Surplus, collateral provided will not generally be available to meet the Issuer's obligations under the Notes or the Transaction Documents.

Yield and prepayment considerations

The yield to maturity of the Notes of each Class will depend on, among other things, the amount and timing of payment of principal and interest (including prepayments, sale proceeds arising on enforcement of a Loan and repurchases of Loans required to be made under the Mortgage Sale Agreement) on the Loans and the price paid by the holders of the Notes of each Class. Such yield may be adversely affected by, amongst other things, a higher or lower than anticipated rate of prepayments on the Loans. Furthermore, if the conditions for the purchase of Further Advances by the Issuer are not met, then the Issuer will not be able to purchase such Further Advances which may result in Principal Receipts in the form of repurchase proceeds payable by the Seller, instead being used to prematurely repay the Notes. See also "*Risk Factors – Product Switches, Further Advances and Substitutions*".

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

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

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

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

Ratings of the Class A Notes

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

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

Credit ratings included or referred to in this Prospectus have been or, as applicable, may be issued by Fitch and Moody's, each of which is a credit rating agency established in the European Community and registered under the CRA Regulation.

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

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

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

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

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

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

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

The secondary market for mortgage-backed securities similar to the Notes has, at times, experienced limited liquidity. Limited liquidity in the secondary market may have an adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors.

Whilst central bank schemes such as the Bank of England's Discount Window Facility which was launched in October 2008, the Funding for Lending Scheme which was launched in July 2012 and the European Central Bank liquidity scheme provide an important source of liquidity in respect of eligible securities, recent restrictions in respect of the relevant eligibility criteria for eligible collateral which applies and will apply in the future under such facilities are likely to adversely impact secondary market liquidity for mortgage-backed securities in general, regardless of whether the Notes are eligible securities.

Rights of Noteholders and Secured Creditors

Conflict between Noteholders

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

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

Conflict Between Noteholders and other Secured Creditors

The Trust Deed provides that the Trustee shall, except where expressly provided otherwise and prior to the redemption in full of the Notes, have regard solely to the interests of the Noteholders and shall have regard to the interests of the other Secured Creditors only to pay such parties any monies received and payable to it and to act in accordance with the Post-Enforcement Priority of Payments.

The Mortgages

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

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

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

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

(a) a *bona fide* purchaser from the Seller for value of any of such Loans and their Related Security without notice of any of the interests of the Issuer might obtain a good title free of any such interest. If this occurred, then the Issuer would not have good title to the affected Loan and its Related Security, and it would not be entitled to payments by a Borrower in respect of that Loan. However, the risk of third party claims obtaining priority to the interests of the Issuer in this way would be likely to be limited to circumstances arising from a breach by the Seller of its contractual obligations or fraud, negligence or mistake on the part of the Seller or the Issuer or their respective personnel or agents;

(b) although as between the Seller and the Issuer, under the Administration Agreement, the Seller has agreed that it will not vary any of the terms of the Loans or their Related Security except that it may in its capacity as Administrator vary certain terms in certain circumstances as set out in the Administration Agreement, as between any Borrower and the Issuer, if the Seller was to modify the terms of the Loans and their Related Security the revised terms would apply and the Issuer would only have recourse against the Seller for breach of contract or breach of trust;

(c) prior to the insolvency of the Seller, unless (i) notice of the assignment was given to a Borrower who is a creditor of the Seller in the context of the English Loans and their Related Security and (ii) an assignation of the Scottish Loans and their Related Security is effected by the Seller to the

Issuer and notice thereof is then given to a Borrower who is a creditor of the Seller, equitable or independent set-off rights may accrue in favour of the Borrower against his or her obligation to make payments to the Seller under the Loan. These rights may result in the Issuer receiving reduced payments on the Loans. The transfer of the benefit of any Loans to the Issuer will continue to be subject to any prior rights the Borrower may become entitled to after the transfer. Where notice of the assignment is given to the Borrower or an assignation is effected and notice thereof is given, however, some rights of set-off may not arise after the date notice is given;

(d) once notice has been given to the Borrowers of the assignment of the English Loans and their Related Security to the Issuer or an assignation of the Scottish Loans and their Related Security is effected and notice thereof is given, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan) will not be affected by that notice and will continue to exist (see "*Risk Factors - Set-off risk may adversely affect the value of the Portfolio or any part thereof"* below); and

(e) until notice of the assignment is given to the Borrowers or an assignation is effected and notice thereof is given, the Issuer would not be able to enforce any Borrower's obligations under a Loan or Related Security itself but would have to join the Seller as a party to any legal proceedings. Borrowers will also have the right to redeem their Mortgages by repaying the Loan directly to the Seller. However, the Seller will undertake, pursuant to the Mortgage Sale Agreement, to hold any money repaid to it in respect of Loans to the order of the Issuer. However, for so long as the Issuer does not have legal title, the Seller will undertake for the benefit of the Issuer that it will lend its name to, and take such other steps as may reasonably be required by the Issuer in relation to, any legal proceedings in respect of the Loans and their Related Security.

If any of the risks described above were to occur then the realisable value of the Portfolio or any part thereof may be affected. Under the Mortgage Sale Agreement, the Seller will grant to the Issuer and the Trustee a power of attorney to give them the power to do all further things and take all necessary action to perfect the transfer of legal title to the Loans and their Related Security on the occurrence of a Perfection Trigger Event.

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

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

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

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

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

Seller's breach of contract, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees).

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

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

Income and Principal Deficiency

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

Application, as described above, of any Principal Receipts to meet any Remaining Income Deficit (in addition to any Losses) will be recorded first on the Class B Principal Deficiency Sub-Ledger until the balance of the Class B Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class B Notes then outstanding, and next on the Class A Principal Deficiency Sub-ledger until the balance of the Class A Principal Deficiency Sub-Ledger is equal to the aggregate Principal Amount Outstanding of the Class A Notes then outstanding.

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

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

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

Product Switches, Further Advances and Substitutions

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

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

The Portfolio

Default by Borrowers in paying amounts due on their Loans

Borrowers may default on their obligations under the Loans. Defaults may occur for a variety of reasons. The Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Although interest rates are currently at a historical low, this may change in the future and an increase in interest rates may adversely affect Borrowers' ability to pay interest or repay principal on their Loans.

Other factors in Borrowers' personal or financial circumstances may affect the ability of Borrowers to repay the Loans. Unemployment, loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Loans. In addition, the ability of a Borrower to sell a Property given as security for a Loan at a price sufficient to repay the amounts outstanding under that Loan will depend upon a number of factors, including the availability of buyers for that Property, the value of that Property and property values in general at the time.

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

In order to enforce a power of sale in respect of a Property, the relevant mortgagee or heritable creditor (which may be the Seller or the Issuer) must first obtain possession of the relevant Property. Possession is usually obtained by way of a court order or decree although this can be a lengthy and costly process and will involve the mortgagee or heritable creditor assuming certain risks. If obtaining possession of Properties in such circumstances is lengthy or costly, the Issuer's ability to make payments on the Notes may be reduced. The Issuer's ability to make such payment may be reduced further if the mortgagee's or heritable creditor's method for obtaining possession of Properties permitted by law is restricted in the future.

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

Borrowers with a Loan subject to a variable rate of interest or with a Loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, may be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a Loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in Borrowers' monthly payments, which (in the case of a Loan with an initial fixed rate or low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

Borrowers seeking to avoid increased monthly payments (caused by, for example, the expiry of an initial fixed rate or low introductory rate, or a rise in the related mortgage interest rates) by refinancing their mortgage loans may no longer be able to find available replacement loans at comparably low interest rates. Any decline in housing prices may also leave Borrowers with insufficient equity in their homes to permit them to refinance. Furthermore, where the reversionary rate is the current Seller Standard Variable Rate, or the Seller Mortgage Variable Rate in the Seller's mortgage terms, the reversionary rate for Borrowers reaching the end of their fixed or tracker periods may be lower than prevailing market rates. This would mean that it is less likely that they will refinance. These events, alone or in combination, may contribute to higher delinquency rates, slower prepayment spreads and higher losses.

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

Declining property values

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

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

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

Geographic Concentration Risks

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

Interest Only Loans

Each Loan in the Portfolio may be repayable either on a capital repayment basis, an interest-only basis or a combination capital repayment/interest payment basis (see the section entitled "*The Portfolio – The Loans — Characteristics of the Loans – Repayment Terms*"). Where the Borrower is only required to pay interest during the term of the Loan, with the capital being repaid in a lump sum at the end of the term, the Borrower is recommended to ensure that some repayment mechanism such as an investment policy is put in place to ensure that funds will be available to repay the capital at the end of the term. Whilst the Seller does not verify or does not require proof that such repayment mechanism is in place and does not take security over any investment policies taken out by Borrowers, the Seller will review the repayment mechanism in line with the size of the Loan, applicant's age, income and likelihood of the repayment mechanism accumulating sufficient value to repay the Loan and will decline the application if this repayment mechanism is deemed to be unacceptable. Affordability for interest only loans is calculated, using the net disposable income which is then measured against a stressed monthly payment calculated at the Seller Mortgage Variable Rate plus 1.5 per cent. (presently 6.99 per cent.) over the mortgage term required on a capital and interest method. The Seller also recommends that the Borrower takes out term life assurance cover in relation to the Loan, although the Seller, again, does not verify or take security over such policies.

Borrowers may not have been making payment in full or on time of the premiums due on any relevant investment or life policy, which may therefore have lapsed and/or no further benefits may be accruing thereunder. In certain cases, the policy may have been surrendered but not necessarily in return for a cash payment and any cash received by the Borrower may not have been applied in paying amounts due under the Loan. Thus the ability of such a Borrower to repay an Interest Only Loan at maturity without resorting to the sale of the underlying Property depends on such Borrower's responsibility in ensuring that sufficient funds are available from a given source such as pension policies, PEPs, ISA or endowment policies, as well as the financial condition of the Borrower, tax laws and general economic conditions at the time. If a Borrower cannot repay an Interest Only Loan and a Loss occurs, this may affect repayments on the Notes if the resulting Principal Deficiency Ledger entry cannot be cured.

Buildings insurance

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

Redemption of Scottish Mortgages

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

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

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

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

Selection of the Portfolio

The information in the section headed "*Statistical Information on the Portfolio*" has been extracted from the systems of the Seller as at the Cut-off Date. The pool of Loans from which the Portfolio will be selected (the "**Provisional Portfolio**") comprises of 5,480 Loans (including Further Advances) with a Current Balance of £564,074,793. The characteristics of the Portfolio as at the Closing Date will vary from those set out in the tables in this Prospectus as a result of, *inter alia*, repayments and redemptions of Loans prior to the Closing Date and the operation of a random selection process.

Administration and Third Party Risk

Issuer reliance on other third parties

The Issuer is also party to contracts with a number of other third parties who have agreed to perform services in relation to the Notes. In particular, but without limitation, the Swap Provider has agreed to provide hedging to the Issuer, the Corporate Services Provider has agreed to provide certain corporate services to the Issuer, the Account Bank has agreed to provide the Transaction Account to the Issuer, the Administrator has agreed to service the Portfolio, the Back-Up Administrator has agreed to replace the Administrator following the termination of the Administrator's appointment as Administrator, the Cash Manager has agreed to provide cash management services to the Issuer, the Back-Up Cash Manager has agreed to replace the Cash Manager following termination of the Cash Manager's appointment as Cash Manager, the Principal Paying Agent has agreed to providing paying agency services in respect of the Notes, the Back-Up Administrator Facilitator has agreed to assist in appointing a replacement back-up administrator in case the appointment of the Back-Up Administrator is terminated and the Agent Bank and the Registrar have agreed to provide certain agency services to the Issuer in respect of the Notes.

In the event that any of the above parties were to fail to perform their obligations under the respective agreements to which they are a party, payments on the Notes may be adversely affected.

The Administrator

The Administrator will be appointed by the Issuer to administer the Loans. In case the appointment of the Administrator is terminated in accordance with the provisions of the Administration Agreement, the Back-Up Administrator is required to perform the Administration Services in respect of the Loans on the terms set out in the replacement administration agreement entered into on or about the Closing Date between, inter alios, the Back-Up Administrator and the Issuer (the "**Replacement Administration Agreement**").

If the appointment of the Administrator is terminated and the performance of the Administration Services is assumed by the Back-Up Administrator in accordance with the terms of the Replacement Administration Agreement, the collection of payments on the Loans and the provision of the Administration Services could be disrupted during the transitional period in which the performance of the Administration Services is transferred to the Back-Up Administrator. Any failure or delay in collection of payments on the relevant Loans resulting from a disruption in the administration of the Loans could ultimately adversely affect payments of interest and principal on the Notes. A failure or delay in the performance of the Administration Services, in particular reporting obligations, could affect the payments of interest and principal on the Notes (as to which see *Estimations and Reconciliations* in the section entitled Key Structural Features). Such risk is mitigated by the provisions of the Back-Up Administration Agreement pursuant to which the Back-Up Administrator is required to receive from the Administrator on a continuous basis servicing related information and to update and set up its systems to ensure that it can replace the Administrator at short notice after the appointment of the Administrator is terminated.

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

The Back-Up Administrator

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

The failure of the Back-Up Administrator to assume performance of the Administration Services following the termination of the appointment of the Administrator as administrator in accordance with the

Administration Agreement could result in the failure or delay in collection of payments on the relevant Loans and ultimately could adversely affect payment of interest and principal on the Notes. Similarly, if the Back-Up Administrator assumes performance of the Administration Services as replacement administrator there can be no assurance that if required, a replacement back-up administrator could be found. The Back-Up Administrator has no obligation itself to advance payments that Borrowers fail to make in timely fashion.

The Trustee is not obliged to act in certain circumstances

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

Change of counterparties

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

These criteria may include requirements imposed by the Financial Conduct Authority (the "**FCA**") under the Financial Services and Markets Act 2000 ("**FSMA**") and requirements in relation to the short-term and long-term unguaranteed and unsecured ratings ascribed to such party by the Rating Agencies. If the party concerned ceases to satisfy the applicable criteria, including the ratings criteria detailed above, then the rights and obligations of that party (including the right or obligation to receive monies on behalf of the Issuer) may be required to be transferred to another entity which does satisfy the applicable criteria. In these circumstances, the terms agreed with the replacement entity may not be as favourable as those agreed with the original party pursuant to the relevant Transaction Document and the cost to the Issuer may therefore increase. This may reduce amounts available to the Issuer to make payments of interest on the Notes.

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

Meetings of Noteholders, modification and waiver

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

The Trust Deed provides that, without the consent or sanction of the Noteholders or any of the other Secured Creditors, the Trustee may (and, in the case of Paragraphs (a)(iii) and (iv) below, shall):

(a) concur with the Issuer and/or any other person, in making any modification to the Conditions or the Transaction Documents:

    (i) (including a Reserved Matter) which, in the opinion of the Trustee, is of a formal, minor or technical nature, or is to correct a manifest error;

(ii) (other than a Reserved Matter) which, in the opinion of the Trustee, will not be materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding;

(iii) in order to enable the Issuer and/or the Swap Provider to comply with any requirements which apply to them in relation to any Swap Agreement (including any further hedging under any Swap Agreement) under Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators) ("**EMIR**") subject to receipt by the Trustee of (i) a certificate of the Swap Provider or the Issuer (issued by the Administrator on behalf of the Issuer), as appropriate certifying to the Trustee that the requested amendments to be made are solely for the purpose of enabling the Issuer and/or the Swap Provider to satisfy requirements which apply to them in relation to the Swap Agreement under EMIR and have been drafted solely to such effect and (ii) a certificate issued by the Administrator on behalf of the Issuer certifying to the Trustee that the Swap Provider has given its prior written consent to such modification, provided that the Trustee shall not be obliged to agree to any such modification which, in the sole opinion of the Trustee would have the effect of (a) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Trustee in the Transaction Documents and/or the Conditions and provided further that the powers conferred by this paragraph (iii) shall not extend to a Reserved Matter;

(iv) (other than any amendment to any Priority of Payment) and take any such other actions required to effect the appointment of a Swap Collateral Account Bank that are requested in writing by the Cash Manager to effect the appointment of a Swap Collateral Account Bank and the entry into of related documentation (including any Swap Collateral Account Bank Agreement), in accordance with the terms of the Swap Agreement irrespective of whether such modifications are materially prejudicial to the interests of the Noteholders of any Class or any other Secured Creditor and subject to receipt by the Trustee of a certificate from the Issuer (issued by the Cash Manager on behalf of the Issuer) certifying to the Trustee that such amendments are required solely for the purpose of appointing a Swap Collateral Account Bank and that the level of remuneration payable to any such Swap Collateral Account Bank is reasonable taking into account then prevailing market conditions, provided that, the Trustee shall not be obliged to agree to any modification pursuant to this paragraph (iv) which (in the sole opinion of the Trustee) would have the effect of (a) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction; or (b) increasing the obligations or duties, or decreasing the protections of the Trustee in the Transaction Documents and/or these Conditions. Notwithstanding anything to the contrary in the Trust Deed or the other Transaction Documents, when implementing any amendment pursuant to this paragraph (iv), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor (other than itself as provided above) or any other person, shall act and rely solely and without further investigation on any certificate provided to it by the Issuer or the Cash Manager on behalf of the Issuer pursuant to this paragraph (iv) and shall not be liable to any Noteholder or other Secured Creditor for so acting or relying;

(b) authorise or waive, on such terms and conditions (if any) as it may decide, any proposed breach or breach of any Transaction Document, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby; and

(c) determine that any Event of Default or Potential Event of Default shall not be treated as such, if in the Trustee's opinion, the interests of the holders of the Most Senior Class of Notes then outstanding will not be materially prejudiced thereby,

provided always that the Trustee shall not exercise any powers under paragraphs (b) or (c) in contravention of any express direction given by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding (but no such direction or request shall affect (a) any authorisation, waiver or determination previously given or made; or (b) shall authorise or waive any proposed breach or breach relating to a Reserved Matter unless each Class of Notes, has by Extraordinary Resolution, so authorised its exercise) and provided further that, in respect of any modifications to any of the Transaction Documents which would (in the commercially reasonable opinion of the Issuer) have the effect of requiring the Swap Provider to pay more or receive less were it to replace itself as swap counterparty, the written consent of the Swap Provider is required.

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

LIBOR and Reference Banks

Following concerns raised by a number of regulators that some of the member banks surveyed by the British Bankers' Association (the "**BBA**") in connection with the calculation of the London Interbank Offered Rate ("**LIBOR**") across a range of maturities and currencies may have been manipulating the inter-bank lending rate, a review of LIBOR was conducted at the request of the UK Government which concluded with the publication of a report setting out a number of recommendations for changes with respect to LIBOR (including the introduction of statutory regulation of LIBOR, replacing the BBA as administrator of LIBOR with an independent administrator, changes to the method of compilation of lending rates and new regulatory oversight and enforcement mechanisms for rate setting) in September 2012 (the "**Wheatley Report**").

Many of the recommendations made in the Wheatley Report have been enacted into law as part of the Financial Services Act 2012 (which came into effect on 1 April 2013). Pursuant to the Financial Services Act 2012 (and any secondary legislation which may be created thereunder), the FCA will be the independent regulator responsible for the administration of LIBOR. The FCA's approach towards administration of LIBOR remains to be ascertained. It is not possible to ascertain whether such an approach would have the effect of a sudden or prolonged increase or decrease in LIBOR or whether such an approach could have an adverse impact on the value of the Notes and the payment of interest thereunder. In addition the Financial Stability Board (FSB) is expected to report in June 2014 on certain changes to the benchmarking of LIBOR. It is not possible to ascertain the outcome of any such report or what impact such changes could have on how LIBOR is benchmarked.

In addition, if the Screen Rate is not available there can be no guarantee that the Issuer (with the approval of the Trustee) shall be able to appoint one or more Reference Banks to provide quotations, in order to determine the Reference Rate in respect of the Notes. Certain financial institutions that have historically acted as Reference Banks have indicated that they will not currently provide LIBOR quotations and there can be no assurance that they will agree to do so in the future. No Reference Banks have been appointed at the date of this Prospectus. The Issuer has covenanted in Condition 8.10 (*Reference Banks and Agent Bank*) to use reasonable endeavours to appoint Reference Banks for so long as any of the Notes remains outstanding, but there can be no assurance that it will be able to do so.

If the Screen Rate is not available and the Issuer (with the approval of the Trustee) is unable to appoint one or more Reference Banks to provide quotations, the Reference Rate in respect of such Interest Payment Date shall be determined, pursuant to Condition 8 (*Interest*), to be the most recent Reference Rate that was determined by reference to the Screen Rate or through deposit rate quotations provided by one or more major banks. To the extent interest amounts in respect of the Notes are determined by reference to a previously calculated Reference Rate, Noteholders may be adversely affected (including where the Bank of England Base Rate has risen since the date of calculation of such Reference Rate). In such circumstances, neither the Agent Bank nor the Trustee shall have any obligation to determine the Note Rate on any other basis.

Certain Regulatory Considerations

Mortgages Regulated under FSMA

In the United Kingdom, regulation of residential mortgage business by the Financial Conduct Authority (the "**FCA**") (previously the Financial Services Authority (the "**FSA**") under FSMA came into force on

31 October 2004 (the "**Mortgage Regulation Date**")). Subject to certain exemptions, entering into, arranging or advising in respect of or administering Regulated Mortgage Contracts (or agreeing to do any of these things) are regulated activities under FSMA requiring authorisation and permission from the FCA.

A credit agreement is a "**Regulated Mortgage Contract**" under FSMA if, at the time it is entered into on or after the Mortgage Regulation Date (a) the Borrower is an individual or trustee, (b) the contract provides for the obligation of the Borrower to repay to be secured by a first legal mortgage or first ranking standard security on land (other than timeshare accommodation) in the UK and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the Borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person. Credit agreements that were entered into before the Mortgage Regulation Date, but are subsequently changed such that a new contract is entered into on or after the Mortgage Regulation Date, are regulated under FSMA where they fall within the definition of "Regulated Mortgage Contract". Where, however, a credit agreement entered into before the Mortgage Regulation Date is varied by the provision of a further advance on or after the Mortgage Regulation Date (such that the original contract remains in existence, in its varied form, rather than rescinded and replaced by a new agreement) only the Further Advance will be regulated under FSMA (provided it meets the definition of "Regulated Mortgage Contract").

The Seller holds authorisation and permission to enter into and to administer and (where applicable) to advise in respect of Regulated Mortgage Contracts. Subject to certain exemptions, brokers will be required to hold authorisation and permission to arrange and, where applicable, to advise in respect of Regulated Mortgage Contracts. The Issuer is not and does not propose to be an authorised person under FSMA. The Issuer does not require authorisation in order to acquire legal or beneficial title to a Regulated Mortgage Contract. The Issuer does not carry on the regulated activity of administering Regulated Mortgage Contracts by having them administered pursuant to administration agreement by an entity having the required FCA authorisation and permission. If such an administration agreement terminates, however, the Issuer will use reasonable endeavours to arrange for mortgage administration to be carried out by a replacement administrator having the required FCA authorisation and permission.

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

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

On 1 April 2014, responsibility for the regulation of consumer credit was transferred from the OFT to the FCA. As part of this transfer, the CCA licensing provisions have been repealed and replaced by corresponding provisions in the FSMA framework. The majority of the current conduct of business rules in the CCA will remain, with a small number being transferred into the FSMA framework. This means that from 1 April 2014 credit agreements previously regulated by the CCA have become subject to both the CCA and the FSMA (and its associated secondary legislation and the FCA's Handbook).

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

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

So as to avoid dual regulation, it is intended that Regulated Mortgage Contracts will not be regulated by the CCA. Certain regulations made in 2005 and 2008 under FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after the Mortgage Regulation Date. Credit agreements made before the Mortgage Regulation Date but subsequently changed such that a new contract is entered into on or after the Mortgage Regulation Date constitute a separate Regulated Mortgage Contract meaning that the exemption referred to above will also apply to these agreements such that they will not be regulated by the CCA. A court order under section 126 of the CCA is, however, necessary to enforce a land mortgage (or, in Scotland, a standard security) securing a Regulated Mortgage Contract to the extent that the credit agreement would, apart from the exemption referred to above, be regulated by the CCA or treated as such.

The FCA has the power to render unenforceable contracts made in contravention of its product intervention rules. The Financial Services Act 2012 ("**FS 2012**") permits the FCA to make temporary product intervention rules ("**TPIRs**") prohibiting authorised persons from taking a number of actions, including entering into specified contracts with any person or with a specified person. TPIRs are intended to offer protection to consumers in the short term whilst either the FCA or the industry develop more permanent solutions and, in any event, are limited to a maximum duration of 12 months. In relation to agreements entered into in breach of a TPIR, the FCA's rule may provide: (i) for the relevant agreement or obligation to be unenforceable; (ii) for the recovery of any money or other property paid or transferred under the agreement; or (iii) provide for the payment of compensation for any loss sustained under the relevant agreement or obligation. In March 2013 the FSA published a policy statement "*The FCA's use of temporary product intervention rules*" following a consultation addressing when and how the FCA will consider making TPIRs. The FCA will consider making TPIRs where it identifies a risk of consumer detriment arising from a product or practice and will make these rules if it deems prompt action is necessary to reduce or prevent that detriment. In particular, the FCA will consider factors such as the potential scale of detriment in the market and potential scale of detriment to individual customers, whether particular groups of customers (especially vulnerable customer groups) are more likely to suffer detriment and whether the use of TPIRs will have any unintended consequences.

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

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

Expansion of MCOB regulation

In October 2009 the FSA launched a wide-ranging mortgage market review ("**MMR**"). In October 2012, it published a feedback statement and final rules that generally come into force on 26 April 2014 (with transitional arrangements where, among other things, the borrower does not take on additional borrowing). The MMR changes will impact both Regulated Mortgage Contract lenders and intermediaries. For lenders, the principal changes focus upon responsible lending and include:

- more thorough verification of borrowers' income (no self-certification of income, mandatory third party evidence of income required);

- assessments of affordability of interest-only loans on a capital and interest basis unless there is a clearly understood and believable alternative source of capital repayment;

- application of interest rate stress-tests – lenders must consider likely interest rate movements over a minimum period of 5 years from the start of the mortgage term;

- when making underwriting assessments lenders must take account of future changes to income and expenditure that a lender knows of or should have been aware of from information gathered in the application process; and

- lenders may base their assessment of customers' income on actual expected retirement age rather than state pension age. Lenders will be expected to assess income into retirement to judge whether the affordability tests can be met.

There are also significant changes to mortgage distribution and advice requirements in sales, arrears management and requirements on contract variations such as when additional borrowing is requested.

On 31 March 2011, the European Commission published a proposal for a directive on credit agreements relating to residential immovable property for consumers (the "**Mortgage Credit Directive**"). Further changes are likely to be made to MCOB in the future as a result of the forthcoming Mortgage Credit Directive. Agreement between the EU legislative bodies on the final text of the Mortgage Credit Directive has been reached, although it has not yet been published in the Official Journal. The directive will come into force 20 days following publication in the Official Journal and Member States will have two years to implement into national law. The Mortgage Credit 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 immoveable 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 Mortgage Credit 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 Mortgage Credit 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 Mortgage Credit Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

The Treasury and the FCA will consult on any legislative and regulatory changes that are necessary within the two year implementation phase. It is expected that changes will need to be made to MCOB.

The MMR changes to MCOB and any future changes to MCOB that are necessitated by the Mortgage Credit Directive, may adversely affect the Loans, the Seller, the Administrator and/or the Issuer and their respective businesses and operations.

Current regulation of consumer credit

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

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

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

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

On 1 April 2014, responsibility for the regulation of consumer credit was transferred from the OFT to the FCA. As part of this transfer, the CCA licensing provisions have been repealed and replaced by corresponding provisions in the FSMA framework. There is a risk that any credit agreement intended to be a Regulated Mortgage Contract under FSMA or unregulated might instead be wholly or partly regulated as a Regulated Credit Agreement under FSMA (the definition of Regulated Credit Agreement is intended to capture any agreements that would have been regulated prior to 1 April 2014 by the CCA).

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

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

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

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

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

An alternative dispute resolution scheme for consumer credit matters was established on 6 April 2007 and is run by the Financial Ombudsman Service (as described below). The scheme is mandatory for all businesses licensed under the CCA. The OFT is given far broader powers under the CCA 2006 from 6 April 2008. For example, it can apply civil penalties, has far greater powers of investigation and can issue indefinite standard licences. For appeals against such decisions by the OFT, the CCA 2006 introduced an independent Consumer Credit Appeals Tribunal whose functions have been transferred to the First tier Tribunal under the Transfer of Functions of the Consumer Credit Appeals Tribunal Order 2009/1835 on 1 September 2009.

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

To the extent that the credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period when the lender fails to comply with requirements as to default notices. From 1 October 2008, (a) the credit agreement is also unenforceable for any period when the lender fails to comply with further requirements as to annual statements and arrears notices, (b) the borrower will not be liable to pay interest or, in certain cases, default fees for any period when the lender fails to comply with further requirements as to post-contract disclosure, and (c) interest upon default fees will be restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest. Charges payable for early repayment in full are restricted by a formula under the CCA, which applies to the extent that the credit agreement is regulated by the CCA or treated as such. A more restrictive formula applies from 11 June 2010. These changes to the CCA may result in adverse effects on the Issuer's ability to make payment in full on the Notes when due.

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

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

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

Transfer of consumer credit to the FCA

In connection with the transfer of responsibility for the regulation of consumer credit activities from the OFT to the FCA on 1 April 2014, the RAO has been amended to bring a number of consumer credit related activities (which were previously licensable under the CCA) within the scope of the FSMA framework. From this date: (a) carrying on certain credit-related regulated activities (such as entering into a regulated credit agreement as lender or exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement (e.g. servicing)) otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and (b) the FCA has power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of any TPIRs. Additionally, the FS 2012 provides for formalised cooperation to exist between the FCA and the Ombudsman, particularly where issues identified potentially have wider implications, with a view to the FCA requiring affected firms to operate consumer redress schemes.

Distance Marketing Regulations

The Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the Borrower). A Regulated Mortgage

Contract under FSMA, if originated by a UK lender from an establishment in the UK, will not be cancellable under these regulations but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements may be cancellable under these regulations if the Borrower does not receive prescribed information at the prescribed time. Where the credit agreement is cancellable under these regulations, the Borrower may send notice of cancellation at any time before the end of the 14th day after the day on which the cancellable agreement is made, where all the prescribed information has been received, or, if later, the Borrower receives the last of the prescribed information.

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

(a) the Borrower is liable to repay the principal and any other sums paid by the originator to the Borrower under or in relation to the cancelled agreement, within 30 days beginning with the day of the Borrower sending the notice of cancellation or, if later, the originator receiving notice of cancellation;

(b) the Borrower is liable to pay interest, or any early repayment charge or other charge for credit under the cancelled agreement, only if the Borrower received certain prescribed information at the prescribed time and if other conditions are met; and

(c) any security provided in relation to the contract is to be treated as never having had effect.

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

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

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

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

The UTCCR will not affect terms which define the main subject matter of the contract, such as the Borrower's obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention), but may affect terms that are not considered to be terms which define the main subject matter of the contract, such as the lender's power to vary the interest rate and certain terms imposing early repayment charges and mortgage exit administration fees.

For example, if a term permitting the lender to vary the interest rate (as the Seller is permitted to do) is found to be unfair, the borrower will not be liable to pay interest at the increased rate or, to the extent that the borrower has paid it, will be able, as against the lender, or any assignee such as the Issuer, to claim repayment of the extra interest amounts paid or to set off the amount of the claim against the amount owing by the borrower under the loan or any other loan agreement that the borrower has taken with the lender. Any such set-off may adversely affect the Issuer's ability to make payments on the Notes.

The current division of responsibilities between the OFT and the FCA for enforcing the UTCCR is set out in concordats made between them. Generally, the FCA is responsible for the enforcement of the UTCCR in relation to Regulated Mortgage Contracts under FSMA originated by lenders authorised by the FCA and the OFT is responsible for the enforcement of the UTCCR in relation to other mortgage contracts. This will change following 1 April 2014, when the FCA takes responsibility for enforcement of the UTCCR in relation to all mortgage contracts.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope. This statement provides that, for locked-in Borrowers, a lender may consider drafting the contract to permit a change in the contract to be made only where any lock-in clause is not exercised. In the context of the OFT's investigation into credit card default fees, the OFT in April 2006 issued a statement of its view of the principles that credit card issuers should follow in setting default fees, and that the principles are likely to apply to analogous default fees in other contracts such as mortgages. The principles are in essence that terms imposing default fees should not have the object of raising more in revenue than is reasonably expected to be necessary to recover certain limited administrative costs incurred as a result of a borrower's default.

In January 2007, the FSA issued a statement of good practice on mortgage exit administration fees. This statement provides that the lender should ensure that the fee represents in fact the cost of the Administration Services that the lender provides when a borrower exits the mortgage. The FSA issued a follow-up communication in November 2007 emphasising that this statement should not be interpreted narrowly and, where appropriate, firms should consider applying its principles to other charges. The FCA's MCOB requires that, for Regulated Mortgage Contracts (a) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears, and (b) 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.

Whilst the OFT and FCA have powers to enforce the UTCCR, it would be for a court to determine their proper interpretation. The extremely broad and general wording of the UTCCR makes any assessment of the fairness of terms largely subjective and makes it difficult to predict whether or not a term would be held by a court to be unfair. It is therefore possible that any Loans which have been made to Borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans. If any term of the Loans is found to be unfair for the purpose of the UTCCR, this may adversely affect the ability of the Issuer to make payments to Noteholders on the Notes.

In July 2012, the Law Commission and the Scottish Law Commission launched a consultation in order to review and update the recommendations set out in their 2005 Report on Unfair Terms in Contracts. In March 2013, the Law Commission and the Scottish Law Commission published their advice, in a paper entitled "Unfair Terms in Consumer Contracts: Advice to the Department for Business, Innovation and Skills". This advice paper repeats the recommendation from the 2005 Report on Unfair Terms in Contracts that the Unfair Contract Terms Act 1977 and the UTCCR should be consolidated, as well as providing new recommendations, including extending the protections of unfair terms legislation to notices and some additions to the "grey list" of terms which are indicatively unfair. The Law Commission and the Scottish Law Commission also recommend that the UTCCR should expressly provide that, in proceedings brought by consumers, the court is required to consider the fairness of the term, even if the consumer has not raised the issue, where the court has available to it the legal and factual elements necessary for that task. Such reforms are included in the draft Consumer Rights Bill which was formally introduced into Parliament on 23 January 2014.

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

Repossessions

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

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

The Mortgage Repossession (Protection of Tenants etc) Act 2010 (the "**Repossession Act**") came into force in October 2010. The Repossession 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. The Repossession Act may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and a lower repayment rate on the Notes.

In 2010 the Scottish Parliament passed the Home Owner and Debtor Protection (Scotland) Act 2010 (the "**HODPA**"), Part 1 of which came into effect on 30 September 2010 and contains provisions imposing additional requirements on heritable creditors (the Scottish equivalent to mortgagees) in relation to the enforcement of standard securities over residential property in Scotland. The HODPA amends the sections of the Conveyancing and Feudal Reform (Scotland) Act 1970 which previously permitted a heritable creditor to proceed to sell the secured property where the formal notice calling up the standard security had expired without challenge (or where a challenge had been made but not upheld). In terms of the HODPA, the heritable creditor will now have to obtain a court order to exercise its power of sale unless the borrower has surrendered the property voluntarily. In addition, the HODPA requires the heritable creditor, in applying for a court order, to demonstrate that it has taken various preliminary steps to attempt to resolve the borrower's position, as well as imposing further procedural requirements. This may restrict the ability of the Seller as heritable creditor of the Scottish Mortgages to exercise its power of sale and this could affect the Issuer's ability to make payments on the Notes.

There can be no assurance that any delay in starting and/or completing repossession actions by the Seller would not result in the amounts recovered being less than if the Seller did not allow any such delays (which may ultimately affect the ability of the Issuer to make payments of interest and principal on the Notes when due). The protocol, the Repossession Act, the HODPA and MCOB requirements for mortgage possession cases may have adverse effects in markets experiencing above average levels of possession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and a lower repayment rate on the Notes.

Financial Ombudsman Service

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

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

Consumer Protection from Unfair Trading Regulations 2008

On 11 May 2005, the European Parliament and Council adopted a directive on unfair business-to-consumer commercial practices (the "**Unfair Practices Directive**"). The Unfair Practices Directive was implemented into United Kingdom law through the Consumer Protection from Unfair Trading Regulations 2008 ("**CPUTRs**"). The CPUTRs came into effect on 26 May, 2008 and affect all contracts entered into with persons who are natural persons and acting for purposes outside their respective business. Although the CPUTRs are not concerned solely with financial services, they do apply to the residential mortgage market.

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

(a) contrary to the standard of special skill and care which a trader may reasonably be expected to exercise towards consumers, commensurate with honest market practice and/or general principles of good faith in the trader's field of activity; and

(b) materially distorts or is likely to materially distort the economic behaviour of the average consumer (who is reasonably well-informed and reasonably observant and circumspect, and taking into account social, cultural and linguistic factors) who the practice reaches or to whom it is addressed (or where a practice is directed at or is of a type which may affect a particular group of consumers, the average consumer of that group).

In addition to the general prohibition on unfair commercial practices, the CPUTRs contain provisions aimed at aggressive and misleading practices (including, but not limited to: (i) pressure selling; (ii) misleading marketing (whether by action or omission); and (iii) falsely claiming to be a signatory to a code of conduct) and a list of practices which will in all cases be considered unfair. The effect (if any) of the CPUTRs on the Loans, the Seller or the Issuer and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPUTRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPUTRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPUTRs would initiate intervention by a regulator.

On 14 March 2013, the EU Commission published the results of its review on the application of the Unfair Practices Directive. The EU Commission does not propose extending the directive but has indicated that intensified national enforcement and re-enforced co-operation in cross-border enforcement are needed. Going forward the EU Commission will consider how it can pay a more active role in enforcement and will continue to perform in-depth reviews of how the directive works in practice.

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

Potential effects of any additional regulatory changes

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

Other Legal Risks

English law security and insolvency considerations

The Issuer will enter into the Deed of Charge pursuant to which it will grant the Security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Security may be delayed and/or the value of the Security impaired.

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

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

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

Fixed charges may take effect under English law as floating charges

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

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

Liquidation expenses

Prior to the House of Lords' decision in the case of Re Leyland Daf [2004] UK HL9 ("**Re Leyland Daf**"), the general position was that, in a liquidation of a company, the liquidation expenses ranked ahead of unsecured debts and floating chargees' claims. Re Leyland Daf reversed this position so that liquidation expenses could no longer be recouped out of assets subject to a floating charge. However, section 176ZA of the Insolvency Act, which came into force on 6 April 2008, effectively reversed by statute the House of Lords' decision in Re Leyland Daf. As a result, it is now the case that the costs and expenses of a liquidation will be payable out of floating charge assets in priority to the claims of the floating charge-holder. In respect of certain litigation expenses of the liquidator only, this is subject to the approval of the amount of such expenses by the floating charge-holder (or, in certain circumstances, the court) pursuant to rules 4.218A to 4.218E of the Insolvency Rules 1986. In general, the reversal of Re Leyland Daf applies in respect of all liquidations commenced on or after 6 April 2008. Therefore, floating charge realisations upon the enforcement of the floating charge security to be granted by the Issuer (which would otherwise be available to satisfy the claims of the Issuer's secured creditors under the Deed of Charge) would be reduced by the amount of all, or a significant proportion of, any liquidation expenses.

Validity of priorities of payments

The validity of contractual priorities of payments such as those contemplated in this transaction has been challenged in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) and have considered whether such payment priorities breach the "anti-deprivation" principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The 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] UK SC 38 unanimously upheld the decision of the Court of Appeal in dismissing this argument and upholding the validity of similar priorities of payment, 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 ("**LBSF**") motion for summary judgement on the basis that the effect was that the provisions infringed the anti-deprivation principle in a U.S. insolvency. Judge Peck acknowledged that this resulted in the U.S. courts coming to a decision "directly at odds with the judgement of the English Courts". In New York, whilst leave to appeal was granted, the case was settled before an appeal was heard. Therefore concerns still remain that the English and U.S. courts will diverge in their approach which, in the case of an unfavourable decision in New York, may adversely affect the Issuer's ability to make payments on the Notes. There remains the issue whether in respect of the 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 current state of U.S. law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

Risks relating to the Banking Act 2009

If an instrument or order were to be made under the Banking Act 2009 in respect of a UK-incorporated institution with permission to accept deposits pursuant to Part IV of the Financial Services and Markets Act 2000 (the "**FSMA**") (such as the Seller, the Swap Provider, the Account Banks, etc), such instrument or order may (amongst other things) affect the ability of such entities to satisfy their obligations under the Transaction Documents and/or result in modifications to such documents. In particular, modifications may be made pursuant to powers permitting certain trust arrangements to be removed or modified and/or via powers which permit provision to be included in an instrument or order such that the relevant instrument or order (and certain related events) is required to be disregarded in determining whether certain widely defined "default events" have occurred (which events would include certain trigger events included in the Transaction Documents in respect of the relevant entity, including termination events and (in the case of the Seller) trigger events in respect of perfection of legal title to the Loans). As a result, the making of an instrument or order in respect of a relevant entity may affect the ability of the Issuer to meet its obligations in respect of the Notes and may result in a change in the contractual terms applicable to the Notes without the consent of the Noteholders. While there is provision for compensation in certain circumstances under the Banking Act, there can be no assurance that Noteholders would recover compensation promptly and equal to any loss actually incurred. As at the date of this Prospectus, none of the FSA, HM Treasury or the Bank of England have made an instrument or order under the Banking Act 2009 in respect of the relevant entities referred to above and there has been no indication that the FSA, HM Treasury or the Bank of England will make any such instrument or order, but there can be no assurance that this will not change and/or that Noteholders will not be adversely affected by any such instrument or order if made.

In addition, in June 2012 the European Commission published a legislative proposal for a "*Directive of the European Parliament and of the Council establishing a framework for the recovery resolution of credit institutions and investment firms*". If the proposed Directive is implemented it could affect the ability of the various parties to satisfy their obligations under the Transaction Documents.

The aim of the proposed Directive is to enable national authorities to tackle bank crises at the earliest possible moment, and to minimise costs for taxpayers. The proposed Directive requires firms to prepare recovery plans and for the UK Treasury, the Bank of England and the FCA to prepare resolution plans. It gives powers to the UK Treasury, the Bank of England and the FCA to take action to address problems at an early stage, including requiring a firm to implement its recovery plan and replacing management with a special manager. The proposed Directive also gives authorities resolution tools intended to manage the failure of a firm in an orderly way and ensure continuity of essential services, including a sale of business tool, a bridge institution tool, an asset separation tool and a bail-in tool. The European Commission intends that the deadline for national implementation of the proposed Directive will be 31 December 2014, although the provisions of the bail-in tool will only be applied from 2018.

On 8 April 2010, the Building Societies (Financial Assistance) Order 2010 (the "**Financial Assistance Order**") came into force in exercise of certain powers under the Banking Act 2009 for the purpose of modifying the application of the Building Societies Act in certain circumstances to facilitate the provision of relevant financial assistance by the UK Treasury, the Bank of England, other central banks of Member States and the European Central Bank (i.e. assistance for the purpose of maintaining the stability of the financial system in the UK). Most significantly, the Financial Assistance Order would permit the UK Treasury, the Bank of England, other central banks of Member States or the European Central Bank to provide such assistance without it counting for the purpose of the 50 per cent. limit on a building society's non-member funding. It would also permit the society to create a floating charge over its assets in favour of the UK Treasury, the Bank of England, other central banks of Member States and or European Central Bank, as applicable, in respect of such assistance. Because of the new power for a building society to create a floating charge over its assets, the Financial Assistance Order also allows for an administrative receiver to be appointed over the assets of the building society.

Legal considerations may restrict certain investments

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

European Monetary Union

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

Book-Entry Interests

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

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

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

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

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

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

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

Change of law

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

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation, including, without limitation Articles 405-409 of Regulation (EU) No. 575/2013 referred to as the Capital Requirements Regulation ("**CRR**"), Article 51 of Commission Delegated Regulation (EU) No 231/2013 (the "**AIFM Regulation**") and under Directive 2009/138/EC ("**Solvency II**") which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Joint Lead Managers, the Arrangers or the Seller makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment on the Closing Date or at any time in the future.

Investors should be aware of Articles 405-409 of the CRR which apply where credit institutions become exposed to the credit risk of a securitisation position under a securitisation established after 1 January 2014 and to notes issued under securitisations established before that date to the extent that new underlying exposures are added or substituted after 31 December 2014. Articles 405-409 of the CRR restrict an EU regulated credit institution from becoming exposed to the credit risk of a securitisation position unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a material net economic interest of not less than 5% in respect of certain specified credit risk tranches or exposures as contemplated by Articles 405-409 of the CRR. Skipton Building Society has committed to retain a net economic interest of not less than 5% of the nominal value of the securitised exposures. Articles 405-409 of the CRR also requires an EU regulated credit institution to be able to demonstrate that it has undertaken certain due diligence in respect of, amongst other things, its note position and the underlying exposures and that procedures are established for such activities to be conducted on an ongoing basis, and in particular it has established formal procedures that are appropriate to its trading book and non-trading book and commensurate with the risk profile of its investments in securitised exposures in order to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying its securitisation positions and to analyse and record certain risk characteristics and information in relation to its securitisation positions. Failure to comply with one or more of the requirements set out in Articles 405-409 of the CRR may result in the imposition of a penal regulatory capital charge on the Notes acquired by the relevant investor. In the Deed of Charge, Skipton Building Society has undertaken to comply with its obligations under paragraph 1(d) of Articles 405 of the CRR, subject always to any requirement of law, provided that it will not be in breach of such undertaking if it fails to so comply due to events, actions or circumstances beyond its control.

Investors should also be aware of Article 17 of EU Directive 2011/61/EC on Alternative Investment Fund Managers (the "**AIFMD**") and Chapter III, Section 5 of Regulation 231/2013 supplementing the AIFMD (the "**AIFM Regulation**"), the provisions of which introduced risk retention and due diligence requirements (which took effect from 22 July 2013 in general) in respect of alternative investment fund managers ("**AIFMs**") that are required to become authorised under the AIFMD. While the requirements applicable to AIFMs under Chapter III, Section 5 of the AIFM Regulation are similar to those which apply under Article 405-409 of the CRR, they are not identical and, in particular, additional due diligence obligations apply to AIFMs.

In relation to the undertaking to be given by Skipton Building Society to the Issuer, the Swap Provider and the Trustee on behalf of itself and the Noteholders in the Deed of Charge in accordance with Articles 405 of the CRR regarding the material net economic interest to be retained by Skipton Building Society and certain requirements as to providing investor information in connection therewith, the Trustee shall not be under any obligation to monitor the compliance by Skipton Building Society with such undertaking or to investigate any matter which is the subject of such undertaking and shall not be under any obligation to take any action in relation to non-compliance with such undertaking unless and until the Trustee has received actual written notice of the same from any Transaction Party, in which event the only obligation of the Trustee shall be to notify the Issuer (who shall notify the Noteholders and the other Secured Creditors of the same) and, subject to the Trustee being indemnified and/or secured and/or prefunded to its satisfaction, to take such further action as it is directed to take in connection with such non-compliance by an Extraordinary Resolution of holders of the Most Senior Class then outstanding.

Each of articles 405-409 of the CRR and Chapter III, Section 5 of the AIFM Regulation applies in respect of the Notes, so investors which are EU regulated credit institutions should therefore make themselves aware of the requirements of the CRR in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. Relevant investors are required to independently assess and determine the sufficiency of the information described in this Prospectus and in any Investor Report provided in relation to the transaction for the purpose of complying with any relevant requirements including Articles 405-409 and Chapter III, Section 5 of the AIFM Regulation and none of the Issuer, Skipton Building Society, the Joint Lead Managers or any other party to the transaction makes any representation that the information described above is sufficient in all circumstances for such purposes.

Aspects of the CRR and Chapter III, Section 5 of the AIFM Regulation and what is required to demonstrate compliance remains unclear. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory capital charges for non-compliance with Article 405-409 or to avoid being required to take corrective action under Chapter III, Section 5 of the AIFM Regulation should seek guidance from their regulator.

Articles 405-409 of the CRR, Chapter III Section 5 of the AIFM Regulation 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.

Implementation of and/or Changes to the Basel II Framework May Affect the Capital and/or the Liquidity Requirements Associated with a Holding of the Notes for Certain Investors

The Basel Committee on Banking Supervision (the "**Basel Committee**") approved significant changes to Basel II (being the revised international capital framework of the Basel Committee, published in 2004) regulatory capital and liquidity framework in 2011 (such changes being commonly referred to as "**Basel III**"). In particular, Basel III provides for a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards (with heightened requirements for global systemically important banks) and to establish a leverage ratio "backstop" for financial institutions and certain minimum liquidity standards (referred to as the "**Liquidity Coverage Ratio**" and the "**Net Stable Funding Ratio**"). It is intended that member countries will implement the new capital standards and the new Liquidity Coverage Ratio as soon as possible (with provision for phased implementation, meaning that the measure will not apply in full until January 2019) and the Net Stable Funding Ratio from January 2018. Implementation of Basel III requires national legislation and therefore the final rules and the timetable for their implementation in each jurisdiction may be subject to some level of national variation. The Basel Committee has also published a consultative document setting out certain proposed revisions to the securitisation framework, including proposed new hierarchies of approaches to calculating risk weights and a new risk weight floor of 20 per cent.

Implementation of the Basel II framework (to the extent that it has not already been fully implemented in member countries) and/or of any of the changes put forward by the Basel Committee as described above may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes for investors that are subject to requirements that follow the relevant framework and, as a result, 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 for and effect on them of any changes to the Basel II framework (including the 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.

EMIR

The Swap Provider has agreed to provide hedging to the Issuer and investors should be aware that, further to EMIR, the Issuer is subject to certain regulatory requirements including, but not limited to, various compliance requirements for non-cleared "over-the-counter" derivative transactions (known as the 'risk mitigation techniques') and the requirement to report derivative transactions to a trade repository or to ESMA) which may result in future amendments by the Issuer to the Transaction Documents (see the risk factor above entitled "*Meetings of Noteholders, modification and waiver*"), in particular where Noteholder consent will not be required for such amendments. The 'risk mitigation techniques' include requirements for timely confirmation, portfolio reconciliation, and dispute resolution. As at the Closing Date, the Cash Manager will provide services to the Issuer which are required in order for the Issuer to comply with its obligations under EMIR, to the extent that they may be delegated. In the event that the Back-Up Cash Manager replaces the Cash Manager following the termination of the Cash Manager's appointment, the reporting requirements set out in Article 9 of EMIR will be delegated by the Issuer to the Swap Provider. In addition, such regulatory requirements may give rise to additional costs and expenses for the Issuer which would be payable prior to making payments on the Notes and, to the extent not adhered to, result in the Issuer being in breach of such regulatory requirements.

CRA 3

Prospective investors should note that the provisions of Regulation 462/2013 (EU) which amends Regulation (EC) 1060/2009 on Credit Rating Agencies (together, "**CRA 3**") require certain additional disclosure to be made in respect of structured finance transactions. The scope, extent and manner in which such disclosure will need to be made will be detailed in the technical standards to be prepared by the European Securities and Market Authority ("**ESMA**"). As of the date of this Prospectus, only draft technical standards have been prepared by ESMA and the consultation period for such technical standards is set until 11 April 2014. In the absence of the final regulatory technical standards, it is unclear what such additional disclosure requirements will encompass and how they will apply to the Notes and the Issuer and, consequently, what impact they may have on the Noteholders and their investment in the Notes.

Scottish Independence

A referendum is planned in Scotland in September 2014 in relation to a proposal for Scotland to obtain independence from the UK. If the result is a vote in favour of independence, there can be no assurance that Scotland would be permitted to or would choose to continue using Sterling as its lawful currency. If Scotland were not permitted to, or did not choose to, continue using Sterling as its lawful currency, the Scottish Loans would be subject to currency risk as non-Sterling loans.

Certain Tax Considerations

Securitisation Company Tax Regime

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

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

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

Prospective Noteholders should note that if the Issuer did not fall to be taxed under the new regime provided for by TSC Regulations then its profits or losses for tax purposes might be different from its cash position and there might be a risk of the Issuer incurring unfunded tax liabilities. In addition, the deduction of interest paid on the Class A Notes could well be disallowed for United Kingdom corporation tax purposes which could cause a significant divergence between the cash profits and the taxable profits of the Issuer. Any unforeseen taxable profits in the Issuer could have an adverse affect on its ability to make payments to the Noteholders.

Withholding tax

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

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. Luxembourg has announced it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

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 Council formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or secured for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

*U.S. Foreign Account Tax Compliance Act ("**FATCA**") withholding may affect payments on the Notes*

While the Class A Notes are in global form and held within the clearing systems, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the clearing systems. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary generally is unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution that is not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Notes are discharged once the Principal Paying Agent has paid the clearing systems and the Issuer has therefore no responsibility for any amount thereafter transmitted through hands of the clearing systems and custodians or intermediaries. Investors should consult their own tax adviser to obtain a more detailed explanation of FATCA and how FATCA may affect them.

EU financial transaction tax

On 14 February 2013, the European Commission issued proposals, including a draft Directive, for a financial transaction tax ("**FTT**") to be adopted in certain participating EU member states (including Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia). If these proposals were adopted in their current form, the FTT would be a tax primarily on "financial institutions" (which would include the Issuer) in relation to "financial transactions" (which would include the conclusion or modification of derivative contracts and the purchase and sale of financial instruments).

Under the current proposals, the FTT would apply to persons both within and outside of the participating member states. Generally, it would apply where at least one party is a financial institution, and at least one party is established in a participating member state. A financial institution may be, or be deemed to be, "established" in a participating member state in a broad range of circumstances, including (a) by transacting with a person established in a participating member state or (b) where the financial instrument which is subject to the financial transaction is issued in a participating member state.

At this stage, it is too early to say whether the FTT proposals will be adopted and in what form. However, if the FTT is adopted based on the current proposals, then it may operate in a manner giving rise to tax liabilities for the Issuer with respect to certain transactions (including concluding swap transactions and/or purchases or sales of securities (such as authorised investments)). Any such liabilities may reduce amounts available to the Issuer to meet its obligations under the Notes and may result in investors receiving less interest or principal than expected. To the extent that such liabilities may arise at a time when winding up proceedings have been commenced in respect of the Issuer, such liabilities may be regarded as an expense of the liquidation and, as such, be payable out of the floating charge assets of the Issuer (and its general estate) in priority to the claims of Noteholders and other secured creditors. It should also be noted that the FTT could be payable in relation to relevant transactions by investors in respect of the Notes (including secondary market transactions) if the conditions for a charge to arise are satisfied.

The FTT proposal remains subject to negotiation between the participating member states described above and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU member states may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUMMARY OF THE TERMS AND CONDITIONS OF THE NOTES

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

FULL CAPITAL STRUCTURE OF THE NOTES

	Class A Notes	Class B Notes
Currency:	GBP	
Initial Principal Amount:	400,000,000	47,000,000
Note Credit Enhancement:	Subordination of Class B Notes, excess Available Revenue Receipts	Excess Available Revenue Receipts
Reserve Credit Enhancement for the Class A Notes:	General Reserve Fund	N/A
Liquidity Support:	General Reserve Fund applied to make up Income Deficit. Principal Receipts applied to make up Remaining Income Deficit (subject to conditions as set out in "*Overview of Credit Structure and Cashflow – Income Deficiency*")	N/A
Issue Price:	100%	
Interest Rate:	3 month GBP LIBOR (interpolated for 2 and 3 month GBP LIBOR in respect of the First Interest Payment Date) + Margin or Step-Up Margin, as applicable	3 month GBP LIBOR (interpolated for 2 and 3 month GBP LIBOR in respect of the First Interest Payment Date) + Margin
Margin:	Up to and excluding the Step-Up Date, 0.57% p. a.	0.00% p. a.
Step-Up Margin:	From and including the Step-Up Date, 1.14 % p. a.	N/A
Interest Accrual Method:	The actual number of days in a period divided by 365 (or 366 days if the relevant calculation is being made in respect of an Interest Period ending in a leap year)	
Calculation Date:	The fifth Business Day prior to each Interest Payment Date.	
Payment Dates:	Interest and Principal will be payable quarterly in arrear on the Interest Payment Dates falling in March, June, September and December in each year.	
Business Day Convention:	Modified Following	
First Interest Payment Date:	The Interest Payment Date falling in June 2014	
First Interest Period:	The period from the Closing Date to the Interest Payment Date falling in June 2014	
Step-Up Date:	The Interest Payment Date falling in March 2019	
Pre-Step-Up Date Redemption profile:	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).	

	Class A Notes	Class B Notes
Post-Step-Up Date Redemption profile:	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).	
Other Early Redemption in Full Events:	Tax/illegality/clean up call. Please refer to Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*).	
Final Maturity Date:	The Interest Payment Date falling in March 2047	
Form of the Notes:	Registered	
Application for Listing:	Ireland	
ISIN:	XS1042831443	XS1042832094
Common Code:	104283144	104283209
CUSIP:	N/A	
Minimum Denomination:	£100,000 and £1,000 thereafter	
Expected Ratings: *(Fitch/Moody's)*	AAAsf/Aaa(sf)	N/A

OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

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

Ranking of Payments of Interest:	Payments of interest on the Class A Notes and the Class B Notes will be paid in Sequential Order. Payments of interest on the Class B Notes rank behind payments made to the General Reserve Fund. The Notes within each individual Class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of interest to be made to such individual Class. Any reference to a "**Class**" of Noteholders shall be a reference to the Class A Notes and the Class B Notes, as the case may be, or to the respective holders thereof.
Ranking of Payments of Principal:	Payments of principal on the Class A Notes and the Class B Notes will be paid in Sequential Order. The Notes within each individual Class will rank *pro rata* and *pari passu* and rateably among themselves at all times in respect of payments of principal to be made to such individual Class. For a more detailed summary of the Priority of Payments, please refer to the section entitled "*Cashflows and Cash Management*".
Most Senior Class:	The Class A Notes whilst they remain outstanding and thereafter the Class B Notes.
Sequential Order:	In respect of payments of interest and principal to be made to the Class A Notes and Class B Notes: firstly, to the Class A Notes and secondly, to the Class B Notes.
Security:	The Issuer's obligations in respect of the Notes are secured and will share the same Security together with the other secured obligations of the Issuer in accordance with the Deed of Charge as described in further detail in Condition 6 (*Security*). The security granted by the Issuer includes: (a) a first fixed charge over the benefit of the Issuer in the Loans and the Related Security; (b) a charge at law over indebtedness comprising an obligation or liability to pay money secured by each registered charge of which it is registered as proprietor at the Land Registry of England and Wales (the "**Land Registry**") (such registration to occur following a Perfection Trigger Event); (c) a first fixed charge over the benefit of each Authorised Investment; (d) first fixed charges over the Transaction Account, any Swap Collateral Accounts (if established) and other bank accounts of the Issuer established on or after the Closing Date in accordance with the Account Bank Agreement or the other Transaction Documents; (e) assignment by way of security of all right, title, interest and benefit of the Issuer in the Contingency Insurance, Block Insurance and Local Search Insurance (together, the

"**Insurance Policies**");

(f) an assignment by way of security of the benefit under each relevant Transaction Document; except that the assignment by way of security of all of the Issuer's right, title, interest and benefit under the Swap Agreement shall be subject to any rights of set off or netting provided for thereunder;

(g) a Scottish Supplemental Charge in terms of which the Issuer assigns its interest in the relevant Scottish Declaration of Trust to the Trustee; and

(h) a first floating charge over the whole of its undertaking and all its property, assets and rights whatsoever and wheresoever present and future including its uncalled capital (including assets expected to be subject to a fixed charge or assignment by way of security or absolute assignment as described above) and extending over all of its property, assets, rights or revenues as are situated in Scotland or governed by Scots law (whether or not the subject of the fixed charges or assignments described above).

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

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

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

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

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

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

(a) mandatory redemption in whole on the Final Maturity Date, as fully set out in Condition 9.1 (*Final Redemption*);

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

(c) optional redemption exercisable by the Issuer in whole on any Interest Payment Date where the Principal Amount Outstanding of all the Notes is equal to or less than 10 per cent. of the aggregate Principal Amount Outstanding of the

Notes as at the Closing Date, as fully set out in Condition 9.3(a) (*Optional Redemption in whole*);

(d) optional redemption exercisable by the Issuer in whole on any Interest Payment Date on or after the Step-Up Date, as fully set out in Condition 9.3(b) (*Optional Redemption in whole*); and

(e) optional redemption exercisable by the Issuer in whole for tax reasons, as fully set out in Condition 9.4 (*Optional Redemption in whole for taxation reasons*).

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

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

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

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

Governing Law: English law.

OVERVIEW OF RIGHTS OF NOTEHOLDERS AND RELATIONSHIP WITH OTHER SECURED CREDITORS

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

Prior to an Event of Default:	Noteholders holding not less than 10 per cent. of the Principal Amount Outstanding of the Notes then outstanding of the relevant Class are entitled to request that the Trustee convene a Noteholders' meeting and all Noteholders of each Class are entitled to participate in a Noteholders' meeting convened by the Issuer or the Trustee to consider any matter affecting their interests. However, so long as no Event of Default has occurred and is continuing the Noteholders are not entitled to instruct or direct the Issuer to take any actions, either directly or through the Trustee, without the consent of the Issuer and, if applicable, certain other Transaction Parties, unless the Issuer has an obligation to take such actions under the relevant Transaction Documents.
Following an Event of Default:	Following the occurrence of an Event of Default which is continuing, the holders of the Most Senior Class of Notes may, if they hold in aggregate not less than 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if they pass an Extraordinary Resolution, direct the Trustee in writing to give an Enforcement Notice to the Issuer that all Classes of the Notes are immediately due and repayable at their respective Principal Amount Outstanding.

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

	Required majority for Extraordinary Resolution:	Not less than 75 per cent. of votes cast	Not less than 75 per cent. of votes cast
	Written Resolution:	100 per cent. of the Principal Amount Outstanding of the relevant Class of Notes outstanding. A Written Resolution has the same effect as an Extraordinary Resolution.	

Reserved Matters:

Broadly speaking, the following matters are Reserved Matters:

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

Relationship between Classes of Noteholders:

In the event of a conflict of interests of holders of different Classes the Trustee shall have regard only to the interests of the holders of the Most Senior Class and will not have regard to any lower ranking Class of Notes.

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

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

Seller as Noteholder:

For the purpose of, *inter alia*, the right to attend and vote at any meeting of Noteholders, any Extraordinary Resolution in writing and any direction made by Noteholders, those Notes (if any) which are held by or on behalf of or for the benefit of the Seller, any holding company of the Seller or any subsidiary of such holding company in each case as beneficial owner, shall (unless and until ceasing to be held) be deemed not to remain outstanding, provided that if all the Notes of a particular Class are held by the Seller, any holding company of the Seller and/or any other subsidiary of such holding company (the "**Relevant Class of Notes**") (and no other Classes of Notes exist that rank junior or *pari passu* to the Relevant Class of Notes, in respect of which the Notes are held by persons other than the Seller, any holding company of the Seller or any other subsidiary of such holding company), Notes of the Relevant Class of Notes will be deemed to remain outstanding.

Relationship between Noteholders and other Secured Creditors:

The Trust Deed provides that the Trustee shall, except where expressly provided otherwise and prior to the redemption in full of the Notes, have regard solely to the interests of the Noteholders and shall have regard to the interests of the other Secured Creditors only to pay such parties any monies received and payable to it and to act in accordance with the applicable Priority of Payments.

Provision of Information to the Noteholders and the Swap Provider:

The Cash Manager will publish an investor report (each, an "**Investor Report**") on a monthly basis (the first investor report being published no earlier than the date falling one month from the Closing Date) containing information in relation to the Class A Notes including, but not limited to, ratings of the Class A Notes, amounts paid by the Issuer pursuant to the relevant Priority of Payments in respect of the relevant Collection Period, required counterparty information and the Seller's holding of the Notes and its compliance with Article 405 of the CRR and Article 51 of the

AIFM Regulation, to be provided in respect of the Portfolio and the Notes. The Investor Reports will be published on the Skipton Building Society website at www.skipton.co.uk. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

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

<table>
<tr>
<td>Available Funds of the Issuer:</td>
<td>
The Cash Manager will apply Available Revenue Receipts and Available Principal Receipts on each Interest Payment Date in accordance with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, as set out below.
"Available Revenue Receipts" will, broadly, include the following:
(a) Revenue Receipts on the Loans received during the immediately preceding Collection Period less Permitted Withdrawals;
(b) interest payable to the Issuer on the Transaction Account and income from any Authorised Investments received during the immediately preceding Collection Period;
(c) amounts received by the Issuer under the Swap Agreement on or in respect of such Interest Payment Date, other than:
(i) any amounts or securities to be credited to any Swap Collateral Accounts (if established); and
(ii) any amounts received by the Issuer in respect of Swap Tax Credits;
(d) any Swap Collateral Account Surplus;
(e) any amounts standing to the credit of the General Reserve Fund equal to the General Reserve Fund Excess, provided that the General Reserve Fund Excess Conditions (if applicable) are met;
(f) in respect of the first Interest Period, all amounts representing the Initial Revenue Advance, if any; and
(g) other net income of the Issuer received during the immediately preceding Collection Period excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of any Swap Collateral Accounts (if established) and without double-counting the amounts described in paragraphs (a) to (e) above.
If the Cash Manager determines that there would be a deficit on an Interest Payment Date to pay items (a) to (f) (inclusive) of the Pre-Enforcement Revenue Priority of Payments, then the Issuer shall pay or provide for such deficit by applying (1) amounts standing to the credit of the General Reserve Fund and (2) (only in respect of any senior expenses of the Issuer which rank in priority to the Class A Notes in the relevant Priority of Payments (the "Senior Expenses") and interest payments due on the Class A Notes) Principal Receipts (if any), subject to certain conditions. See "Overview of Credit Structure and Cashflow - Income Deficiency" below.
</td>
</tr>
</table>

	"**Available Principal Receipts**" will, broadly, include the following: (a) Principal Receipts on the Loans received during the immediately preceding Collection Period; (b) amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (j) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and (c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration, less: (x) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits; and (y) the amount of Principal Receipts to the extent comprised in paragraph (a) above used or to be used by the Issuer to purchase Further Advances made during the immediately preceding Collection Period.
Summary of Priority of Payments:	Below is a summary of the Priority of Payments. Please refer to the section entitled "*Cashflows and Cash Management*" for further information. In addition, please refer to "*Limited Recourse*" in the section entitled "*Overview of the Terms and Conditions of the Notes*".

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

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

- availability of the General Reserve Fund, initially funded by a Subordinated Loan on the Closing Date up to the General Reserve Required Amount (being an amount equal to 2.75 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date) and replenished on each Interest Payment Date up to the General Reserve Required Amount from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments. The General Reserve Fund (prior to repayment in full of the Class A Notes) will be credited to the Transaction Account. Moneys standing to the credit of the General Reserve Fund will be applied to make up any Income Deficit. Any amount credited to the General Reserve Fund in excess of the General Reserve Required Amount shall, provided that the General Reserve Fund Excess Conditions (if applicable) are met, form part of Available Revenue Receipts;
- availability of Principal Receipts to make up any Remaining Income Deficit. See the section entitled "*Overview of Credit Structure and Cashflow - Income Deficiency*" below for limitations on the use of Principal Receipts for this purpose;
- payments of principal and payments of interest on the Class A Notes will be made *pari passu* and *pro rata* amongst each other;
- payments of principal and interest on the Class B Notes will be subordinated to payments on the Class A Notes;
- availability of the rate of interest provided by the Account Bank in respect of collections transferred to the Transaction Account. The Transaction Account is subject to the Account Bank Agreement, under which, the Account Bank has agreed to pay overnight GBP LIBOR less a margin in respect of sums in the Transaction Account. However, the Issuer (or the Cash Manager on its behalf) may invest sums standing to the credit of the Transaction Account in Authorised Investments pursuant to the terms of the Cash Management Agreement;
- availability of the fixed rate swap provided by the Swap Provider to hedge against the possible variance between the fixed interest rates payable in respect of certain Loans and the floating rate interest payable in respect of the Notes; and
- it is expected that during the life of the Notes, the Available Revenue Receipts will, assuming that all the Loans are fully performing, be sufficient to pay the interest amounts payable in respect of all the Class A Notes, the Senior Expenses of the structure and retaining the Issuer Profit Amount.

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

Income Deficiency: On each Calculation Date, the Cash Manager will determine whether Available Revenue Receipts are sufficient to pay or provide for payment of Senior Expenses, interest amounts on the Class A Notes and the elimination of debit balances on the Principal Deficiency Ledger (excluding the Class B Principal Deficiency Sub-Ledger). To the extent that Available Revenue Receipts are insufficient to pay items (a) to (f) inclusive of the Pre-Enforcement Revenue Priority of Payments in full (the amount of any deficit being an "**Income Deficit**"), the Cash Manager will, on the relevant Interest Payment Date and on behalf of the Issuer, pay or provide for such Income

Deficit by applying amounts standing to the credit of the General Reserve Fund.

Any amounts so withdrawn from the General Reserve Fund will be applied to pay Senior Expenses, interest on the Class A Notes and to eliminate any debit balances on the Class A Principal Deficiency Sub-Ledger in the order set out in the Pre-Enforcement Revenue Priority of Payments.

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

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

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

Debits will be recorded as follows:

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

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

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

(i) *first*, in or towards satisfaction of the amounts necessary to reduce to zero the debit balance in respect of the Class A Notes on the Class A Principal Deficiency Sub-Ledger; and

(ii) *second*, in or towards satisfaction of the amounts necessary to reduce to zero the debit balance in respect of the Class B Notes on the Class B Principal Deficiency Sub-Ledger.

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

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

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

OVERVIEW OF THE PORTFOLIO AND ADMINISTRATION

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

Sale of Portfolio:

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

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

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

Features of Loans:

Certain features of the Loans as at 31 January 2014 are set out in the table below and investors should refer to, and carefully consider, further details in respect of the Loans set out in "*The Portfolio – Statistical Information on the Portfolio*". The Loans comprise loans to prime Borrowers and are secured by first priority charges over freehold and leasehold properties in England and Wales or, as the case may be, first ranking standard securities over heritable or long lease properties in Scotland.

Type of Borrower	Prime		
Type of mortgage	Repayment, Part and Part and Interest Only		
Number of Loans (including Further Advances)	5,480		
	Weighted average	Minimum	Maximum
Current Balance*	£118,878	£933	£926,355
Current LTV Ratio (%)[1]	65.07%	0.18%	93.62%
Seasoning (years)	2.65	-	12.59
Remaining Term (years)	18.90	0.1	30.00

*Current balance calculated as a simple average

Consideration:

The consideration from the Issuer to the Seller in respect of the sale of the Portfolio together with its Related Security shall be: (i) Initial Consideration of £447,000,282.43, being an amount equal to the Current Balance of the Loans of the Seller comprising the Portfolio determined as at close of business on 31 March 2014, which is due and payable on the Closing Date and (ii) Deferred Consideration, in each case, payable in accordance with the Mortgage Sale Agreement to the Seller.

Any Deferred Consideration will be paid to the Seller in accordance with the Pre-Enforcement Revenue Priority of Payments and the Pre-

[1] Non-indexed figures used.

Enforcement Principal Priority of Payments or, if applicable, the Post-Enforcement Priority of Payments.

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

(a) the original principal amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and

(b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or capitalised in accordance with the Seller's normal charging practices and added to the amounts secured or intended to be secured by the related Mortgage; and

(c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or in accordance with the Seller's normal charging practices but which is secured or intended to be secured by the related Mortgage, as at the end of the Business Day immediately preceding that given date,

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

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

The consideration from the Issuer to the Seller in respect of the sale of Further Advances to the Issuer shall be the Further Advance Purchase Price, which will, if sufficient, be met through Principal Receipts on the date falling 5 Business Days after the last day of the calendar month in which the Further Advance is made.

Representations and Warranties:

The Seller will make certain representations and warranties to the Issuer and the Trustee on (i) the Closing Date in respect of the Portfolio; (ii) the last calendar day in each month during which an Advance Date has occurred in respect of the relevant Further Advances; (iii) the last calendar day in each month during which a Switch Date has occurred in respect of the relevant Product Switch; and (iv) each Substitution Date in respect of the relevant Substitution Loans.

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

- First ranking mortgage;

- No right of set-off;
- Current loan amount not exceeding £1,000,000;
- Minimum payment made (not less than one monthly payment);
- No Loan is more than one monthly payment in arrears; and
- Final Loan repayment date not falling beyond three years prior to the Final Maturity Date.

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

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

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

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

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

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

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

- if the Issuer exercises its clean up call option where the Principal Amount Outstanding of the Notes is less than 10 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the

Closing Date; or

- if the Issuer exercises a general call option on any Interest Payment Date from and including the Step-Up Date (see the section headed "*Overview of the Terms and Conditions of the Notes – Redemption*" and Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*)).

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

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

Consideration for Repurchase:

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

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

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

Perfection Trigger Events:

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

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

Administration of the Portfolio:

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

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

The Back-Up Administrator will be appointed on the Closing Date pursuant to the Back-Up Administration Agreement and, upon termination of the appointment of the Administrator, in accordance with the provisions of the Administration Agreement, the Issuer will be required to take such steps as are required under the Back-Up Administration Agreement to require the Back-Up Administrator to administer the Loans on behalf of the Issuer.

Delegation:

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

TRIGGERS TABLES

Rating Triggers Table

Transaction Party	**Required Ratings on the Closing Date**	**Possible effects of Ratings Trigger being breached include the following**
Swap Provider (or any guarantor thereof):	(i) the long-term, unsecured and unsubordinated debt obligations must be rated at least A3 by Moody's; and (ii) the long-term issuer default rating ("**IDR**") of the Swap Provider (or its successor or assignee) or any guarantor thereof ceases to be rated at least as high as "A" (or its equivalent) by Fitch and the short-term IDR of the Swap Provider (or its successor or assignee) or any guarantor thereof ceases to be rated at least as high as "F1" (or its equivalent) by Fitch.	The consequences of breach may include the requirement to provide collateral or replace the Swap Provider or procure a guarantee of such Swap Provider's obligations or such other remedial action acceptable to the Rating Agencies which would maintain the rating of the Class A Notes. If none of these remedial measures is taken within the timeframes stipulated in the Swap Agreement, such Swap Agreement may be terminated early and a termination payment may become payable either by the Issuer or the Swap Provider. See the section entitled "*Key Structural Features – Ratings Downgrade of Swap Provider*".
Account Bank:	(i) the short term issuer default rating of the Account Bank is downgraded below a rating of F1 by Fitch; or (ii) the long-term issuer default rating of the Account Bank is downgraded below a rating of A by Fitch or the long-term, unsecured and unsubordinated debt obligations of the Account Bank are downgraded below a rating of A3 by Moody's (or (in each case) such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency from time to time).	The consequences of breach may include (i) replacement of Account Bank (within 30 calendar days of such breach) (ii) guarantee of Account Bank's obligations (within 30 calendar days from the date of such breach), (iii) or such other remedial action acceptable to the Rating Agencies which would maintain the rating of the Class A Notes.
Seller:	Long-term issuer default ratings from Fitch of at least BBB- and long-term, unsecured and unsubordinated debt obligations from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to the relevant Rating Agency) (a "**Seller Downgrade Event**").	Under the Mortgage Sale Agreement, the Seller shall be obliged to prepare the documentation required to perfect legal title to the Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Loans or the Related Security to the Issuer. See the section entitled "*Sale of the Portfolio under the Mortgage Sale Agreement*".

Transaction Party	**Required Ratings**	**Possible effects of Ratings Trigger being breached include the following**
Administrator (or any successor thereof):	At any time when there is no incumbent back-up administrator appointed: (a) the Administrator's long-term, unsecured, unguaranteed and unsubordinated debt obligations have a rating from Moody's of at least Baa3 (or such other long term rating which is otherwise acceptable to Moody's); or (b) the Administrator has a long-term issuer default rating from Fitch of at least BBB- (or such other long term rating which is otherwise acceptable to Fitch); or (c) the Administrator's long-term, unsecured, unguaranteed and unsubordinated debt obligations are not rated by Moody's or Fitch does not provide a long-term issuer default rating in respect of the Administrator and the Rating Agencies have informed the Issuer or the Trustee in writing, or there is a public announcement from either of the Rating Agencies, that the continued appointment of the then current Administrator would, unless a back-up administrator is appointed, adversely affect the ratings of the Class A Notes (each a "**Back-Up Administrator Event**"). At any time when there is a back-up administrator appointed, such appointment may be terminated without a replacement back up administrator being simultaneously appointed if at the time of such termination none of the circumstances referred to in the definition of Back-Up Administrator Event has occurred or is continuing.	Under the Administration Agreement (or the Replacement Administration Agreement, as applicable) the Administrator, with the assistance of the Back-Up Administrator Facilitator , shall, within 60 days, use best efforts to appoint a Back-Up Administrator. The Back-Up Administrator will be appointed on the Closing Date.
Cash Manager (or any successor thereof):	At any time when there is no incumbent back-up cash manager appointed: the long-term, unsecured and unsubordinated debt obligations of the Cash Manager are not rated at least Baa3 by Moody's (or such other long term rating as is otherwise acceptable to Moody's) (a "**Back-Up Cash Manager Event**"). At any time when there is a back-up cash manager appointed, such appointment may be terminated without a replacement back-up cash manager being simultaneously appointed if at the time of such termination none of the circumstances referred to in the definition of Back-Up Cash Manager Event has occurred or is continuing.	Under the Cash Management Agreement (or the Replacement Cash Management Agreement, as applicable) the Administrator shall, within 60 days, use best efforts to appoint a Back-Up Cash Manager. The Back-Up Cash Manager will be appointed on the Closing Date.

Non-Rating Triggers Table

Nature of Trigger	**Description of Trigger**	**Consequence of Trigger**
Administrator Termination Event See the section entitled "*The Administrator*" for further information on this.	(i) Administrator payment default; (ii) Failure to comply with any of its other covenants or obligations; or (iii) Administrator Insolvency Event.	The Back-Up Administrator will replace the Administrator and shall provide the Administration Services in accordance with the Replacement Administration Agreement as replacement administrator.
Perfection Trigger Events See the section entitled "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*" for further information on this.	Seller Insolvency Event.	The legal transfer by the Seller to the Issuer of all the Loans and their Related Security as soon as reasonably practicable.
Cash Manager Termination Event See section entitled "*Cashflows and Cash Management*" for further information on this.	Following the termination of the appointment of the Cash Manager under the Cash Management Agreement.	The Back-Up Cash Manager will replace the Cash Manager and shall provide the cash management services in accordance with the terms of the Replacement Cash Management Agreement as replacement Cash Manager.

FEES

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

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
Administration Fees	0.2 per cent. per annum (inclusive of VAT) of the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
	After invocation of the Back-Up Administrator to replace the Administrator, the Administration Fees will be 0.18 per cent. per annum (exclusive of VAT) of the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period plus 0.25 per cent. per annum (exclusive of VAT) of the aggregate amount of all Loans comprising the Portfolio which are or have been In Arrears during the preceding Interest Period plus a fee of £150 (plus any applicable VAT) for each Loan which is repaid in full by the relevant Borrower	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Back –Up Administrator Fees	0.0072 per cent. per annum (or 0.009 per cent. per annum after the fifth anniversary of the Closing Date) (inclusive of VAT) of the aggregate amount of the Portfolio at the opening of business on the preceding Collection Period, subject to a minimum amount of £18,000 per annum (or £22,500 per annum after the fifth anniversary of the Closing Date) (inclusive	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date

Type of Fee	Amount of Fee	Priority in Cashflow	Frequency
	of VAT)		
Cash Management Fees	0.01 per cent. per annum of the Principal Amount outstanding of the Notes each year (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
	After invocation of the Back-Up Cash Manager to replace the Cash Manager, the Cash Management Fees will be 0.01 per cent. per annum of the Principal Amount outstanding of the Notes each year (inclusive of any applicable VAT), subject to a minimum of £50,000	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Back-Up Cash Manager Fees	An annual fee of £6,000 (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £41,000 each year (exclusive of VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date

WEIGHTED AVERAGE LIFE OF THE NOTES

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

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

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

(a) there are no arrears or enforcements;

(b) no Loan is sold by the Issuer;

(c) there is no debit balance on any of the sub-ledgers of the Principal Deficiency Ledger on any Interest Payment Date;

(d) the Seller is not in breach of the terms of the Mortgage Sale Agreement;

(e) no Loan is repurchased by the Seller;

(f) no Substitute Loans are purchased;

(g) no Further Advances are made in respect of the Portfolio;

(h) the portfolio mix of loan characteristics remains the same throughout the life of the Notes;

(i) the Principal Amount Outstanding of the Notes as at the Closing Date is, in respect of the Class A Notes 89.5 per cent. and, in respect of the Class B Notes (based off the provisional pool) 10.5 per cent.;

(j) the interest rate on each Loan in the Portfolio is equal to the Seller Standard Variable Rate, the Seller Mortgage Variable Rate (or, as applicable, the Issuer Variable Rate), the Tracker Rate or a fixed rate, with the addition of any relevant margins above or below the applicable index. The Seller Standard Variable Rate is, as at the date of this Prospectus, equal to 4.95 per cent. The Seller Mortgage Variable Rate is, as at the date of this Prospectus, equal to 5.49 per cent. The Bank of England Base Rate is, as at the date of this Prospectus, 0.5 per cent.;

(k) the Loans revert to their respective reversion margins in the first period after the reversion date;

(l) the Notes are issued on 1 April 2014 and all payments on the Notes are received on the 20th day of every third calendar month commencing from June 2014. The collection dates are the end of each month preceding the Interest Payment Date;

(m) LIBOR is equal to 0.52 per cent.;

(n) in the case of tables stating "to call", the Notes are redeemed at their Principal Amount Outstanding on the Step-Up Date;

(o) the Notes will be redeemed in accordance with the Conditions;

(p) no Security has been enforced;

(q) the assets of the Issuer are not sold by the Trustee except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes;

(r) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;

(s) the Loans continue to be fully performing; and

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

The actual characteristics and performance of the Loans are likely to differ from the assumptions. The following tables are hypothetical in nature and are provided only to give a general sense of how the principal cash flows might behave under varying prepayment scenarios. For example, it is not expected that the Loans will prepay at a constant rate until maturity, that all of the Loans will prepay at the same rate or that there will be no defaults or delinquencies on the Loans. Moreover, the diverse remaining terms to maturity and mortgage rates of the Loans could produce slower or faster principal distributions than indicated in the tables at the various percentages of CPR specified, even if the weighted average remaining term to maturity and weighted average mortgage rates of the Loans are as assumed. Any difference between such assumptions and the actual characteristics and performance of the Loans, or actual prepayment of loss experience, will affect the percentage of the initial amount outstanding of the Notes which are outstanding over time and cause the weighted average lives of the Notes to differ (which difference could be material) from the corresponding information in the tables for each indicated percentage CPR.

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

Subject to the foregoing discussion and assumptions, the following tables indicate the weighted average lives of the Class A Notes and the Class B Notes. These average lives have been calculated on an Actual/365 basis.

Weighted Average Lives of the Notes at the Specified CPRs

	To Call		**To Maturity**	
	Class A (yrs)	**Class B (yrs)**	**Class A (yrs)**	**Class B (yrs)**
0% CPR	4.56	4.97	11.19	24.43
5% CPR	4.02	4.97	7.27	21.03
10% CPR	3.53	4.97	5.10	17.44
15% CPR	3.09	4.97	3.82	14.27
20% CPR	2.70	4.97	3.01	11.72
25% CPR	2.35	4.97	2.46	9.76
30% CPR	2.04	4.97	2.06	8.24

The average life of the Notes are subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates above will prove in any way to be realistic. They must therefore be viewed with considerable caution.

For the purposes of this Prospectus:

"**Seller Mortgage Variable Rate**" means any variable mortgage rate set by Skipton Building Society by reference to the general level of interest rates and competitor rates in the UK mortgage market in relation to a mortgage which was originated on or after 14 November 2012;

"**Seller Standard Variable Rate**" means any variable mortgage rate set by Skipton Building Society by reference to the general level of interest rates and competitor rates in the UK mortgage market in relation to a mortgage which was originated prior to 30 December 2009; and

"**Seller Variable Rate**" or "**SVR**" means the Seller Standard Variable Rate or the Seller Mortgage Variable Rate, as applicable.

For more information in relation to the risks involved in the use of the average lives estimated above, see the section entitled "*Risk Factors – Credit Structure – Yield and prepayment considerations*".

USE OF PROCEEDS

The Issuer will use the gross proceeds of the Notes (and, if required, the Initial Consideration Advance) to pay the Initial Consideration of £447,000,282.43 payable by the Issuer for the Portfolio to be acquired from the Seller on the Closing Date (see "*The Portfolio - Sale of the Portfolio under the Mortgage Sale Agreement*").

ISSUER

The Issuer was incorporated in England and Wales on 9 July 2013 (registered number 8603124) and is a public limited company under the Companies Act 2006 (as amended). The original name of the Issuer was Papercove plc, which was changed to Darrowby No. 3 plc on 14 February 2014. The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP. The telephone number of the Issuer's registered office is 020 7398 6300.

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

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

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

As at the date of this Prospectus, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the Issuer. The accounting reference date of the Issuer is 31 December and the first statutory accounts of the Issuer will be drawn up to 31 December 2014.

The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 10 April 2014.

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

Directors and secretary

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

Name	Business address	Business Occupation
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Anthony Chapman	The Bailey, Skipton, North Yorkshire BD23 1DN	Treasurer of Skipton Building Society

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

Name	Business address	Principal activities/business occupation
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director

Name	Business address	Principal activities/business occupation
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Director
Michael Drew	35 Great St Helen's, London EC3A 6AP	Company Secretary
Jennifer Jones	35 Great St Helen's, London EC3A 6AP	Company Secretary
Susan Abrahams	35 Great St Helen's, London EC3A 6AP	Director

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

HOLDINGS

Holdings was incorporated in England and Wales on 18 December 2013 (registered number 8819714) as a private limited company under the Companies Act 2006 (as amended). The name of Holdings was changed to Darrowby 3 Holdings Limited on 14 February 2014. The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Holdings' registered office is 020 7398 6300.

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

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

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

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

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

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

Directors

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

Name	Business Address	Business Occupation
SFM Directors Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No. 2) Limited	35 Great St Helen's, London EC3A 6AP	Corporate Director
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director

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

Name	Business Address	Business Occupation
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Director
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director
J-P Nowacki	35 Great St Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St Helen's, London EC3A 6AP	Director

Name	Business Address	Business Occupation
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St Helen's, London EC3A 6AP	Director
Michael Drew	35 Great St Helen's, London EC3A 6AP	Company Secretary
Jennifer Jones	35 Great St Helen's, London EC3A 6AP	Company Secretary
Susan Abrahams	35 Great St Helen's, London EC3A 6AP	Director

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

The accounting reference date of Holdings is 31 December.

SKIPTON BUILDING SOCIETY

Introduction to the Society

Skipton Building Society (the "**Society**") was established originally in 1853. It was incorporated in England under the Building Societies Act 1874 (the "**Act**") as the Skipton and District Permanent Benefit Building Society and adopted its present name in 1929. The principal office of the Society is The Bailey, Skipton, North Yorkshire BD23 1DN and its telephone number is +44 (0)1756 705 000.

The Society distributes products through multiple channels including its national network of branches, the Skipton Direct telephone service centre, by post and the internet. In 2013 the Society employed an average of 816 full- and part-time staff at its principal office and administrative centres, 672 staff at its branches and 7,212 staff within its subsidiaries.

As at 31 December 2013 the Society, together with its subsidiaries (the "**Group**"), had total Group assets of £14.5 billion, making it the fourth largest building society in the United Kingdom.

Constitution

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

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

Principal business areas and subsidiaries

General

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

Mortgage lending

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

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

Savings

The Group continues to obtain the majority of its funding through retail member deposits. To address competition in this market the Group aims to offer members a varied and innovative mix of savings products which offer good value to the customer. During 2013, the Group increased its retail deposits by £0.8 billion to £10.3 billion.

Offshore deposits are also accepted via Skipton International Limited.

Mortgage services

The Group provides outsourced mortgage servicing to other lenders through Homeloan Management Limited ("**HML**") which was established in 1988. HML is the largest third party mortgage servicer in the UK with a market share in the UK of circa 60% and total assets under management of £37.2 billion at 31 December 2013. HML experienced further contraction in its portfolio of assets under administration in 2013 as new entrants remain slow to enter the mortgage market. A combination of HML's high quality credit management and continuing low interest rates saw client arrears reduce during the year which, whilst benefitting the client, does impact adversely on HML's income.

Estate agency

The Group offers estate agency services through the Connells group of companies which has approximately 500 estate agency branches offering sales and lettings services. In addition Connells provides residential survey and valuation services to homebuyers, lenders and other participants in the residential property market. Connells also offers survey panel management services, administering surveys and valuations on behalf of clients and employs 220 Chartered Surveyors plus 25 consultants across the UK. Connells benefits from its own diversification and, through the Asset Management Group and Connells Asset Management, it is now one of the UK's leading providers of asset recovery services to lenders, which is a natural mitigant against the core estate agency business.

Connells started 2013 with a similar sales pipeline to that in 2012, but house sales were up 21% year-on-year, which drove the improved performance, and unlike 2012 where house sales slowed down in the second half of the year, sales performance remained strong throughout the year. Consequently, the Connells group achieved a profit before tax of £50.2 million (2012 £35.6 million).

Financial advice

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

Investment portfolio

The Group's other subsidiary businesses include: Skipton Business Finance, an invoice discounting business; The Private Health Partnership, a medical insurance intermediary and Jade Software Corporation Limited, which provides the Society's core software operating system. During 2013, Jade Software Corporation Limited floated a part of its business, Wynyard Group Limited, on the New Zealand Stock Exchange and the Group recognised a profit of £24.5million on this transaction.

During 2013 the Group sold two smaller subsidiaries, Sterling International Brokers and Mutual One Limited. Sterling International Brokers (money markets broker), which struggled in difficult trading conditions during the financial crisis, was sold in February 2013 at its written down book value. Mutual One Limited was sold in August 2013, generating a loss on sale for the Group of £0.1m.

Management

Board of Directors

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

The business address of the Society's Directors is at The Bailey, Skipton, North Yorkshire BD23 1DN. There are no potential conflicts between the duties to the Society of the Directors and their private interests and/or other duties. As at 31 March 2014, the members of the Board, their roles within the Society and their principal business occupation(s) are as follows:

Director/Date of Birth	**Responsibility**	**Business Occupation**	**Date of Appointment**
C C Black (20/08/58)	Non-Executive Director	Business Consultant	01/03/13
M L Cassoni (27/12/51)	Non-Executive Director	Business Consultant	31/07/12
I M Cornelius (11/02/69)	Commercial Director	Building Society Executive Director	11/06/12
D J Cutter (01/01/62)	Chief Executive	Building Society Executive Director	01/01/00
R D East (18/03/60)	Non-Executive Director	Company Director	29/11/11
M H Ellis (04/08/51)	Chairman	Company Director	24/05/11
M R Fleet (05/01/64)	Distribution Director Non-Executive	Building Society Executive Director	06/12/11
P R Hales (21/10/46)	Director	Company Director	29/05/07
H C Stevenson (10/11/60)	Non-Executive Director	Business Consultant	01/03/13
G E Picken (21/04/49)	Non-Executive Director	Company Director	17/01/12
P J S Thompson (28/09/46)	Non-Executive Director	Company Director	01/04/09
R J Twigg (12/02/65)	Group Finance Director	Building Society Executive Director	01/03/02

THE PORTFOLIO

THE LOANS

1. **Introduction**

The following is a description of some of the characteristics of the mortgage loans currently or previously offered by the Seller and includes details of mortgage loan types, the underwriting process, Lending Criteria and selected statistical information. In selecting which loans to sell to the Issuer, the Seller has identified the Provisional Portfolio. Each Loan in the Provisional Portfolio incorporates one or more of the features referred to in this section. From the Provisional Portfolio, the Seller will sell a Portfolio of Loans and Related Security to the Issuer on the Closing Date.

2. **Characteristics of the Loans**

Origination of the Loans

The Mortgages included in the Provisional Portfolio were all made no earlier than 1 June 2001 and on or before 31 January 2014 and the Seller derived their mortgage lending business at the relevant times from the following sources:

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

Interest Payments

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

- **Fixed Rate Loans**: Loans subject to a fixed interest rate for a specified period of time and which at the expiration of that period generally convert to Variable Rate Loans or Tracker Rate Loans. An early repayment charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term of the fixed interest rate.

- **Tracker Rate Loans**: Loans subject to a variable rate of interest that is linked to the Bank of England base rate (the "**BoE Base Rate**") plus an additional fixed percentage (the "**Tracker Rate**"), usually for a fixed period but, in some instances, for the life of the Loan (the "**Life Tracker Rate Loans**"). At the end of any fixed period, generally the Loans may convert to Variable Rate Loans or remain as Tracker Rate Loans.

- **Discount Rate Loans**: Loans which allow the Borrower, for a set period of time or for the life of the Loan, to pay interest at a specified discount to the Seller Standard Variable Rate, the Seller Mortgage Variable Rate or Issuer Variable Rate, as the case may be. At the end of the discounted period, generally the Loans convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term of the discounted interest rate.

- **Capped (BoE Base Rate) Loans**: Tracker Rate Loans which have a rate of interest which will not increase above a specified rate for a set period of time or for the life of the Loan. At the end of the period, generally the Loans convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term of the capped interest rate.

- **Floored (BoE Base Rate) Loans**: Tracker Rate Loans which have a rate of interest which will not decrease below a specified rate for a set period of time or for the life of the Loan. At the end of the period, generally the Loans convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these Loans for a set period of time, which generally corresponds with the term during which the interest rate will not decrease below the fixed rate.

- **Capped (Variable) Loans**: Variable Rate Loans which have a rate of interest which will not increase above a specified rate for a certain period of time. At the end of the period, generally the Loans convert to a Variable Rate Loan. An early repayment charge may be payable in respect of these Loans for a set period of time.

- **Variable Rate Loans**: Loans subject to a rate of interest linked to the Seller Standard Variable Rate, Seller Mortgage Variable Rate or Issuer Variable Rate, as the case may be, for the life of the Loan or until an alternative product that the Borrower qualifies for is selected by the Borrower. Variable Rate Loans will not usually have an early repayment charge.

Repayment Terms

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

- **Repayment Loans**: the Borrower makes monthly payments of both interest and principal so that, when the Loan matures, the Borrower will have repaid the full amount of the principal of the Loan.

- **Interest Only Loans**: the Borrower makes monthly payments of interest but not of principal; when the Loan matures, the entire principal amount of the Loan is still outstanding and the Borrower must repay that amount in one lump sum. Where Loans are interest only, proof is required that a suitable repayment mechanism has been put in place.

- **Part and Part Loans**: the Borrower is required to repay part of the principal amount of the Loan by making monthly payments of both interest and principal and to repay the remaining part of the principal amount of the Loan in one lump sum when the Loan matures.

Calculation of Current Balance

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

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

(a) the original principal amount advanced to the relevant Borrower and any further amount (including any Further Advance) advanced on or before the given date to the relevant Borrower secured or intended to be secured by the related Mortgage; and

(b) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or capitalised in accordance with the Seller’s normal charging practices and added to the amounts secured or intended to be secured by the related Mortgage; and

(c) any other amount (including, for the avoidance of doubt, Accrued Interest and Arrears of Interest) which is due or accrued (whether or not due) and which has not been paid by the relevant Borrower and has not been capitalised in accordance with the relevant Mortgage Conditions or with the relevant Borrower's consent or in accordance with the Seller’s normal charging practices but which is secured or intended to be secured by the related Mortgage, as at the end of the Business Day immediately preceding that given date,

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

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

Early Repayment Charges

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

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

Payment Holidays

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

Seller Standard Variable Rate

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

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

(a) That the Bank of England Base Rate is less than or equal to 2.7 per cent.; and

(b) That the Bank of England Base Rate minus the UK average Instant Access savings rate (as published monthly by the Bank of England) is less than or equal to 2.25 per cent. for each of the three proceeding months.

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

Further Advances

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

Product Switches

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

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

Underwriting

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

(a) credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data. The lending strategy was enhanced in 2011 to reflect improved score card data which is regularly reviewed to ensure customer credit scores are performing as expected;

(b) affordability: calculation of an individualised lending amount that reflects the applicant's income and expenditure net of tax and national insurance and essential financial commitments. All Loans are underwritten on an affordability principle and verified by reference to appropriate documentation. Affordability is calculated by reference to free disposable income net of all tax, national insurance and personal expenditure and includes a manual assessment against total outstanding debt;

(c) Valuations are carried out in full on all proposed new loans. A restricted policy of automated valuation models ("**AVM**") on remortgaging existed between 2007 and 2009 since which time full valuations have been carried out an all business. AVMs were reintroduced on a selected basis for remortgages and additional loans up to a maximum LTV of 65 per cent. from May 2011; and

(d) All mortgage applications receive a manual underwrite assessment, by experienced staff, in addition to the automated scoring process.

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

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

Lending managers carry out sample checking at offer stage and there is a 100% file checking at completion stage to ensure adherence to policy and underwriting process. Since late 2010 that is further supported by an independent check in Credit Risk. The Seller's MIG insurers also carry out quarterly audit checks on higher LTV cases above 75% to ensure policy adherence.

Lending Criteria

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

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

(a) *Property - location*

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

(b) *Property - Borrower's title*

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

(c) *Property – leasehold term*

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

(d) *Property - valuation*

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

(e) *Property - construction*

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

(f) *Property - occupiers*

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

(g) *Property – use*

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

(h) *Loan - loan to value ratio*

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

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

(i) *Loan – repayment methods*

Loans may be capital and interest repayment loans, part and part loans or interest only loans. Where Loans are interest only, proof is required that a suitable repayment mechanism has been put in place. Interest only loans are restricted to a maximum of £500,000 or a maximum LTV of 60 per cent. (in relation to interest only loans) or 80 per cent. (in relation to part and part loans).

(j) *Loan - term*

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

(k) *Borrower - capacity and status*

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

(l) *Borrower - credit history*

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

(i) electoral register or other proof of occupancy;

(ii) full credit search for the previous three years supplied by a credit reference agency;

(iii) copy of the most recent pay slips, P60s, personal and or business bank statements, employment contracts and/or confirmation of salary details from employer;

(iv) historical business accounts (for example if self-employed/owner of limited company), audited by qualified accountants where applicable; or

(v) previous mortgage statements.

(m) *Borrower – income and affordability*

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

Lending decisions are based on an assessment of affordability for each individual application. Consideration is given to the lifestyle and spending pattern of applicants and consideration is given to long-term affordability to allow for future rate increases. FCA guidelines on responsible lending require that lenders no longer rely on standard income multiples across the board. Prior to 2005, the Seller employed standard income multiples as part of its lending criteria. With the implication of MMR requirements under responsible lending the Seller has introduced a new compliant affordability model in January 2014 and reviewed the income sources it is prepared to accept. The Seller continues to obtain documentation of income in every case via a number of different options e.g. payslips, P60s, accounts, SA302, bank statements and will shortly be introducing an electronic income verification process to supplement that information. Expenditure is measured by combining ONS modelled expenditure for the Borrower taking in to account specific tax and national insurance rates, marital status, number of dependents, geographic location and property type plus other expenditure such as maintenance, nursery care, rental costs and tuition fees. The net effect of total gross income minus total modelled and non modelled expenditure provides the net disposable income and this is then measured against a stressed monthly payment calculated at the Seller Mortgage Variable Rate plus 1.5 per cent. presently 6.99 per cent. over the mortgage term required on a capital and interest method.

(n) *Borrower – Deposit*

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

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

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

Underwriting exception

On a case-by-case basis the Seller may have determined that, based upon compensating factors, an applicant that did not strictly qualify under its Lending Criteria at that time warranted an underwriting exception. Compensating factors may be considered including, but not limited to, a low LTV ratio, overall affordability position, high credit score and track record with the organisation. Any such exceptions would have been approved by one of a specifically refined group of suitably qualified and experienced delegated mandate holders.

Interest Only Loans

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

Insurance Policies

(a) *Borrower's Insurance*

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

(b) *Contingency and Block Insurance*

In addition to the requirement that each Borrower effect and maintain a property insurance policy in relation to any property upon which a Loan is secured, the Seller has, separately, taken out "failure to insure" protection insurance (the "**Contingency Insurance**") which is underwritten by Lloyd's of London for completions from 2010 onwards and Aviva for completions pre-2010. This Contingency Insurance is intended to cover circumstances where a Borrower has failed to effect buildings insurance in relation to any Property, a Borrower has arranged such insurance but this insurance has lapsed or been cancelled, where a Property is under-insured or where the insurer with whom the Borrower has taken out insurance in relation to a Property is unable to meet its obligations in relation to such insurance policy. In such circumstances, the Seller is insured against financial losses it incurs as a result of damage to a Property (provided that such damage is as a result of certain listed insured events) which is a direct result of the failure of the Borrower to recover the cost of such damage as a result of such Borrower's failure to adequately insure the Property as contemplated above.

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

(c) *Contingency Insurances*

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

- Forfeiture or irritancy of lease – this policy applies to Loans relating to a leasehold interest. The policy covers the cost of attempting to prevent a termination of a lease following the breach of its terms by a Borrower or, following a termination of the lease, the shortfall in recoveries as a result of such termination (the "**Lease Insurance**").

- Further Advance Indemnity – where the Mortgage in respect of a Loan is enforced following the making of a Further Advance this policy covers the shortfall in recoveries attributable to any adverse entries against the Property between the date of the original Loan and the date of the Further Advance which would have been discovered had a local search been undertaken at the time of the relevant Further Advance (the "**Further Advance Insurance**").

- Local Search Indemnity – this policy covers losses due to adverse entries in respect of local search and defective titles as at the date of the original advance under the Loan (the "**Local Search Insurance**").

Selection of the Portfolio

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

SALE OF THE PORTFOLIO UNDER THE MORTGAGE SALE AGREEMENT

Mortgage Sale Agreement

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

The Portfolio

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

(a) £447,000,282.43 as Initial Consideration; and

(b) an obligation of the Issuer to pay, at a later date, the Deferred Consideration in respect of the sale of the Portfolio.

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

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

Perfection Trigger Events

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

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

(a) the Seller becomes insolvent or is deemed unable to pay its debts as and when they fall due within the meaning of Section 123(1)(a) of the Insolvency Act (on the basis that the reference in such section to £750 was read as a reference to £10 million), Sections 123(1)(b), (d) and (e), and Section 123(1)(c) of the Insolvency Act (on the basis that the words "for a sum exceeding £10 million" were inserted after the words "extract registered bond" and "extract registered protest") or applies for or consents to or suffers the appointment of a liquidator or receiver or administrator or building society liquidator or building society special administrator or similar officer over the whole or any substantial part of its undertaking, property, assets or revenues or takes any proceeding under any law for a readjustment or deferment of its obligations or any part thereof or makes or enters into a general assignment or an arrangement or composition with or for the benefit of its creditors generally or a distress, execution or diligence or other process is enforced upon the whole or any substantial part of its undertaking or assets and is not discharged within 60 days); or

(b) an order is made or an effective resolution is passed for the winding-up of the Seller, except a winding-up for the purposes of or pursuant to an amalgamation or reconstruction (a) with or by any of its subsidiaries or (b) the terms of which have previously been approved by the Trustee in writing or by an Extraordinary Resolution of the holders of the Most Senior Class; or

(c) if the Seller (otherwise than for the purposes of such amalgamation or reconstruction as is referred to in paragraph (b) above), ceases or, through an authorised action of its board of directors, threatens to cease to carry on all or substantially all of its business or its mortgage administration business (other than in circumstances where such mortgage administration business is to be carried on by Homeloan Management Limited (a subsidiary of Skipton Building Society) and where Homeloan Management Limited becomes Administrator or a delegate of the Administrator under the Administration Agreement),

each of (a), (b) and (c) (except in the case of events occurring for the purposes of or pursuant to a Permitted Transfer as defined below) being a "**Seller Insolvency Event**" and a "**Perfection Trigger Event**".

"**Permitted Transfer**" means:

(i) an amalgamation of the Seller and one or more other building societies under section 93 of the Building Societies Act; or

(ii) a transfer by the Seller of all or substantially all of its engagements (being 90 per cent. or more of the Issuer's engagements including its obligations under the Trust Deed and the Agency Agreement) or (on terms which have previously been approved by an Extraordinary Resolution of the Most Senior Class of Noteholders) any smaller part of its engagements, in both cases under section 94 of the Building Societies Act; or

(iii) a transfer by the Seller of its business to a company under sections 97 to 102D of the Building Societies Act (including any transfer of business to a subsidiary of another mutual society pursuant to section 97 of the Building Societies Act (as modified by the Mutual Societies (Transfers) Order 2009 made under section 3 of the Building Societies (Funding) and Mutual Societies (Transfers) Act 2007) (the "**Funding and Mutual Societies Transfers Act**") or any other order made in the future by HM Treasury under section 3 of the Funding and Mutual Societies Transfers Act); or

(iv) an alteration in the status of the Seller by virtue of any statute or statutory provision which alters, or permits the alteration of, the status of building societies generally or building societies which meet specified criteria to that of an institution authorised under the FSMA or to a body which is regulated on a similar basis to an institution authorised under the FSMA; or

(v) any other reconstruction or amalgamation or transfer, in each case the terms of which have previously been approved by an Extraordinary Resolution of the Most Senior Class of Noteholders.

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

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

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

Representations and Warranties

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

(a) The particulars of the Loans set out in the Mortgage Sale Agreement and each Scottish Declaration of Trust are true, complete and accurate in all material respects.

(b) Each Loan was originated by the Seller as principal in the ordinary course of business and was originated, and is denominated, in Pounds Sterling.

(c) No Loan sold by the Seller had, at the time of such sale, a Current Balance of more than £1,000,000.

(d) Each Loan sold by the Seller was made no earlier than 1 June 2001 and each Loan in the Portfolio matures for repayment no later than three years prior to the Final Maturity Date for the Notes.

(e) No lien or right of set-off or counterclaim or other right of deduction has arisen between any Borrower and the Seller or any other party which would entitle such Borrower to reduce the amount of any payment otherwise due under the Loan.

(f) Prior to the making of the Initial Advance and any further advance in respect of each Loan prior to the Closing Date, the Lending Criteria of the Seller and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions as are made on a case by case basis and which would be acceptable to a Prudent Mortgage Lender.

(g) Each Loan was made and its Related Security taken or received on the terms of the Standard Documentation of the Seller without any material variation thereto and nothing has been done subsequently to add to, lessen, modify or otherwise vary the express provisions of any of the same in any material respect subject only to such exceptions as are made on a case by case basis and which would be acceptable to a Prudent Mortgage Lender.

(h) The brochures, application forms, offers, offer conditions and marketing material, if any, distributed by the Seller to the Borrower when offering a Loan to a Borrower:

   (i) do not conflict in any material respect with the terms applicable to the relevant Loan and its Related Security at the time that the Loan was entered into; and

   (ii) do not conflict with, and would not prohibit or otherwise limit the terms of, the Transaction Documents or the matters contemplated thereby.

(i) Each Borrower has made at least one Monthly Payment.

(j) Other than with respect to Monthly Payments, the Borrower is not, and has not been, since the date of the relevant Mortgage and so far as the Seller is aware, in material breach of any obligation owed in respect of the relevant Loan or under the Related Security and accordingly no steps have been taken by the Seller to enforce any Related Security and the Seller is not aware of any fraud in relation to any Loan or Related Security.

(k) The total amount of Arrears of Interest or principal, together with any fees, commissions and premiums payable at the same time as such interest payment or principal repayment, on any Loan is not as at the Cut-Off Date (or, in respect of any Substitute Loan, the Substitution Date) in respect of such Loan more than the Monthly Payment payable in respect of such Loan in respect of the month in which such date falls.

(l) The Current Balance on each Loan and its Related Security constitutes a valid debt due to the Seller from the relevant Borrower and the terms of each Loan and its Related Security constitute legal, valid, binding and enforceable obligations of the Borrower and each Loan and its Related Security is non-cancellable (except that (i) the Seller makes no representation as to the fairness or otherwise of terms which relate to its ability to vary the rate of interest; (ii) enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the courts' discretion in relation to equitable remedies and, for the avoidance of doubt, such laws include but are not limited to, the Unfair Terms in Consumer Contracts Regulations 1994, the Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Contract Terms Act 1977; and (iii) this representation shall not apply in respect of any early repayment charges or redemption fees).

(m) Interest on each Loan is charged and paid by the relevant Borrower in accordance with the provisions of the Standard Documentation of the Seller and is payable monthly in advance.

(n) in relation to any Loan in respect of which interest is calculated or will be calculated by reference to the Issuer Variable Rate, the Issuer or, following the service of an Enforcement Notice, the Trustee has a right (but not the obligation) to set the Issuer Variable Rate at any time and from time to time and such Issuer Variable Rate is and will be binding on, and enforceable against, the relevant Borrower pursuant to the terms and conditions applicable to the relevant Loan and/or the Mortgage (the "**Mortgage Terms**") (except that (i) the Seller makes no representation as to the fairness or otherwise of terms which relate to its ability to vary the rate of interest; (ii) enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the courts' discretion in relation to equitable remedies and, for the avoidance of doubt, such laws include but are not limited to, the Unfair Terms in Consumer Contracts Regulations 1994, the Unfair Terms in Consumer Contracts Regulations 1999 and the Unfair Contract Terms Act 1977; and (iii) this representation shall not apply in respect of any early repayment charges or redemption fees).

(o) No agreement for any Loan or variation of such agreement is or includes a regulated consumer credit agreement (as defined in Section 8 of the CCA) or constitutes any other agreement regulated or partly regulated by the CCA (other than Sections 140A to 140D of the CCA) or, to the extent that it is so regulated or partly regulated, all the requirements of the CCA have been complied with in all material respects (or to the extent of any non-compliance, such non-compliance would not be such as to prevent enforcement of that Loan or any of its material terms by the Seller).

(p) All of the Borrowers are individuals and were aged 18 years or older at the date of entering into the relevant Loan and its Related Security and the identity of each Borrower has been verified by the Seller in accordance with procedures which would be acceptable to a Prudent Mortgage Lender.

(q) The whole of the Current Balance on each Loan and all further advances made prior to the Closing Date and interest, fees, costs, expenses and any other amounts payable under or in respect of such Loan are secured by a Mortgage over a residential property.

(r) Each Mortgage constitutes a valid and subsisting first ranking charge by way of legal mortgage (in relation to the English Loans) or first priority standard security (in relation to the Scottish Loans) over the relevant Mortgaged Property.

(s) Each Mortgage has first priority for the whole of the Current Balance on the Loan and interest on such Current Balance and all fees, costs, expenses and other amounts payable under or in respect of such Loan or Mortgage.

(t) Neither the Seller nor its assignees are under an obligation to make further amounts available or to release retentions or to pay fees or other sums relating to any Loan or its Related Security to any Borrower.

(u) All of the Mortgaged Properties are residential properties situated in England, Wales or Scotland.

(v) Each Mortgaged Property is either freehold, leasehold, commonhold or heritable and if a Mortgaged Property is leasehold, written notice has been given to the landlord of the creation of the relevant Mortgage.

(w) In respect of each Loan secured on leasehold Mortgaged Property, the relevant leasehold interest had, as at the date when the Loan was originated, an unexpired term left to run of not less than 30 years after the maturity of the relevant Loan.

(x) Every person who, at the date upon which a Mortgage over property situated in England and Wales was granted, and was in or about to be in actual occupation of the relevant property, other than: (i) in the case of a Loan originated for the purpose of a purchase, where such person is under the age of 17; (ii) in the case of a Loan originated on or after 7 May 2003 for the purpose of a remortgage under the "Skipton Home Conveyancing Scheme", where such person is a child of a Borrower under the age of 25; (iii) in the case of a Loan originated prior to 7 May 2003 for the purpose or a remortgage under the "Skipton Home Conveyancing Scheme", where such person is under the age of 17; (iv) in the case of a Loan originated for the purpose of a remortgage not under the "Skipton Home Conveyancing Scheme", where such person is under the age of 17; (v) where the Borrowers are joint borrowers acting in their capacity as trustees; or (vi) where the Seller has acted as a Prudent Mortgage Lender in respect of owner occupied mortgage loans in making such Loan, is either named as a Borrower or has signed a deed of consent in the form of the pro forma contained in the Standard Documentation and, in relation to each Mortgage over property situated in Scotland, all necessary MH/CP Documentation has been obtained so as to ensure that neither the relevant property nor the relevant Mortgage is subject to or affected by any statutory right of occupancy.

(y) Each Borrower has a good and marketable title to the Mortgaged Property free from any encumbrance which:

(i) would materially adversely affect such title; and

(ii) a Prudent Mortgage Lender would regard as unacceptable for security purposes.

(z) Not more than 6 months prior to the granting of each Mortgage, the Seller received a Valuation Report from a Valuer on the relevant Mortgaged Property (or such other form of valuation as would be acceptable to a Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Prudent Mortgage Lender.

(aa) Prior to the inception of each Mortgage, the Seller:

(i) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant Mortgaged Property and to undertake such other searches, investigation, enquiries and other actions on behalf of the Seller as are set out in the instructions which the Seller issued to the relevant solicitor, licensed conveyancer or qualified conveyancer as are set out in the case of English Loans in the CML's Lenders' Handbook for England and Wales and, in the case of Scottish Loans, the CML's Lenders' Handbook for Scotland (or such comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place), subject only to such variations as would have been acceptable to a Prudent Mortgage Lender at the relevant time; and

(ii) received a report on title from the solicitor or licensed conveyancer or (in Scotland) qualified conveyancer in paragraph (i) above, relating to such Mortgaged Property the contents of which were such as would have been acceptable to a Prudent Mortgage Lender at that time.

(bb) Each Mortgaged Property was at the time of inception of the Mortgage insured to an amount not less than the full reinstatement cost as determined by the relevant valuer under:

(i) a Buildings Insurance Policy arranged by the Borrower in accordance with the Mortgage Conditions; or

(ii) a Buildings Insurance Policy arranged by the Seller; or

(iii) with respect to leasehold Mortgaged Properties, a Buildings Insurance Policy arranged by the relevant landlord, and in all cases: (A) against risks usually covered by a comprehensive building insurance policy; and (B) the Seller has received no notice from the Borrower that any Mortgaged Property has ceased to be insured (other than where such Mortgaged Property is then insured under the Seller's Block Policy).

(cc) No act, event or circumstance has occurred which would adversely affect the Block Policy or entitle the insurers to refuse to make payment thereunder or to reduce the amount payable in respect of any claim thereunder.

(dd) All eligible claims, if any, under the Block Policy have been paid in full within a reasonable time of the date of submission of the claim.

(ee) The Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits agreed to be sold and/or assigned by the Seller to the Issuer free and clear of all Security, claims and equities (including, without limitation, rights of set-off or counterclaim).

(ff) All steps necessary to perfect the Seller's title to the Loans and the Related Security were duly taken at the appropriate time or are in the process of being taken, in each case (where relevant) within any applicable priority periods or time limits for registration with all due diligence and without undue delay.

(gg) Save for Title Deeds held at the Land Registry or Registers of Scotland (as applicable) and Title Deeds existing in dematerialised forms, Title Deeds relating to each of the Loans and their Related Security are held by, or are under the control of the Seller, the Administrator or the Seller's solicitors, licensed conveyancers or (in Scotland) qualified conveyancers to the order of the Seller.

(hh) Neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer or assignment or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Loans and their Related Security and the Seller may freely assign or otherwise transfer its interests therein without breaching any term or condition applying to any of them.

(ii) The Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan, Mortgage or its Related Security, other than waivers and acquiescence such as a Prudent Mortgage Lender might make.

(jj) The Issuer will not have any liability for costs or fees payable by the Seller in connection with the making of the Loan or the granting of the Related Security.

(kk) The Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all transactions, payments, receipts, proceedings and notices relating to such Loan and all such accounts, books and records are up to date and in the possession of the Seller or held to its order.

(ll) Neither the Seller nor, as far as the Seller is aware, any of its agents has received written notice of any litigation or dispute (subsisting, threatened or pending) in respect of any Borrower, a Mortgaged Property, Loan, Related Security or Insurance Policy which (if adversely determined) might have a material adverse effect on the value of any Loan.

(mm) There are no authorisations, approvals, licences or consents required as appropriate for the Seller to enter into or perform its obligations under the Mortgage Sale Agreement to render the Mortgage Sale Agreement legal, valid, binding, enforceable and admissible in evidence and, with the exception of sending notification of assignment to the Borrowers, all formal approvals, consents and other steps necessary to permit a legal transfer of the Loans and their Related Security to be sold under the Mortgage Sale Agreement have been obtained or taken.

(nn) To the best knowledge and belief of the Seller, no corporate action has been taken or is pending, no other steps have been taken and no legal proceedings have been commenced or are threatened or are pending for (i) the winding-up, liquidation, dissolution, administration or reorganisation of the Seller, (ii) the Seller to enter into any composition or arrangement with its creditors generally or (iii) the appointment of a receiver, administrative receiver, trustee or other similar officer in respect of the Seller or any of its property, undertaking or assets, and no documents have been filed with the court for the appointment of an administrator and no notice of intention to appoint an administrator has been served, and no steps have been taken by the Seller with a view to obtaining a moratorium in respect of any indebtedness of the Seller or for the purpose of proposing a company voluntary arrangement, and no event equivalent to any of the foregoing has occurred in or under the laws of any relevant jurisdiction applicable to the Seller.

(oo) The Seller is and has been in material compliance with the requirements of MCOB in so far as they apply to any of the Loans, Related Security or Insurance Policies at all relevant times, and the Seller has at all relevant times held all authorisations, approvals, licenses, consents and orders required by it under the FSMA in connection with the Loans, Related Security and Insurance Policies.

(pp) To the extent that any Loan and its Related Security and any guarantee in relation to that Loan is subject to UTCCR no official proceedings have been taken by the OFT or by a qualifying body as defined in the 1999 Regulations against the Seller, pursuant to the UTCCR or otherwise which might prevent or restrict the use in such agreement of any material term or the enforcement of any such term.

(qq) No action has been taken by any official body in relation to any Loan (whether on its own or taken together with any related agreement) under which it is alleged that such Loan gives rise to an unfair relationship under Sections 140A to 140D of the CCA.

(rr) No Loan is a second charge loan, a right to buy loan, a family purchase loan, a tenant purchase loan, a U.S.$ LIBOR loan, a buy to let loan, a guarantor loan, a construction loan, a consent to let loan, a commercial loan, a loan to a self-certified borrower or a loan which would allow overpayment and subsequent re-drawing of such overpayments without prior consent from the Seller (an "**Excluded Loan**").

(ss) The Loans sold by the Seller to the Issuer pursuant to the Mortgage Sale Agreement are "financial assets" as defined in International Accounting Standard 32 (IAS 32).

(tt) No Related Security or Ancillary Right in respect of a Loan is stock or a marketable security (as such terms are defined for the purposes of section 122 of the Stamp Act 1891), a chargeable security (as such term is defined for the purposes of section 99 of the Finance Act 1986) or a "chargeable interest" (as such term is defined for the purposes of section 48 of the Finance Act 2003).

(uu) No Loan has a fixed term reversion date falling later than 20 March 2025.

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

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

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

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

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

Representations will also be given by the Seller in respect of Further Advances and Product Switches on the last calendar day in each month during which an Advance Date and/or a Switch Date, as applicable, has occurred.

Repurchase by the Seller

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

If any of the representations or warranties given by the Seller are materially breached in respect of any Loan and/or its Related Security or any representation or warranty proves to be materially untrue as at the Closing Date and this (where capable of remedy) has not been remedied within 30 Business Days of receipt by the Seller of notice from the Issuer in relation thereto, the Seller will, upon receipt of a further notice from the Issuer, purchase such Loan and its Related Security from the Issuer on the last day of the calendar month during which such notice was given. Consideration for such repurchase shall be provided on the date falling 5 Business Days after the last day of the calendar month during which the Seller receives such further notice and shall be deemed satisfied by payment in cash and/or the substitution of equivalent Loan(s) (the "**Substitute Loans**") such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

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

The Seller must, pursuant to the terms of the Mortgage Sale Agreement, notify the Issuer and (following the service of an Enforcement Notice) the Trustee of any breach of a warranty as soon as the Seller becomes aware of such breach.

Further Advances, Product Switches and Substitution

<u>(a) Further Advances</u>

Under the Mortgage Sale Agreement, the Issuer has agreed that the Seller or the Administrator (on behalf of the Seller) may make an offer to any Borrower for a Further Advance. If a Borrower requests, or the Seller or the Administrator (on behalf of the Seller) offers, a Further Advance under a Loan, the Seller or the Administrator (on behalf of the Seller) will be solely responsible for offering, documenting and funding that Further Advance. Any Further Advance made to a Borrower will be purchased by the Issuer on the date that the Further Advance is made by the Seller to the relevant Borrower (the "**Advance Date**").

A Further Advance will be purchased by the Issuer on the relevant Advance Date, and the Seller must, in relation to the Loan which is subject to the Further Advance, give the representations and warranties in respect of Further Advances set out in the Mortgage Sale Agreement on the last calendar day in each month during which an Advance Date has occurred. Further, the Issuer must pay the Further Advance Purchase Price to the Seller on the date falling 5 Business Days after the last day of the calendar month in which the Further Advance is made, to the extent that the Issuer has sufficient Principal Receipts. The purchase price for the relevant Further Advance shall be an amount equal to the Current Balance of the Further Advance (the "**Further Advance Purchase Price**") and will be paid from Principal Receipts.

Notice (a "**Notice of Non-Satisfaction of Further Advance Conditions**") must be given by the Seller to the Issuer if the Seller has identified beyond a reasonable doubt that any of the following conditions (the "**Further Advance Conditions**") were not satisfied on the last calendar day of the month during which the Further Advance was made:

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

(b) no Event of Default has occurred and is continuing;

(c) no Seller Insolvency Event has occurred;

(d) if the Seller's short term issuer default rating is below F1 by Fitch or the Seller's short term unsecured, unsubordinated and unguaranteed debt rating is below P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency), the Seller has provided to the Issuer and the Trustee a solvency certificate (in form and substance acceptable to the Trustee) signed by an authorised signatory of the Seller dated no earlier than the day falling three months prior to the relevant Advance Date;

(e) the purchase of the Further Advance will not result in the aggregate principal balance outstanding of all Further Advances purchased by the Issuer exceeding 12.5 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date;

(f) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;

(g) each Loan and its Related Security which is the subject of the Further Advance complies, as at the last calendar day in each month during which an Advance Date has occurred, with the representations contained in the Mortgage Sale Agreement required to be given on such date;

(h) the original weighted average LTV ratio (calculated by dividing debt previously advanced (including any Further Advances made) by the valuation figure contained in a Valuation Report made at the time of the latest Loan advance) of the Loans in the Portfolio (including the relevant Further Advances) does not exceed 77.5 per cent.;

(i) the current LTV ratio (as measured by the Current Balance of such Loan plus the relevant Further Advance divided by the latest valuation) is less than 95 per cent.;

(j) the outstanding Current Balance of any Loans in the Portfolio (including any Further Advance) with an interest-only part does not exceed 40 per cent. of the aggregate Current Balance of the Loans in the Portfolio;

(k) the General Reserve Fund is at the General Reserve Required Amount; and

(l) if required, each Loan which is the subject of a Further Advance will be included in the calculation of the notional amount in respect of the Fixed Rate Swap Transaction as at the start of the calendar month immediately following the date on which the Further Advance is added to the Portfolio, (subject to a cap as set out in the Swap Agreement to provide flexibility for Further Advances, Product Switches and Substitutions) provided that this condition shall not apply in respect of any Loan which is not included in the notional amount of the Fixed Rate Swap Transaction for the calculation period during which such Further Advance is added to the Portfolio.

If by close of business on the last calendar day of the month during which a Further Advance has been given:

(a) a Notice of Non-Satisfaction of Further Advance Conditions has been given by the Seller to the Issuer and has yet to be revoked by the Seller; or

(b) there are insufficient amounts available to the Issuer to pay the Further Advance Purchase Price,

then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on the date falling 5 Business Days after the last day of the calendar month in which the Further Advance is made. Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

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

(a) any of the representations or warranties made by it on the last calendar day in each month during which an Advance Date has occurred in respect of any Loan originated by it subject to a Further Advance was materially untrue as at such date; or

(b) any of the Further Advance Conditions was in fact not satisfied in relation to a Further Advance on the last calendar day of the month in which the Advance Date occurred:

   (i) despite no Notice of Non-Satisfaction of Further Advance Conditions having been given by the Seller to the Issuer no later than one Business Day prior to the last day of the relevant calendar month; or

   (ii) where a Notice of Non-Satisfaction of Further Advance Conditions was given but was revoked by the Seller by the Business Day prior to the last day of such calendar month,

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

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

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

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

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

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

<u>(b) Product Switches</u>

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

1. an addition or a release of a party to the Loan;

2. any variation agreed with a Borrower to control or manage arrears on the Loan;

3. any variation which extends the maturity date of the Loan up to the Interest Payment Date falling in March 2044;

4. any variation imposed by statute; and

5. any variation of a Loan from Repayment Loan to an Interest Only Loan or *vice versa*,

each a "**Permitted Variation**".

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

The Seller or the Administrator (on behalf of the Seller) may offer a Borrower (and the Borrower may accept), or a Borrower may request, a Product Switch. If a Borrower requests, or the Seller or the Administrator (on behalf of the Seller) offers, a Product Switch under a Loan, the Seller or the

Administrator (on behalf of the Seller) will be solely responsible for offering and documenting that Product Switch and such Product Switch shall be effective from the date stated in the relevant request or offer (the "**Switch Date**").

Any Loan which has been subject to a Product Switch will remain in the Portfolio unless the Seller has given notice (a "**Notice of Non-Satisfaction of Product Switch Conditions**") to the Issuer on the last calendar day of the month during which the relevant Product Switch is made and such notice has not been revoked prior to such date.

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

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

(b) no Event of Default has occurred and is continuing;

(c) no Seller Insolvency Event has occurred;

(d) if the Seller's short term issuer default rating is below F1 by Fitch or the Seller's short term unsecured, unsubordinated and unguaranteed debt rating is below P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency), the Seller has provided to the Issuer and the Trustee a solvency certificate (in form and substance acceptable to the Trustee) signed by an authorised signatory of the Seller dated no earlier than the day falling three months prior to the relevant Switch Date;

(e) the Product Switch will be effected by such means as would be adopted by the Seller, for the purpose of ensuring the validity and priority of the Loan, were such switch in respect of a loan advanced by the Seller which is not part of the Portfolio;

(f) the Product Switch will be similar to switches offered to the Seller's mortgage borrowers whose mortgage loans do not form part of the Portfolio;

(g) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;

(h) each Loan and its Related Security which is the subject of a Product Switch complies with the representations contained in the Mortgage Sale Agreement required to be given on the last calendar day of the month during which the relevant Product Switch is made;

(i) the outstanding Current Balance of any Loans in the Portfolio (including any Product Switch) with an interest only part does not exceed 40 per cent. of the aggregate Current Balance of the Loans in the Portfolio; and

(j) the General Reserve Fund is at the General Reserve Required Amount; and

(k) if required and where the Loan which is the subject of a Product Switch is or becomes subject to a fixed interest rate, such Loan will be included in the calculation of the notional amount in respect of the Fixed Rate Swap Transaction as at the start of the calendar month immediately following the date on which such Product Switch is made (subject to a cap as set out in the Swap Agreement to provide flexibility for Further Advances, Product Switches and Substitutions).

If by close of business on the last calendar day of the month during which a Product Switch has been effected no Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the Issuer or has been so given but subsequently revoked by the Seller, and the Loan which is the subject of a Product Switch remains in the Portfolio, the Seller must, in relation to the relevant Loan, give the representations and warranties in respect of Product Switches set out in the Mortgage Sale Agreement as at the last calendar day of the month during which a Switch Date occurred.

If by close of business on the last calendar day of the month during which a Product Switch has been effected a Notice of Non-Satisfaction of Product Switch Conditions has been given by the Seller to the

Issuer and has not yet to be revoked by the Seller, then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on the date being 5 Business Days after the last day of the calendar month in which the Switch Date falls. Consideration for such repurchase shall be provided by payment in cash and/or the substitution of Substitute Loan(s) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loans subject to repurchase.

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

(a) any representation or warranty made by it as at the last day of the calendar month in which the Switch Date falls in respect of any of its Loans which is subject to a Product Switch was materially untrue as at the date it was made; or

(b) any of the Product Switch Conditions were in fact not satisfied on the last day of the calendar month in which the Switch Date falls:

    (i) despite no Notice of Non-Satisfaction of Product Switch Conditions being given by the Seller to the Issuer on the last calendar day of the month during which the relevant Product Switch was effected; or

    (ii) where a Notice of Non-Satisfaction of Product Switch Conditions was given but was revoked by the Seller prior to close of business on the last calendar day of the month during which the relevant Product Switch was effected,

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

Where in relation to a proposed Further Advance or a Product Switch, the Seller or the Administrator (on behalf of the Seller) proposes making a Further Advance or Product Switch (as applicable), the Seller may, despite the Seller not having given (in the case of the Further Advance) a Notice of Non-Satisfaction of Further Advance Conditions or (in the case of the Product Switch) a Notice of Non-Satisfaction of Product Switch Conditions (as applicable) to the Issuer, as alternatives to selling the Further Advance to the Issuer or the Loan which is the subject of a Product Switch remaining in the Portfolio (as applicable), elect to repurchase the relevant Loan and its Related Security from the Issuer on the date falling 5 Business Days after the last day of the calendar month in which the Advance Date or the Switch Date, (as applicable) falls for a consideration equal to its Current Balance. Any such election must be made prior to the last day of the calendar month in which the relevant Advance Date or Switch Date (as applicable) falls. The Seller must pay to the Issuer the consideration for the relevant Loan and its Related Security which is the subject of a Further Advance or a Product Switch (as applicable) no later than 5 Business Days after the last day of the calendar month in which such Further Advance or Product Switch is made.

<u>(c) Substitute Loans</u>

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

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

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

(b) no Event of Default has occurred and is continuing;

(c) no Seller Insolvency Event has occurred;

(d) if the Seller's short term issuer default rating is below F1 by Fitch or the Seller's short term unsecured, unsubordinated and unguaranteed debt rating is below P-1 by Moody's (or such other lower short term rating acceptable to the relevant Rating Agency), the Seller has provided to the Issuer and the Trustee a solvency certificate (in form and substance acceptable to the Trustee) signed by an authorised signatory of the Seller dated no earlier than the day falling three months prior to the relevant Substitution Date;

(e) the Substitute Loan and Related Security constitutes the same ranking and priority security over a Property as the security provided in respect of the relevant repurchased Loan;

(f) the substitution will not result in the Loan which is assigned being an Excluded Loan; and

(g) if required and where such Substitute Loan is subject to a fixed rate of interest, such Substitute Loan will be included in the calculation of the notional amount in respect of the Fixed Rate Swap Transaction as at the start of the calendar month immediately following the date on which such Substitute Loan is added to the Portfolio (subject to a cap as set out in the Swap Agreement to provide flexibility for Further Advances, Product Switches and Substitutions).

If by close of business on the Business Day prior to the Substitution Date no Notice of Non-Satisfaction of Substitution Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller, the Seller must, in relation to the relevant Loan, give the representations and warranties in respect of Substitute Loans set out in the Mortgage Sale Agreement as at the relevant Substitution Date. Where the Seller has served a Notice of Non-Satisfaction of Substitution Conditions on the Issuer which has not been revoked by close of business on the Business Day prior to the date that the Substitution is to be made, the Seller shall not be entitled to sell and assign/transfer the Substitute Loan(s) to the Issuer.

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

(a) any representation or warranty made on the relevant Substitution Date by it in respect of any of its Substitute Loans was materially untrue as at the Substitution; or

(b) any Substitution Condition was in fact not satisfied on the Substitution Date for a Substitute Loan:

    (i) despite no Notice of Non-Satisfaction of Substitution Conditions being given by the Seller by close of business on the Business Day prior to the Substitution Date; or

    (ii) where a Notice of Non-Satisfaction of Substitution Conditions was given but was revoked by the Seller by close of business on the Business Day prior to the Substitution Date,

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

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

Governing Law

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

STATISTICAL INFORMATION ON THE PORTFOLIO

The statistical and other information contained in this section has been compiled by reference to the Provisional Portfolio of £564,074,793 as at 31 January 2014 (the "**Cut-off Date**"). The Portfolio has been randomly selected from the Provisional Portfolio. A Loan will be removed from the Provisional Portfolio if in the period from (and including) the Cut-off Date to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not or would not comply with the representations and warranties given by the Seller in the Mortgage Sale Agreement on the Closing Date. The Provisional Portfolio was determined on or prior to the Cut-off Date by the Seller in accordance with the procedures as described in "*Selection of the Portfolio*" above.

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

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

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

Total outstanding current balance	£564,074,793
Number of Loans	5,480
Number of properties	4,745
Average current loan balance	£118,878
Weighted average current LTV (non-indexed)	65.07%
Weighted average current LTV (indexed)	62.82%
Weighted average current seasoning	2.65 years
Weighted average current interest rate	3.89%
Weighted average original LTV	69.29%
Weighted average remaining term	18.90 years

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

The following table shows the range of outstanding Current Balances of mortgage accounts in the Provisional Portfolio as at the Cut-off Date and the date of origination. The figures in the following tables have been calculated on the basis of the number of Properties in the Provisional Portfolio. For the purposes of the second table below, "Original Balance" refers to the amount outstanding on a given Loan as at the time of the latest loan advance.

Current Loan Balance	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
0 - 15,000	805,706	0.14%	95	2.00%
15,001 - 20,000	1,074,004	0.19%	61	1.29%
20,001 - 30,000	3,244,632	0.58%	129	2.72%
30,001 - 40,000	6,839,148	1.21%	197	4.15%
40,001 - 50,000	8,103,844	1.44%	180	3.79%
50,001 - 60,000	16,967,440	3.01%	310	6.53%
60,001 - 70,000	22,085,604	3.92%	339	7.14%
70,001 - 80,000	16,373,598	2.90%	219	4.62%
80,001 - 90,000	19,009,010	3.37%	224	4.72%
90,001 - 100,000	30,897,853	5.48%	325	6.85%
100,001 - 125,000	96,917,969	17.18%	866	18.25%
125,001 - 150,000	82,888,511	14.69%	608	12.81%
150,001 - 200,000	126,670,764	22.46%	739	15.57%
200,001 - 250,000	46,359,825	8.22%	210	4.43%
250,001 - 500,000	70,391,736	12.48%	218	4.59%
500,001 - 750,000	12,126,988	2.15%	21	0.44%
Over 750,000	3,318,161	0.59%	4	0.08%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

Min:	933
Max:	926,355
Average:	118,878

Original Loan Balance	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
0 - 15,000	137,748	0.02%	14	0.30%
15,001 - 20,000	334,797	0.06%	23	0.48%
20,001 - 30,000	1,396,127	0.25%	71	1.50%
30,001 - 40,000	4,025,732	0.71%	141	2.97%
40,001 - 50,000	5,822,817	1.03%	163	3.44%
50,001 - 60,000	11,580,363	2.05%	242	5.10%
60,001 - 70,000	17,365,704	3.08%	302	6.36%
70,001 - 80,000	17,867,801	3.17%	280	5.90%
80,001 - 90,000	18,164,829	3.22%	244	5.14%
90,001 - 100,000	27,070,537	4.80%	314	6.62%
100,001 - 125,000	88,723,593	15.73%	858	18.08%
125,001 - 150,000	91,898,020	16.29%	728	15.34%
150,001 - 200,000	130,037,676	23.05%	809	17.05%
200,001 - 250,000	55,388,927	9.82%	271	5.71%
250,001 - 500,000	79,519,415	14.10%	260	5.48%
500,001 - 750,000	10,650,595	1.89%	19	0.40%
Over 750,000	4,090,112	0.73%	6	0.13%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

Min:	4,572
Max:	2,406,709
Average:	130,976

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

The following table shows the range of LTV ratios, which express the Current Balance of the aggregate of Loans in a mortgage account in the Provisional Portfolio as at the Cut-off Date or the date of origination of the Loan, as applicable divided by the valuation as at origination of the Loan or the most recent valuation thereof (including indexed valuations where applicable — see "*The Loans — Lending Criteria — Valuations*"). For the avoidance of doubt, there have been no revaluations for the purposes of the issuance of the Notes. The figures in the following tables have been calculated on the basis of the number of Properties in the Provisional Portfolio. For the purposes of the third table below, "Original LTV" refers to the amount outstanding on a given Loan as at the time of the latest loan advance.

Current LTV (non-indexed)	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
0% - 40%	72,582,238	12.87%	1,110	23.39%
40.01% - 50%	53,223,791	9.44%	488	10.28%
50.01% - 60%	74,795,110	13.26%	582	12.27%
60.01% - 70%	76,481,902	13.56%	595	12.54%
70.01% - 75%	76,639,677	13.59%	550	11.59%
75.01% - 80%	50,838,199	9.01%	356	7.50%
80.01% - 85%	79,488,976	14.09%	518	10.92%
85.01% - 90%	71,072,366	12.60%	476	10.03%
90.01% - 95%	8,952,535	1.59%	70	1.48%
Over 95%	-	0.00%	-	0.00%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

Min:	0.18%
Max:	93.62%
Weighted Average:	65.07%

Current LTV (indexed)	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
0% - 40%	81,124,005	14.38%	1,180	24.87%
40.01% - 50%	59,217,808	10.50%	510	10.75%
50.01% - 60%	73,565,156	13.04%	570	12.01%
60.01% - 70%	104,049,977	18.45%	799	16.84%
70.01% - 75%	64,361,740	11.41%	458	9.65%
75.01% - 80%	71,847,815	12.74%	491	10.35%
80.01% - 85%	63,591,382	11.27%	419	8.83%
85.01% - 90%	37,425,764	6.63%	260	5.48%
90.01% - 95%	8,891,145	1.58%	58	1.22%
Over 95%	-	0.00%	-	0.00%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

Min:	0.20%
Max:	94.74%
Weighted Average:	62.82%

Original LTV	Current			
	Value (£)	% Portfolio	Number	% Portfolio
0% - 40%	51,869,482	9.20%	768	16.19%
40.01% - 50%	44,613,487	7.91%	445	9.38%
50.01% - 60%	76,174,164	13.50%	617	13.00%
60.01% - 70%	53,998,543	9.57%	491	10.35%
70.01% - 75%	96,505,672	17.11%	712	15.01%
75.01% - 80%	49,075,027	8.70%	361	7.61%
80.01% - 85%	87,322,752	15.48%	591	12.46%
85.01% - 90%	92,821,180	16.46%	664	13.99%
90.01% - 95%	11,694,485	2.07%	96	2.02%
Over 95%	-	0.00%	-	0.00%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

Min:	3.31%
Max:	95.00%
Weighted Average:	69.29%

3. Repayment Type

The following table shows the repayment terms for the Loans in the mortgage accounts in the Provisional Portfolio as at the Cut-off Date. For a description of the various repayment terms the Seller offers, see "*The Loans — Characteristics of the Loans — Repayment Terms*". The figures in the following table have been calculated on the basis of the Loans in the Provisional Portfolio (including Further Advances).

Repayment Type	Current			
	Value (£)	% Portfolio	Number	% Portfolio
Repayment	424,090,318	75.18%	4,245	77.46%
Interest Only	97,162,387	17.23%	850	15.51%
Part & Part	42,822,087	7.59%	385	7.03%
Total	**564,074,793**	**100%**	**5,480**	**100%**

- Data shown at loan level

4. Geographical Distribution of Properties

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

Regional Distribution	Current			
	Value (£)	% Portfolio	Number	% Portfolio
East Anglia	36,367,059	6.45%	317	6.68%
East Midlands	42,855,574	7.60%	406	8.56%
Greater London	52,356,192	9.28%	270	5.69%
North	26,896,582	4.77%	280	5.90%
North West	61,794,473	10.96%	662	13.95%
Scotland	41,380,223	7.34%	355	7.48%
South East	126,938,998	22.50%	840	17.70%
South West	56,256,730	9.97%	470	9.91%
Wales	12,419,585	2.20%	118	2.49%
West Midlands	38,435,157	6.81%	348	7.33%
Yorkshire & Humberside	68,374,220	12.12%	679	14.31%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

5. **Interest Rate Type**

The following table shows the distribution of Loan products in the Provisional Portfolio as at the Cut-off Date. The figures in the following table have been calculated on the basis of the Loans in the Provisional Portfolio (including Further Advances).

Interest Payment Type	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
Fixed	345,231,356	61.20%	3,102	56.61%
Capped	-	0.00%	-	0.00%
Discount	23,128,363	4.10%	209	3.81%
SVR	48,504,327	8.60%	812	14.82%
Tracker	147,210,746	26.10%	1,357	24.76%
Total	**564,074,793**	**100%**	**5,480**	**100%**

- Data shown at loan level

6. **Seasoning of Loans**

The following table shows the number of months since the date of origination of the Initial Advance in respect of a Loan in the Provisional Portfolio as at the Cut-off Date. The figures in the following table have been calculated on the basis of the Loans in the Provisional Portfolio (including Further Advances).

Seasoning (years)	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
0 – 1.00	150,648,336	26.71%	1,211	22.10%
1.01 – 2.00	166,392,552	29.50%	1,501	27.39%
2.01 – 3.00	127,945,490	22.68%	1,041	19.00%
3.01 – 4.00	8,136,943	1.44%	106	1.93%
4.01 – 5.00	3,592,641	0.64%	64	1.17%
5.01 – 6.00	17,760,927	3.15%	222	4.05%
6.01 – 7.00	34,135,361	6.05%	410	7.48%
7.01 – 8.00	24,262,612	4.30%	389	7.10%
8.01 – 9.00	13,458,232	2.39%	227	4.14%
9.01 – 10.00	7,562,779	1.34%	137	2.50%
Over 10 years	10,178,919	1.80%	172	3.14%
	564,074,793	**100%**	**5,480**	**100%**

- Data shown at loan level

Min:	-
Max:	12.59
Weighted Average:	2.65

7. **Years to Maturity**

The following table shows the number of years until the maturity of the Loans in the Provisional Portfolio. The figures in the following table have been calculated on the basis of the Loans in the Provisional Portfolio (including Further Advances).

Years to Maturity	**Current**			
	Value (£)	**% Portfolio**	**Number**	**% Portfolio**
0 - 5.00	15,588,751	2.76%	333	6.08%
5.01 - 10.00	55,186,081	9.78%	756	13.80%
10.01 - 15.00	92,446,422	16.39%	1,103	20.13%
15.01 - 20.00	132,918,977	23.56%	1,308	23.87%
20.01 - 25.00	168,454,193	29.86%	1,245	22.72%
25+	99,480,369	17.64%	735	13.41%
Total	**564,074,793**	**100%**	**5,480**	**100%**

- Data shown at loan level

Min:	0.10
Max:	30.00
Weighted Average:	18.90

8. **Loan Purpose**

The following table shows the purpose of the Loans in the Provisional Portfolio. The figures in the following table have been calculated on the basis of the number of Properties in the Provisional Portfolio.

Loan Purpose	Current			
	Value (£)	% Portfolio	Number	% Portfolio
Purchase	279,271,637	49.51%	2,134	44.97%
Remortgage	257,906,306	45.72%	2,378	50.12%
Debt Consolidation	26,896,850	4.77%	233	4.91%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

9. **Interest Rate**

The following table shows the interest rates in respect of the Loans in the Provisional Portfolio. The figures in the following table have been calculated on the basis of the Loans in the Provisional Portfolio (including Further Advances).

Current Interest Rate	Current			
	Value (£)	% Portfolio	Number	% Portfolio
0% - 1.00%	18,956,378	3.36%	254	4.64%
1.01% - 2.00%	17,798,475	3.16%	117	2.14%
2.01% - 3.00%	95,660,680	16.96%	757	13.81%
3.01% - 4.00%	168,704,753	29.91%	1,498	27.34%
4.01% - 5.00%	212,987,261	37.76%	2,397	43.74%
5.01% - 6.00%	43,390,033	7.69%	394	7.19%
6.01% - 7.00%	6,540,246	1.16%	62	1.13%
7.01% - 8.00%	36,967	0.01%	1	0.02%
8.01% - 9.00%	-	0.00%	-	0.00%
Over 9%	-	0.00%	-	0.00%
Total	**564,074,793**	**100%**	**5,480**	**100%**

- Data shown at loan level

Min:	0.62
Max:	7.25
Weighted Average:	3.89

10. **Property Type**

The following table shows property types in respect of the Loans in the Provisional Portfolio. The figures in the following table have been calculated on the basis of the number of Properties in the Provisional Portfolio.

Property Type	Current			
	Value (£)	% Portfolio	Number	% Portfolio
House	519,950,416	92.18%	4,376	92.22%
Flat	44,124,377	7.82%	369	7.78%
Total	**564,074,793**	**100%**	**4,745**	**100%**

- Data shown at property level

CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

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

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

Industry CPR Rates

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

Date	CPR rate for the quarter (%)	4 quarter Rolling average (%)	Date	CPR rate for the quarter (%)	4 quarter Rolling average (%)
March 1999	12.32		June 1999	15.96	
September 1999	17.55		December 1999	16.47	
March 2000	13.62	15.90	June 2000	15.31	15.73
September 2000	15.97	15.34	December 2000	15.67	15.14
March 2001	15.38	15.58	June 2001	18.23	16.31
September 2001	20.25	17.39	December 2001	20.06	18.48
March 2002	18.75	19.32	June 2002	21.10	20.04
September 2002	23.63	20.89	December 2002	22.89	21.59
March 2003	21.24	22.22	June 2003	22.43	22.55
September 2003	24.03	22.65	December 2003	24.87	23.14
March 2004	21.22	23.14	June 2004	22.93	23.26
September 2004	24.27	23.32	December 2004	20.85	22.32
March 2005	17.96	21.50	June 2005	21.32	21.10
September 2005	24.29	21.10	December 2005	24.61	22.04
March 2006	22.27	23.12	June 2006	23.37	23.64
September 2006	24.95	23.80	December 2006	24.87	23.87
March 2007	23.80	24.25	June 2007	24.84	24.61
September 2007	25.48	24.74	December 2007	23.55	24.42
March 2008	19.56	23.36	June 2008	20.88	22.37
September 2008	20.15	21.03	December 2008	15.33	18.98
March 2009	12.91	17.32	June 2009	11.39	14.95
September 2009	12.77	13.10	December 2009	11.99	12.27
March 2010	9.60	11.44	June 2010	10.60	11.24
September 2010	11.30	10.87	December 2010	10.98	10.62
March 2011	10.03	10.73	June 2011	10.59	10.73
September 2011	11.91	10.88	December 2011	11.41	10.98
March 2012	10.55	11.11	June 2012	10.85	11.18
September 2012	11.11	10.98	December 2012	11.39	10.97
March 2013	10.96	11.07	June 2013	12.52	11.49
September 2013	14.14	12.25	December 2013	14.41	13.01

Repossession Rate

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

Year	Repossessions (%)	Year	Repossessions (%)	Year	Repossessions (%)
1985	0.25	1995	0.47	2005	0.12
1986	0.30	1996	0.40	2006	0.18
1987	0.32	1997	0.31	2007	0.22
1988	0.22	1998	0.31	2008	0.34
1989	0.17	1999	0.27	2009	0.43
1990	0.47	2000	0.20	2010	0.34
1991	0.77	2001	0.16	2011	0.33
1992	0.69	2002	0.11	2012	0.30
1993	0.58	2003	0.07	2013	0.26
1994	0.47	2004	0.07		

House Price to Earnings Ratio

The following table shows the ratio for each year of the average annual value of houses compared to the average annual salary in the United Kingdom. The average annual earnings figures are constructed using the Annual Survey of Hours and Earnings referring to median gross weekly earnings in April of each year for those male employees whose earnings were not affected by their absence from work. While this is a good indication of house affordability, it does not take into account the fact that the majority of households have more than one income to support a mortgage loan.

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1971	4.02	1993	4.59
1972	4.63	1994	4.55
1973	5.64	1995	4.47
1974	4.85	1996	4.51
1975	4.23	1997	4.77
1976	4.08	1998	5.11
1977	4.02	1999	5.37
1978	4.09	2000	6.14
1979	4.47	2001	6.27
1980	4.53	2002	7.11
1981	4.30	2003	7.66
1982	4.09	2004	8.15
1983	4.26	2005	8.31
1984	4.35	2006	8.24
1985	4.41	2007	8.83
1986	4.64	2008	8.54
1987	4.98	2009	7.79
1988	5.73	2010	8.26
1989	6.36	2011	8.35
1990	5.72	2012	8.83
1991	5.27	2013	9.12
1992	4.85		

HOUSE PRICE INDEX

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

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

	UK Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
Time in Quarters	**Index**	**% annual change**	**Index**	**% annual change**	**Index**	**% annual change**
March 1988	103.7	-	90.0	9.8	164.9	15.9
June 1988	106.2	-	97.6	13.0	180.2	20.2
September 1988	107.7	-	108.4	20.1	198.9	26.5
December 1988	109.9	-	114.2	25.5	212.0	29.3
March 1989	111.7	7.4	118.8	27.8	217.8	27.8
June 1989	114.9	7.9	124.2	24.1	226.8	23.0
September 1989	116.0	7.4	125.2	14.4	227.3	13.3
December 1989	118.3	7.4	122.7	7.2	222.8	5.0
March 1990	120.4	7.5	118.9	0.1	220.7	1.3
June 1990	126.0	9.2	117.7	-5.4	224.3	-1.1
September 1990	128.1	9.9	114.2	-9.2	224.2	-1.4
December 1990	130.1	9.5	109.6	-11.3	222.9	0.0
March 1991	130.8	8.3	108.8	-8.8	220.2	-0.2
June 1991	133.6	5.9	110.6	-6.2	223.2	-0.5
September 1991	134.2	4.7	109.5	-4.2	220.8	-1.5
December 1991	135.5	4.1	107.0	-2.4	217.5	-2.5
March 1992	136.2	4.0	104.1	-4.4	210.6	-4.5
June 1992	139.1	4.0	105.1	-5.1	210.4	-5.9
September 1992	139.0	3.5	104.2	-5.0	208.4	-5.8
December 1992	139.6	3.0	100.1	-6.7	199.3	-8.7
March 1993	138.7	1.8	100.0	-4.0	196.9	-6.7
June 1993	140.9	1.3	103.6	-1.4	203.2	-3.5
September 1993	141.3	1.6	103.2	-1.0	204.2	-2.0
December 1993	141.8	1.6	101.8	1.7	202.5	1.6
March 1994	142.0	2.4	102.4	2.4	202.3	2.7
June 1994	144.5	2.5	102.5	-1.1	204.3	0.5
September 1994	144.6	2.3	103.2	-0.0	204.3	0.0
December 1994	145.5	2.6	104.0	2.1	200.9	-0.8
March 1995	146.8	3.3	101.9	-0.5	200.3	-1.0
June 1995	149.5	3.4	103.0	0.5	201.0	-1.6
September 1995	149.9	3.6	102.4	-0.8	199.0	-2.6
December 1995	150.1	3.1	101.6	-2.3	197.8	-1.6
March 1996	150.9	2.8	102.5	0.6	200.9	0.3
June 1996	152.8	2.2	105.8	2.7	208.6	3.7
September 1996	153.1	2.1	107.7	5.1	209.8	5.3
December 1996	154.0	2.6	110.1	8.0	212.6	7.2
March 1997	154.9	2.6	111.3	8.3	215.3	6.9
June 1997	156.9	2.6	116.5	9.6	222.6	6.5
September 1997	158.4	3.4	121.2	11.8	223.6	6.4
December 1997	159.7	3.6	123.3	11.4	224.0	5.2
March 1998	160.2	3.4	125.5	12.0	226.4	5.0
June 1998	163.2	3.9	130.1	11.0	234.9	5.4
September 1998	163.7	3.3	132.4	8.8	236.1	5.4
December 1998	164.4	2.9	132.3	7.0	236.3	5.3
March 1999	163.7	2.2	134.6	7.0	236.3	4.3
June 1999	165.5	1.4	139.7	7.1	247.7	5.3
September 1999	165.6	1.2	144.4	8.6	256.7	8.4
December 1999	166.8	1.4	148.9	11.8	263.4	10.9
March 2000	167.5	2.3	155.0	14.1	270.5	13.5
June 2000	170.6	3.0	162.0	14.8	275.6	10.7
September 2000	170.9	3.2	161.5	11.2	277.6	7.8
December 2000	172.0	3.1	162.8	9.0	278.3	5.5
March 2001	171.8	2.5	167.5	7.8	279.0	3.1
June 2001	173.9	1.9	174.8	7.6	297.0	7.5
September 2001	174.0	1.8	181.6	11.8	305.0	9.4

December 2001	173.8	1.0	184.6	12.5	310.9	11.1
March 2002	173.9	1.2	190.2	12.7	324.3	15.0
June 2002	176.0	1.2	206.5	16.6	346.6	15.4
September 2002	176.6	1.5	221.1	19.7	369.1	19.1
December 2002	178.2	2.5	231.3	22.6	393.0	23.4
March 2003	179.2	3.0	239.3	22.9	400.1	21.0
June 2003	181.3	3.0	250.1	19.2	422.5	19.8
September 2003	181.8	2.9	258.9	15.8	437.6	17.0
December 2003	182.9	2.6	267.1	14.4	453.5	14.3
March 2004	183.8	2.5	277.3	14.8	474.0	16.9
June 2004	186.3	2.7	296.2	16.9	513.2	19.4
September 2004	187.4	3.0	306.2	16.8	527.2	18.6
December 2004	189.2	3.4	304.1	13.0	522.0	14.1
March 2005	189.7	3.2	304.8	9.4	520.2	9.3
June 2005	191.9	3.0	314.2	5.9	532.1	3.6
September 2005	192.6	2.7	314.4	2.7	543.1	3.0
December 2005	193.7	2.4	314.0	3.2	548.4	4.9
March 2006	194.2	2.3	319.8	4.8	552.6	6.0
June 2006	197.6	2.9	329.2	4.7	582.1	9.0
September 2006	199.3	3.4	336.1	6.6	586.7	7.7
December 2006	201.4	3.9	343.2	8.9	602.8	9.5
March 2007	203.0	4.4	350.2	9.1	613.9	10.5
June 2007	206.3	4.3	362.7	9.7	644.1	10.1
September 2007	207.1	3.8	367.3	8.9	649.3	10.1
December 2007	209.8	4.1	367.0	6.7	634.4	5.1
March 2008	211.1	3.9	357.8	2.1	620.9	1.1
June 2008	215.3	4.3	348.1	-4.1	605.1	-6.2
September 2008	217.4	4.9	329.5	-10.9	568.9	-13.2
December 2008	215.5	2.7	312.9	-16.0	531.5	-17.7
March 2009	210.9	-0.1	298.7	-18.1	512.5	-19.2
June 2009	212.6	-1.3	307.3	-12.5	514.3	-16.3
September 2009	214.4	-1.4	319.5	-3.1	526.5	-7.7
December 2009	216.9	0.6	323.4	3.3	537.3	1.1
March 2010	219.3	3.9	324.9	8.4	539.0	5.0
June 2010	223.5	5.0	336.6	9.1	546.6	6.1
September 2010	224.5	4.6	333.9	4.4	540.4	2.6
December 2010	227.0	4.6	325.1	0.5	528.8	-1.6
March 2011	230.9	5.2	323.9	-0.3	523.2	-3.0
June 2011	234.9	5.0	332.7	-1.2	527.2	-3.6
September 2011	236.2	5.1	332.3	-0.5	528.0	-2.3
December 2011	238.6	5.0	328.7	1.1	522.0	-1.3
March 2012	239.6	3.7	324.6	0.2	520.1	-0.6
June 2012	242.2	3.1	329.1	-1.1	524.7	-0.5
September 2012	243.1	2.9	327.0	-1.6	521.8	-1.2
December 2012	246.0	3.1	325.0	-1.1	520.5	-0.3
March 2013	247.4	3.2	325.3	0.2	525.7	1.1
June 2013	249.7	3.0	333.7	1.4	544.4	3.7
September 2013	250.9	3.2	341.0	4.2	554.2	6.0
December 2013	252.5	2.6	348.0	6.8	559.5	7.2

Source: HBOS plc and Nationwide Building Society
Source: National Statistics

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

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

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

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

THE ADMINISTRATOR

THE ADMINISTRATOR

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

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

ADMINISTRATION PROCEDURES

Administration procedures include:

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

Payment of Interest and Principal

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

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

Collections

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

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

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

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

Arrears and Default Procedures

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

Early Arrears

At this stage:

(a) telephone contact is attempted during the day and early evening either at the Borrower's home or work place;

(b) should such telephone contact prove unsuccessful or details be unavailable, the Borrower is contacted by letter and / or a text message is sent requesting contact;

(c) automated arrears letters are issued, provided arrears remain outstanding two days after the "profile date" (being the usual payment date) and no diary notes have been set or other automated letters issued within the last 14 days; and

(d) if no proactive contact or agreement has been achieved after two months, a field agent is instructed to visit the Borrower to attempt resolution.

Arrangement Management

At this stage:

(a) the system identifies further defaults;

(b) further action is taken in the form of telephone, letters and texts; and

(c) serious arrears are given notice of intention to take legal proceedings.

Serious Arrears and litigation

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

(a) solicitors are instructed to commence proceedings;

(b) a possession order is obtained; and

(c) the possession order is enforced when further default occurs.

Back-Up Administrator

On the Closing Date, the Administrator will appoint the Back-Up Administrator to perform back-up services pursuant to the Back-Up Administration Agreement entered into between the Issuer, the Administrator, the Seller, the Trustee, the Back-Up Administrator and the Back-Up Administrator Facilitator dated on or prior to the Closing Date (the "**Back-Up Administration Agreement**"). Within 90 days of the Closing Date (the "**Initial Period**"), the Back-Up Administrator undertakes to collect (and the Administrator undertakes to provide) certain information to allow it to prepare its systems and operations to allow it to perform certain services in respect of the Portfolio.

Following the Initial Period, the Back-Up Administrator has agreed to perform certain servicing duties, which include (but are not limited to):

(a) conducting on site operational reviews and delivering a report setting out the results thereof;

(b) running a data mapping process to update the conversion report and load the portfolio on to the Back-Up Administrator's system and create a pool tape extract and reconcile the pool tape extract to the Back-Up Administrator's pool tape; and

(c) confirming to the Issuer the satisfactory load of the Portfolio data onto the Back-Up Administrator's system.

Upon the termination of the appointment of the Administrator under the Administration Agreement, the Back-Up Administrator will, within 90 days of receiving notice of the same, replace the Administrator under the terms of the Replacement Administration Agreement.

If, due to a change in the prevailing circumstances then applicable to the Administrator, the requirement to have in place an appointed back-up administrator is no longer applicable, then the appointment of the Back-Up Administrator may be terminated in accordance with the provisions of the Back-Up Administration Agreement without the need for the simultaneous replacement of the Back-Up Administrator with a successor back up administrator.

THE ADMINISTRATION AGREEMENT

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

Introduction

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

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

(a) in accordance with the Administration Agreement; and

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

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

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

Powers

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

(a) to exercise the rights, powers and discretions of the Issuer in relation to the Loans and their Related Security and to perform its duties in relation to the Loans and their Related Security; and

(b) to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the administration of the Loans and their Related Security or the exercise of such rights, powers and discretions.

Undertakings by the Administrator

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

(a) administer the relevant Loans and their Related Security as if the same had not been sold to the Issuer but had remained on the books of the Seller and in accordance with the Seller's procedures and administration and enforcement policies as they apply to the Loans from time to time;

(b) provide the services to be undertaken by it under the Administration Agreement in such manner and with the same level of skill, care and diligence as would a Prudent Mortgage Lender;

(c) comply with any proper directions, orders and instructions which the Issuer and/or the Trustee may from time to time give to it in accordance with the provisions of the Administration Agreement and, in the event of any conflict, those of the Trustee shall prevail;

(d) maintain all approvals, authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Administration Agreement, and prepare and submit on a timely basis all necessary applications and requests for any further approvals, authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Administration Agreement;

(e) save as otherwise agreed with the Issuer, provide free of charge to the Issuer and the Seller, office space, facilities, equipment and staff sufficient to fulfil the obligations of the Issuer and the Seller under the Administration Agreement;

(f) not knowingly fail to comply with any legal requirements in the performance of its duties under the Administration Agreement;

(g) make all payments required to be made by it pursuant to the Administration Agreement on the due date for payment thereof in Sterling (or as otherwise required under the Transaction Documents) in immediately available funds for value on such day without set-off (including, without limitation, in respect of any fees owed to it) or counterclaim but subject to any deductions required by law;

(h) use reasonable endeavours to procure that the Seller makes payments in respect of the Loans into the Transaction Account not later than one Business Day following receipt of the same by the Seller;

(i) not without the prior written consent of the Trustee amend or terminate any of the Transaction Documents in any material respect except in accordance with their terms;

(j) forthwith upon becoming aware of any event which may reasonably give rise to an obligation of the Seller to repurchase any Loan pursuant to the Mortgage Sale Agreement, notify the Issuer and the Seller in writing of such event; and

(k) ensure that at all times the relevant Loans comply with the material terms of the CCA (to the extent that such relevant Loans are regulated by that Act).

Compensation of the Administrator

The Administrator will receive an Administration Fee for servicing the Loans. The Issuer will pay the Administrator its Administration Fee which shall be calculated in relation to each Interest Period on the basis of the number of days elapsed and a 365 day year (or 366 day year in a leap year) of 0.2 per cent. per annum (inclusive of any applicable VAT) on the aggregate Current Balance of the Loans which the Seller has sold to the Issuer comprising the Portfolio as at the opening of business on the first day of the preceding Collection Period. The Administration Fee is payable quarterly in arrear on each Interest Payment Date only to the extent that the Issuer has sufficient funds in accordance with the Pre-Enforcement Revenue Priority of Payments to pay them. Any unpaid balance will be carried forward until the next Interest Payment Date and, if not paid earlier, will be payable in full on the Final Maturity Date or on any earlier date on which an Enforcement Notice is served by the Trustee on the Issuer.

Removal or Resignation of an Administrator

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

(a) the Administrator defaults in the payment of any amount due under the Administration Agreement or any other Transaction Documents to which it is party and fails to remedy that default for a period of 30 Business Days after the earlier of becoming aware of the default and receipt of written notice from the Issuer or the Trustee (following delivery of an Enforcement Notice) requiring the default to be remedied; or

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

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

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

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

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

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

Right of Delegation by an Administrator

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

(a) the Issuer consents to the proposed subcontracting or delegation;

(b) written notification has been given to each of the Rating Agencies;

(c) where the arrangements involve the custody or control of any customer files and/or title information documents, the subcontractor or delegate has executed a written acknowledgement that those customer files and/or title information documents are and will be held to the order of the Issuer and the Trustee;

(d) where the arrangements involve or may involve the receipt by the subcontractor or delegate of moneys belonging to the Issuer which are to be paid into the Transaction Account, the subcontractor or delegate has executed a declaration that any such moneys are held on trust for the Issuer and will be paid forthwith into the Transaction Account in accordance with the terms of the Administration Agreement;

(e) the subcontractor or delegate has executed a written waiver of any security interest arising in connection with the delegated services;

(f) the Issuer and the Trustee have no liability for any costs, charges or expenses in relation to the proposed subcontracting or delegation; and

(g) the subcontractor or delegate has confirmed that it has and will maintain all approvals required for itself in connection with the fulfilment of its obligations under the agreement with the Administrator.

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

Liability of the Administrator

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

Back-Up Administrator Facilitator

Under the Administration Agreement in the event that the appointment of the Back-Up Administrator under the Back-Up Administration Agreement is terminated, or upon the occurrence of a Back-Up Administrator Event, the Administrator, with the assistance of the Back-Up Administrator Facilitator, shall within 60 days, use reasonable endeavours to appoint a suitable back-up administrator in accordance with the terms of the Administration Agreement or the Back-Up Administration Agreement as applicable.

For the purposes of this section and where used elsewhere in this Prospectus Back-Up Administrator Event shall have the meaning set out below:

"**Back-Up Administrator Event**" means, at any time when there is no incumbent back-up administrator appointed:

(a) if the Administrator's long-term, unsecured, unguaranteed and unsubordinated debt obligations cease to have a rating from Moody's of at least Baa3 (or such other long-term rating which is otherwise acceptable to Moody's); or

(b) if the Administrator ceases to have a long-term issuer default rating from Fitch of at least BBB- (or such other long-term rating which is otherwise acceptable to Fitch) or

(c) if the Administrator's long-term, unsecured, unguaranteed and unsubordinated debt obligations are not rated by Moody's or Fitch does not provide a long-term issuer default rating in respect of the Administrator, the Rating Agencies have informed the Issuer or the Trustee in writing, or there is a public announcement from either of the Rating Agencies, that the continued appointment of the then current Administrator would, unless a back-up administrator is appointed, adversely affect the then current ratings of the Class A Notes.

Governing law

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

THE BACK-UP ADMINISTRATOR

Crown Mortgage Management Limited is a private limited company incorporated in England and Wales on 3 August 1967 and registered under company number 00912411.

Crown Mortgage Management Limited is one of the mortgage administration industry's longest established organisations and is rated RPS3+ by Fitch Ratings Limited and ranked "Above Average" by Standard and Poor's Credit Market Services Europe Limited, in each case for primary servicing and RSS 3+ and "Above Average", in each case for special servicing of residential mortgage loans.

Crown Mortgage Management Limited currently services in excess of 40,000 accounts totalling £4 billion of mortgage assets and has the experience of being the only back-up mortgage administrator to date to have been called to undertake mortgage servicing in the United Kingdom having been a back-up mortgage administrator.

Crown Mortgage Management Limited has ISO 9001-2008 certification, is an Associate Member of the Council of Mortgage Lenders and is authorised and regulated by the Financial Conduct Authority under registration number 306235. It holds all relevant permissions under the FSMA and is registered under the Data Protection Act 1998.

The registered office of Crown Mortgage Management Limited is at Crown House, Crown Street, Ipswich, Suffolk IP1 3HS.

THE BACK-UP CASH MANAGER

The Royal Bank of Scotland plc (the "**Bank**") is a wholly-owned subsidiary of The Royal Bank of Scotland Group plc ("**RBSG**" or the "**holding company**"), a large global banking and financial services group. The "**Group**" comprises the Bank and its subsidiary and associated undertakings. The Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers. "**RBS Group**" comprises the holding company and its subsidiary and associated undertakings.

RBS Group had total assets of £1,028 billion and owners' equity of £59 billion as at 31 December 2013. RBS Group's capital ratios, as at 31 December 2013, were a total capital ratio of 16.5 per cent., a Core Tier 1 capital ratio of 10.9 per cent. and a Tier 1 capital ratio of 13.1 per cent..

The Group had total assets of £1,020 billion and owners' equity of £49 billion as at 31 December 2013. As at 31 December 2013, the Group's capital ratios were a total capital ratio of 17.4 per cent., a Core Tier 1 capital ratio of 9.8 per cent. and a Tier 1 capital ratio of 11.4 per cent..

THE SWAP PROVIDER

HSBC Bank plc and its subsidiaries form a UK based group providing a comprehensive range of banking and related financial services.

HSBC Bank plc (formerly Midland Bank plc) was formed in England in 1836 and subsequently incorporated as a limited company in 1880. In 1923, the company adopted the name Midland Bank Limited which it held until 1982 when it re-registered and changed its name to Midland Bank plc. During the year ended 31 December 1992, Midland Bank plc became a wholly owned subsidiary undertaking of HSBC Holdings plc, whose Group Head Office is at 8 Canada Square, London E14 5HQ. HSBC Bank plc adopted its current name, changing from Midland Bank plc, in the year ended 31 December 1999.

The HSBC Group is one of the world's largest banking and financial services organisations, with over 6,300 offices in 75 countries and territories in Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Its total assets at 31 December 2013 were U.S. $2,671 billion. HSBC Bank plc is the HSBC Group's principal operating subsidiary undertaking in Europe.

The short term senior unsecured and unguaranteed obligations of HSBC Bank plc are, as at the date of this Prospectus, rated P-1 by Moody's and A-1+ by Standard & Poor's and HSBC Bank plc has a short term issuer default rating of F1+ from Fitch. The long term senior unsecured and unguaranteed obligations of HSBC Bank plc are rated Aa3 by Moody's and AA- by Standard & Poor's and HSBC Bank plc has a long term issuer default rating of AA- from Fitch.

HSBC Bank plc is authorised by the Prudential Regulation Authority and is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. HSBC Bank plc's principal place of business in the United Kingdom is 8 Canada Square, London E14 5HQ.

CERTAIN REGULATORY DISCLOSURES

Information Regarding the Policies and Procedures of the Seller

Investors should note that the Seller has internal policies and procedures in relation to the granting of mortgage loans, administration of credit-risk bearing portfolios and risk mitigation, which include: (a) criteria for the granting of mortgage loans and the process for approving, amending, renewing and re-financing mortgage loans (see "*The Portfolio – Characteristics of the Loans*"); (b) systems in place to administer and monitor the mortgage loans and exposures (the Loans will be serviced in line with the usual servicing procedures of the Seller – see "*The Administrator*"); (c) adequate diversification of the Seller's mortgage loan books, given the Seller's target market and overall credit strategy (see "*The Portfolio – Characteristics of the Loans*"); and (d) written policies and procedures in relation to risk mitigation techniques (see "*The Portfolio – Characteristics of the Loans*").

KEY STRUCTURAL FEATURES

CREDIT ENHANCEMENT AND LIQUIDITY SUPPORT

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

- Available Revenue Receipts are expected to exceed interest due and payable on the Class A Notes and senior costs and expenses of the Issuer (including retaining the Issuer Profit Amount).
- An Income Deficit on any Interest Payment Date may be funded by applying amounts standing to the credit of the General Reserve Fund and a Remaining Income Deficit on any Interest Payment Date may (subject to certain conditions) be funded by applying Principal Receipts.
- The payments of interest and principal on the Classes of Notes in Sequential Order and the deferral of interest payments on the Class B Notes where the Issuer has insufficient proceeds.
- Losses allocable to the Classes of Notes in reverse Sequential Order in the Principal Deficiency Ledger, first to the Class B Principal Deficiency Sub-Ledger and then to the Class A Principal Deficiency Sub-Ledger.
- The Transaction Account earns interest at overnight GBP LIBOR less a margin rate and amounts credited to the Transaction Account may be invested in Authorised Investments.
- A Subordinated Loan is provided by the Subordinated Loan Provider to fund the General Reserve Fund on the Closing Date, to cover any shortfall to the extent the Initial Consideration exceeds the proceeds from the issue of the Notes on the Closing Date, to meet the costs in connection with the issuance of the Notes and to provide for the difference between Revenue Receipts received by the Issuer during the first Collection Period and the payments which the Issuer will be required to make in accordance with items (a) to (k) of the Pre-Enforcement Revenue Priority of Payments on the First Interest Payment Date. Repayment of the Subordinated Loan is subordinated to payments on the Notes.
- The Issuer will enter into the Swap Agreement to hedge against the possible variance between the floating and fixed interest rates due and payable by Borrowers on the Loans and the floating rate interest payments in respect of the Notes.

For the purposes of this paragraph and where used elsewhere in this Prospectus, "**Sequential Order**" means, in respect of payments of interest and principal to be made to the Class A Notes and Class B Notes, firstly, to the Class A Notes and secondly, to the Class B Notes.

Each of these factors is considered in more detail below.

Credit Support for the Notes provided by Available Revenue Receipts

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

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

To the extent that the amount of Available Revenue Receipts on each Interest Payment Date exceeds the aggregate of the payments and provisions required to be met in priority to item (g) of the Pre-

Enforcement Revenue Priority of Payments, such excess is available to replenish and increase the General Reserve Fund up to and including an amount equal to the General Reserve Required Amount.

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

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

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

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

Payments of interest on the Classes of Notes will be paid in Sequential Order (so that payments on the Class B Notes will be subordinated to payments on the Class A Notes) in accordance with the relevant Priority of Payments.

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

It is not intended that any surplus will be accumulated in the Issuer, other than, for the avoidance of doubt, the Issuer Profit Amount and amounts standing to the credit of the General Reserve Ledger.

Losses allocated to the Principal Deficiency Ledger

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

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

Losses or debits recorded on the Class A Principal Deficiency Sub-Ledger shall be recorded in respect of the Class A Notes. Losses or debits recorded on the Class B Principal Deficiency Sub-Ledger shall be recorded in respect of the Class B Notes.

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

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

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

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

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

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

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

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

Transaction Account

If, at any time (i) the short term issuer default rating of the Account Bank is downgraded to less than F1 by Fitch; or (ii) the long-term, unsecured and unsubordinated debt obligations of the Account Bank are downgraded below a rating of A3 by Moody's or the long term issuer debt rating of the Account Bank is downgraded to less than A by Fitch (or (in each case) such other short term or long term rating which is otherwise acceptable to the relevant Rating Agency) (the "**Account Bank Required Minimum Rating**"), the Issuer will be required, in order to maintain the ratings of the Class A Notes at their then current rating, either (i) (within 30 days) to transfer (at its own cost) the balance of the Transaction Account to an account held with such bank or financial institution with a rating at least equal to the Account Bank Required Minimum Rating (a "**Replacement Account Bank**") on substantially similar terms to those set out in the Account Bank Agreement or (ii) (within 30 days) procure a guarantee of the Account Bank's obligations under the Account Bank Agreement from a guarantor bank or financial institution with a rating at least equal to the Account Bank Required Minimum Rating, or (iii) take such other remedial action as may be acceptable to the Rating Agencies in order to maintain the ratings of the Class A Notes.

In relation to (i) above, if where taking into account the then prevailing market conditions, the Issuer or the Cash Manager determines it is not practical to agree terms substantially similar to those set out in the Account Bank Agreement and the Issuer or the Cash Manager certifies in writing to the Trustee, that such terms are reasonable commercial terms taking into account the then prevailing current market conditions, a replacement agreement may be entered into on such reasonable commercial terms and the Trustee shall be entitled to rely absolutely on such certification without any liability to any person for so doing (notwithstanding that the fee payable to the Replacement Account Bank may be higher).

All monies held by the Issuer will be deposited in the Transaction Account in the first instance. The Transaction Account is maintained with the Account Bank. The Account Bank has agreed to pay overnight GBP LIBOR less a margin in respect of sums in the Transaction Account. The Issuer (or the Cash Manager on its behalf) may invest sums standing to the credit of the Transaction Account in Authorised Investments.

Subordinated Loan

The Issuer will enter into the Subordinated Loan Agreement with the Subordinated Loan Provider on or about the Closing Date. Pursuant to the Subordinated Loan Agreement, the Subordinated Loan Provider will agree to make available to the Issuer the Subordinated Loan on the Closing Date. The Subordinated Loan will be a subordinate ranking loan which will be used by the Issuer to (a) fund the General Reserve Fund on the Closing Date (the "**General Reserve Fund Advance**"); (b) meet costs and expenses incurred by the Issuer in respect of the issuance of the Notes on the Closing Date (the "**Expenses Advance**"); (c) cover any shortfall to the extent the Initial Consideration exceeds the proceeds from the issue of the Notes on the Closing Date (the "**Initial Consideration Advance**"); and (d) provide for the difference between Revenue Receipts received by the Issuer during the first Collection Period and the payments, if any, which the Issuer will be required to make in accordance with items (a) to (k) of the Pre-Enforcement Revenue Priority of Payments on the First Interest Payment Date (the "**Initial Revenue Advance**" and, together with the General Reserve Fund Advance, the Expenses Advance and the Initial Consideration Advance, the "**Advances**"). The amount of the Subordinated Loan on the Closing Date will be £14,332,500.00.

The Subordinated Loan will bear interest until repaid at a rate of LIBOR for three month Sterling deposits plus 0.5 per cent. per annum. Any unpaid interest will not fall due but will instead be due and payable on the next following Interest Payment Date on which sufficient funds are available to pay the unpaid amount and pending such payment, will itself bear interest. Interest in respect of the Subordinated Loan will be payable by the Issuer on each Interest Payment Date. The Issuer will repay the Advances, on each Interest Payment Date to the extent that it has Available Revenue Receipts to make such payment in accordance with the relevant Priority of Payments or on the Final Maturity Date (please see "*General Reserve Fund and General Reserve Ledger*").

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

The Subordinated Loan Agreement and any non-contractual obligations arising out of or in connection with the Subordinated Loan Agreement will be governed by English law.

Deed of Charge Retention Undertaking

In the Deed of Charge the Seller undertakes (i) to hold a material net economic interest pursuant to paragraphs (a) to (e) (as applicable) of Article 405 of Regulation (EU) No. 575/2013 and Article 51 of the AIFM Regulation until maturity of the Notes and (ii) comply with its obligations under Article 52 of the AIFM Regulation and Articles 405- 409 of Regulation (EU) No. 575/2013 which include its obligations to provide all information required to be made available to Noteholders or the Swap Provider thereunder to the Issuer and the Trustee on request, subject always to any requirement of law regarding the provision of such information, provided that the Seller will not be in breach of such undertaking if the Seller fails to do so due to events, actions or circumstances beyond the Seller's control. The Trustee shall have the benefit of certain protections contained in the Trust Deed in relation to the compliance of the Seller with such undertaking.

Swap Agreement

The interest rate on the Loans in the Portfolio is payable by reference, or linked, to the Seller Standard Variable Rate, Seller Mortgage Variable Rate (or the Issuer Variable Rate, as the case may be), the BoE Base Rate and certain fixed rates. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to a 3 month GBP LIBOR (interpolated for 2 and 3 month GBP LIBOR in respect of the First Interest Payment Date).

To hedge against the possible variance between:

(i) various fixed rates of interest payable on the Loans in the Portfolio; and

(ii) the floating rate of interest payable on the Notes,

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

Cashflows under the Fixed Rate Swap Transaction

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

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

(a) the amount produced by applying 3 month GBP LIBOR (interpolated for 2 and 3 month GBP LIBOR in respect of the First Interest Payment Date) for the relevant Interest Period ending on that Interest Payment Date plus 0.57 per cent. to the Fixed Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Fixed Rate Swap Transaction (the "**Fixed Interest Period Swap Provider Amount**"); and

(b) the amount (the "**Fixed Interest Period Issuer Amount**") equal to the product of (i) 1.914 per cent. (which percentage may be revised from time to time as agreed between the Issuer (or the Cash Manager on behalf of the Issuer) and the Swap Provider) and (ii) the Fixed Notional

Amount, such amount to be calculated on the basis of the day count fraction specified in the Fixed Rate Swap Transaction.

The notional amount of the Fixed Rate Swap Transaction (the "**Fixed Notional Amount**") in respect of each calculation period thereunder will be equal to the weighted average of the aggregate Current Balances (calculated, for each calendar month falling in that calculation period, at the end of the preceding calendar month) of the Fixed Rate Loans in the Portfolio (other than those which are in possession or in respect of which three or more monthly payments have become due and are unpaid by a Borrower), subject to a cap as set out in the Swap Agreement to provide flexibility for Further Advances, Product Switches and Substitutions.

After the Fixed Interest Period Swap Provider Amounts and the Fixed Interest Period Issuer Amounts are calculated in respect of the Fixed Rate Swap Transaction in relation to an Interest Payment Date, the following payments will be made on or in respect of that Interest Payment Date: (i) if the relevant Fixed Interest Period Issuer Amount is greater than the relevant Fixed Interest Period Swap Provider Amount, then the Issuer will pay an amount equal to the difference between the two to the Swap Provider and (ii) if the relevant Fixed Interest Period Swap Provider Amount is greater than the relevant Fixed Interest Period Issuer Amount, then the Swap Provider will pay an amount equal to the difference between the two to the Issuer.

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

Estimation and Reconciliation

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

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

Termination of the Swap Agreement

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

(a) if there is a failure by a party to pay amounts due under the Swap Agreement and any applicable grace period has expired;

(b) if certain insolvency events occur with respect to a party;

(c) if a breach of a provision of the Swap Agreement by the Swap Provider is not remedied within the applicable grace period;

(d) if a change of law results in the obligations of one of the parties becoming illegal;

(e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the Swap Agreement;

(f) if the Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Swap Agreement and described below in "*Key Structural Features – Ratings Downgrade of Swap Provider*";

(g) if the Trustee serves an Enforcement Notice on the Issuer pursuant to Condition 13 (*Events of Default*) of the Notes;

(h) if there is a redemption of the Notes pursuant to Condition 9.4 (*Optional redemption in whole for taxation purposes*) of the Notes; or

(i) if any amendment is made to any Transaction Document as a result of which the Swap Provider would be required to pay more or receive less were it to replace itself as Swap Provider unless it has consented in writing to such amendment.

Upon the occurrence of a Swap Early Termination Event either the Issuer or the Swap Provider may be liable to make a termination payment to the other party. This termination payment will be calculated and made in Sterling. The amount of any termination payment will be based on the market value of the terminated swap based on market quotations of the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties (or based upon loss in the event that market quotation cannot be determined). Any termination payment due from the Issuer to the Swap Provider (after netting such amount against the value of any Swap Collateral in respect of the Swap Agreement) will, subject to the terms set out in the section entitled "*Replacement upon early termination*" below, be made in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. Any such termination payment could be substantial.

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

Ratings Downgrade of Swap Provider

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

Taxation

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

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

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

Governing Law

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

Replacement of the Swap Agreement

Replacement upon early termination

In the event that the Swap Agreement is terminated prior to its scheduled termination date, and prior to the service of an Enforcement Notice or the redemption in full of all outstanding Notes, the Issuer shall use its reasonable efforts to enter into a replacement swap agreement. There can be no assurance that the Issuer will be able to enter into a replacement swap agreement or, if one is entered into, as to the terms of the replacement swap agreement or the credit rating of the replacement swap provider.

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

Replacement in other circumstances

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

Swap Credit Support Annex

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

Swap Collateral

In the event that the Swap Provider is required to transfer collateral to the Issuer in respect of its obligations under the Swap Agreement in accordance with the terms of the Swap Credit Support Annex, that collateral (and any interest and/or distributions earned thereon) will be credited to any Swap Collateral Account (if established). Any cash credited to any Swap Collateral Account (if established) may be invested by the Cash Manager, acting in consultation with the Swap Provider in accordance with the terms of the Swap Agreement, the Swap Collateral Account Bank Agreement and the Cash Management Agreement, in eligible swap collateral investments (which includes money market funds). In addition, upon any early termination of the Swap Agreement or novation of the Swap Provider's obligations under the Swap Agreement to a replacement swap provider, (i) any Replacement Swap Premium received by the Issuer from a replacement swap provider and/or (ii) any termination payment received by the Issuer from the outgoing Swap Provider will be credited to any Swap Collateral Account (if established).

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

(i) prior to the designation of an Early Termination Date (as defined in the Swap Agreement) in respect of the Swap Agreement, solely in or towards payment of any Return Amounts, Interest Amounts and Distributions (as defined in the Swap Credit Support Annex), on any day, directly to the Swap Provider in accordance with the terms of the Swap Credit Support Annex;

(ii) following the designation of an Early Termination Date in respect of the Swap Agreement where (A) such Early Termination Date has been designated following an Event of Default (as defined in the Swap Agreement) in respect of which the Swap Provider is the Defaulting Party or an Additional Termination Event (as defined in the Swap Agreement) resulting from a ratings downgrade of the Swap Provider and (B) the Issuer enters into a replacement swap agreement in respect of the Swap Agreement on or around the Early Termination Date of the Swap Agreement, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:

    (a) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and

    (b) *second*, in or towards payment of any termination payment due to the outgoing Swap Provider; and

    (c) *third*, the surplus (if any) (a "**Swap Collateral Account Surplus**") on such day to be transferred to the Transaction Account;

(iii) following (1) the designation of an Early Termination Date in respect of the Swap Agreement where (A) such Early Termination Date has been designated otherwise than as a result of one of the events specified at items (ii)(A) above and (B) the Issuer enters into a replacement swap agreement in respect of the Swap Agreement on or around the Early Termination Date of the Swap Agreement or (2) any novation of the Swap Provider's obligations to a replacement swap provider, on the later of the day on which such replacement swap agreement is entered into and the day on which a Replacement Swap Premium (if any) payable to the Issuer has been received, in the following order of priority:

    (a) *first*, in or towards payment of any termination payment due to the outgoing Swap Provider;

    (b) *second*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement being terminated or novated; and

    (c) *third*, the surplus (if any) (a "**Swap Collateral Account Surplus**") on such day to be transferred to the Transaction Account;

(iv) following the designation of an Early Termination Date in respect of the Swap Agreement for any reason where the Issuer does not enter into a replacement swap agreement in respect of the Swap Agreement on or around the Early Termination Date of such Swap Agreement, on any day, in or towards payment of any termination payment due to the outgoing Swap Provider;

(v) following payments of amounts due pursuant to (iv) above, if amounts remain standing to the credit of a Swap Collateral Account (if established), such amounts may be applied only in accordance with the following provisions:

(a) *first*, in or towards payment of a Replacement Swap Premium (if any) payable by the Issuer to a replacement swap provider in order to enter into a replacement swap agreement with the Issuer with respect to the Swap Agreement; and

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

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

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

(2) the day on which an Enforcement Notice is given pursuant to Condition 13,

then the amount standing to the credit of any Swap Collateral Account (if established) on such day shall be a "**Swap Collateral Account Surplus**" and shall be transferred to the Transaction Account as soon as reasonably practicable thereafter.

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

CASHFLOWS AND CASH MANAGEMENT

APPLICATION OF REVENUE RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

Cash Management Services

On the Closing Date, the Cash Manager, the Issuer and the Trustee will enter into the Cash Management Agreement. Pursuant to the Cash Management Agreement, the Cash Manager will agree to provide certain cash management and other services to the Issuer. The Cash Manager's principal function will be effecting payments to and from the Transaction Account and, if applicable, the Swap Collateral Account. In addition, the Cash Manager will, *inter alia*, perform certain 'risk mitigation techniques' and reporting on behalf of the Issuer as required in accordance with the requirements of EMIR.

Definition of Revenue Receipts

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

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

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

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

Definition of Available Revenue Receipts

"**Available Revenue Receipts**" has the meaning given to it in the Conditions.

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

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

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

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

General Reserve Fund and General Reserve Ledger

On the Closing Date, a fund will be established called the General Reserve Fund. The General Reserve Fund will be funded on the Closing Date by the Subordinated Loan in the sum of £12,292,500.00 (being an amount equal to 2.75 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date). The General Reserve Fund will be credited to the Transaction Account (with a corresponding credit to the General Reserve Ledger). The Issuer may invest the amounts standing to the credit of the Transaction Account in Authorised Investments. See "*Key Structural Features*" above.

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

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

The "**General Reserve Required Amount**" will be (i) on the Closing Date and up to (but excluding) the Interest Payment Date falling no earlier than six months after the Closing Date £12,292,500.00 (being an amount equal to 2.75 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date), (ii) on and after the Interest Payment Date falling no earlier than six months after the Closing Date, 3 per cent. of the aggregate Principal Amount Outstanding of the Notes on such date, subject to a minimum of £8,940,000.00 (being an amount equal to 2 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date) and a maximum of £12,292,500.00 (being an amount equal to 2.75 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date), provided that if the General Reserve Fund Excess Conditions are not satisfied on the Calculation Date immediately preceding the relevant Interest Payment Date, the General Reserve Required Amount shall be such amount as determined on the immediately preceding Interest Payment Date and (iii) upon redemption of the Class A Notes in full, zero.

If the following conditions are met:

(a) no Event of Default has occurred and is continuing;

(b) the Class A Principal Deficiency Sub-Ledger will not have a debit balance on the next Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;

(c) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;

(d) cumulative Losses on the Portfolio represent less than 1 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio as at the Closing Date; and

(e) the current LTV ratio of the Loans is less than 95 per cent.,

(together, the "**General Reserve Fund Excess Conditions**"), an amount equal to the General Reserve Fund Excess will be used as Available Revenue Receipts added to the other income of the Issuer to determine the amount of Available Revenue Receipts.

"**General Reserve Fund Excess**" means, on any Interest Payment Date, the amount by which the funds standing to the credit of the General Reserve Fund (after deducting any amounts to be applied to eliminate any Income Deficit) exceed the General Reserve Required Amount.

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

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

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of any fees, costs, charges, liabilities, expenses and all other amounts then due and payable or to become due and payable in the immediately succeeding Interest Period to the Trustee or any Appointee under the provisions of the Trust Deed and the other Transaction Documents together with (if payable) VAT thereon as provided therein;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due or to become due and payable in the immediately succeeding Interest Period to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein;

(ii) any amounts due and payable by the Issuer to third parties and incurred without breach by the Issuer of the Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere) and any amounts necessary to provide for any such amounts expected to become due and payable by the Issuer in the immediately succeeding Interest Period and any amounts required to pay or discharge any liability of the Issuer to corporation tax (which cannot be met out of amounts retained previously by the Issuer as profit under item (i) below);

(iii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable or to become due and payable in the immediately succeeding Interest Period to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein; and

(iv) any Transfer Costs which the Seller has failed to pay;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any amounts due and payable to the Administrator and any costs, charges, liabilities and expenses then due and payable to the Administrator or any such amount to become due and payable to the Administrator in the immediately succeeding Interest Period under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;

(ii) any amounts due and payable to the Back-Up Administrator and any costs, charges, liabilities and expenses then due and payable to the Back-Up Administrator or any such amount to become due and payable to the Back-Up Administrator in the immediately succeeding Interest Period under the provisions of the Back-Up Administration Agreement, together with (if payable) VAT thereon as provided therein;

(iii) any amounts then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Cash Manager or any such amount to become due and payable to the Cash Manager in the immediately succeeding Interest Period under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;

(iv) any amounts then due and payable to the Back-Up Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Back-Up Cash Manager or any such amount to become due and payable to the Back-Up Cash Manager in the immediately succeeding Interest Period under the provisions of the Back-Up Cash Management Agreement, together with (if payable) VAT thereon as provided therein;

(v) any amounts then due and payable to the Account Bank, any Replacement Account Bank or the Swap Collateral Account Bank (if appointed) and any costs, charges, liabilities and expenses then due and payable to the Account Bank any Replacement Account Bank or the Swap Collateral Account Bank (if appointed) or any such amount to become due and payable to the Account Bank, any Replacement Account Bank or the Swap Collateral Account Bank (if appointed) in the immediately succeeding Interest Period under the provisions of the Account Bank Agreement, any Replacement Account Bank Agreement or any Swap Collateral Account Bank Agreement, as applicable, together with (if payable) VAT thereon as provided therein; and

(vi) any amounts then due and payable to the Back-Up Administrator Facilitator and any costs, charges, liabilities and expenses then due and payable to the Back-Up Administrator Facilitator under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;

(d) *fourth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Swap Agreement amounts due to the Swap Provider in respect of the Swap Agreement (including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any related Swap Subordinated Amounts);

(e) *fifth*, in or towards payment of interest due and payable on the Class A Notes;

(f) *sixth*, to credit the Class A Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;

(g) *seventh*, (so long as the Class A Notes will remain outstanding following such Interest Payment Date) to credit the General Reserve Ledger up to the General Reserve Required Amount;

(h) *eighth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Swap Agreement, to the Swap Provider any Swap Subordinated Amount;

(i) *ninth*, to retain the Issuer Profit Amount;

(j) *tenth*, to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;

(k) *eleventh*, to pay interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest thereon);

(l) *twelfth*, to pay all amounts of interest due or accrued (if any) but unpaid and any capitalised interest due to the Subordinated Loan Provider under the Subordinated Loan Agreement;

(m) *thirteenth*, to pay the principal amounts due and payable to the Subordinated Loan Provider under the Subordinated Loan Agreement; and

(n) *fourteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

APPLICATION OF PRINCIPAL RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

Definition of Principal Receipts

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

"**Capitalised Arrears**" means, in relation to any Loan, at any date, amounts (excluding Arrears of Interest or amounts comprising Capitalised Expenses) which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Condition or otherwise by arrangement with the relevant Borrower.

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

Definition of Available Principal Receipts

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

(a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period;

(b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (j) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and

(c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration,

less:

(x) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits on such Interest Payment Date; and

(y) the amount of Principal Receipts to the extent comprised in paragraph (a) above used or to be used by the Issuer to purchase Further Advances made during the immediately preceding Collection Period.

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

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

(a) *first*, *pro rata* and *pari passu*, to redeem the Class A Notes until the Class A Notes have been redeemed in full;

(b) *second*, *pro rata* and *pari passu*, to redeem the Class B Notes until the Class B Notes have been redeemed in full; and

(c) *third*, to Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

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

Following the service of an Enforcement Notice by the Trustee on the Issuer, the Trustee (or the Cash Manager on its behalf or a Receiver) will apply all monies held in the Charged Accounts and all amounts received or recovered following service of an Enforcement Notice (other than (i) any amount that would otherwise constitute a Permitted Withdrawal (which, for the avoidance of doubt, shall be debited from the Charged Accounts prior to the remaining monies being applied in accordance with Clause 16.1 of the Deed of Charge), (ii) amounts standing to the credit of the Swap Collateral Accounts, except for any

Swap Collateral Account Surplus, and (iii) any amount received by the Issuer in respect of Swap Tax Credits received or recovered following the service of an Enforcement Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security) in the following order of priority (the "**Post-Enforcement Priority of Payments**" and, together with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, the "**Priority of Payments**"):

(a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to the Trustee or any Appointee, under the provisions of the Trust Deed and the other Transaction Documents, together with (if payable) VAT thereon as provided therein; and

(ii) any fees, costs, charges, liabilities, expenses and all other amounts then due and payable to any Receiver appointed by the Trustee or any Appointee under the provisions of the Deed of Charge and the other Transaction Documents, together with (if payable) VAT thereon as provided therein;

(b) *second*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any remuneration then due and payable to the Agent Bank, the Registrar and the Paying Agents and any costs, charges, liabilities and expenses then due and payable to them under the provisions of the Agency Agreement, together with (if payable) VAT thereon as provided therein; and

(ii) any amounts then due and payable to the Corporate Services Provider and any costs, charges, liabilities and expenses then due and payable to the Corporate Services Provider under the provisions of the Corporate Services Agreement, together with (if payable) VAT thereon as provided therein;

(c) *third*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:

(i) any amounts due and payable to the Administrator and any costs, charges, liabilities and expenses then due and payable to the Administrator under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;

(ii) any amounts due and payable to the Back-Up Administrator and any costs, charges, liabilities and expenses then due and payable to the Back-Up Administrator under the provisions of the Back-Up Administration Agreement, together with (if payable) VAT thereon as provided therein;

(iii) any amounts then due and payable to the Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Cash Manager under the provisions of the Cash Management Agreement, together with (if payable) VAT thereon as provided therein;

(iv) any amounts then due and payable to the Back-Up Cash Manager and any costs, charges, liabilities and expenses then due and payable to the Back-Up Cash Manager under the provisions of the Back-Up Cash Management Agreement, together with (if payable) VAT thereon as provided therein;

(v) any amounts then due and payable to the Account Bank, any Replacement Account Bank or the Swap Collateral Account Bank (if appointed) and any costs, charges, liabilities and expenses then due and payable to the Account Bank, any Replacement Account Bank or any Swap Collateral Account Bank (if appointed), as applicable, under the provisions of the Account Bank Agreement, any Replacement Bank Account Agreement or other agreement governing the operation of such Swap Collateral Account, together with (if payable) VAT thereon as provided therein; and

(vi) any amounts then due and payable to the Back-Up Administrator Facilitator and any costs, charges, liabilities and expenses then due and payable to the Back-Up Administrator Facilitator under the provisions of the Administration Agreement, together with (if payable) VAT thereon as provided therein;

(d) *fourth,* to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Swap Agreement amounts due and payable to the Swap Provider in respect of the Swap Agreement (including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any Swap Subordinated Amounts);

(e) *fifth,* to pay interest due and payable on the Class A Notes;

(f) *sixth,* to pay principal due and payable on the Class A Notes;

(g) *seventh*, interest due and payable on the Class B Notes (including any Deferred Interest and Additional Interest thereon);

(h) *eighth*, to pay *pro rata* and *pari passu* principal due and payable on the Class B Notes;

(i) *ninth*, to pay *pro rata* and *pari passu* according to the amount thereof and in accordance with the terms of the Swap Agreement, to the Swap Provider any Swap Subordinated Amount;

(j) *tenth*, to pay all amounts of interest due and payable or accrued (if any) but unpaid and any capitalised interest and amounts of principal due to the Subordinated Loan Provider under the Subordinated Loan Agreement;

(k) *eleventh*, to the Issuer, the Issuer Profit Amount;

(l) *twelfth*, to pay any amounts required by the Issuer to pay or discharge any liability of the Issuer to corporation tax (which cannot be made out of amounts retained previously by the Issuer or profit paid to the Issuer under item (k) above); and

(m) *thirteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

Investor Reports

The Cash Manager on behalf of the Issuer will publish the monthly Investor Report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such Investor Reports will be published on the Seller's website at www.skipton.co.uk, the first Investor Report being provided no earlier than the date falling one month from the Closing Date. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

Back-Up Cash Manager

On the Closing Date, the Cash Manager will appoint the Back-Up Cash Manager to perform certain back-up cash management services pursuant to the Back-Up Cash Management Agreement between the Cash Manager, the Issuer, the Seller, the Administrator, the Trustee and the Back-Up Cash Manager dated on or prior to the Closing Date (the "**Back-Up Cash Management Agreement**"). Upon the occurrence of the termination of the appointment of the Cash Manager under the Cash Management Agreement, the Back-Up Cash Manager will replace the Cash Manager under the terms of the Replacement Cash Management Agreement.

Should the Back-Up Cash Manager be appointed to replace the Cash Manager in carrying out the cash management services, the disclosure of all subsequent Investor Reports will be made in the manner agreed at the relevant time between the Issuer and the Back-Up Cash Manager and notified by the Issuer to the Noteholders in accordance with the Conditions.

If, due to a change in the prevailing circumstances then applicable to the Cash Manager, the requirement to have in place an appointed back-up cash manager is no longer applicable, then the appointment of the

Back-Up Cash Manager may be terminated in accordance with the provisions of the Back-Up Cash Management Agreement without the need for the simultaneous replacement of the Back-Up Cash Manager with a successor back-up cash manager.

DESCRIPTION OF THE NOTES IN GLOBAL FORM

General

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

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

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

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

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

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

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

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

Event of Default under the Global Notes, holders of Book-Entry Interests will be restricted to acting through Euroclear or Clearstream, Luxembourg unless and until Definitive Certificates are issued in accordance with the Conditions. There can be no assurance that the procedures to be implemented by Euroclear or Clearstream, Luxembourg under such circumstances will be adequate to ensure the timely exercise of remedies under the Trust Deed.

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

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

Trading between Euroclear and/or Clearstream, Luxembourg participants

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

Payments on the Global Notes

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

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

Information Regarding Euroclear and Clearstream, Luxembourg

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

Euroclear and Clearstream, Luxembourg

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

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

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

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

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

Redemption

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

Cancellation

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

Transfers and Transfer Restrictions

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

Beneficial interests in the Global Notes may be held only through Euroclear and Clearstream, Luxembourg. Neither the Global Notes nor any beneficial interest therein may be transferred except in compliance with the transfer restrictions set forth in the legend appearing in the Global Notes.

Settlement and transfer of notes

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

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

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

Issuance of Definitive Certificates

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

Any Definitive Certificates issued in exchange for Book-Entry Interests in a Global Note will be registered by the Registrar in such name or names as the Issuer shall instruct the Principal Paying Agent based on the instructions of Euroclear or Clearstream, Luxembourg. It is expected that such instructions will be based upon directions received by Euroclear or Clearstream, Luxembourg from their Participants with respect to ownership of the relevant Book Entry Interests. Holders of Definitive Certificates issued in exchange for Book-Entry Interests in a Global Note, as the case may be, will not be entitled to exchange such Definitive Certificate, for Book-Entry Interests in a Global Note. Any Notes issued in definitive form will be issued in registered form only and will be subject to the provisions set forth under "*Transfers and Transfer Restrictions*" above provided that no transfer shall be registered for a period of 15 days immediately preceding any due date for payment in respect of the Note or, as the case may be, the due date for redemption. Definitive Certificates will not be issued in a denomination that is not an integral multiple of the Minimum Denomination or for any amount in excess thereof, in integral multiples of £1,000. As the Notes have a denomination consisting of the Minimum Denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of £100,000 (or its equivalent) that are not integral multiples of £100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the

Minimum Denomination may not receive a Definitive Certificate in respect of such holding (should Definitive Certificates be issued) and would need to purchase a principal amount of Notes such that its holding amounts to the Minimum Denomination.

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

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

Reports

The Issuer will send to Euroclear and Clearstream, Luxembourg a copy of any notices, reports and other communications received relating to the Issuer, the Global Note or the Book-Entry Interests. Any notice shall be deemed to have been duly given to the relevant Noteholders if sent to each of Euroclear and Clearstream, Luxembourg (the "**Clearing Systems**") for communication by them to the holders of the relevant Notes and shall be deemed to be given on the date on which it was so sent and (so long as the relevant Notes are admitted to trading and listed on the Official List) any notice shall also be published in accordance with the relevant guidelines of the Irish Stock Exchange. See also Condition 22 (*Notices*) of the Notes.

TERMS AND CONDITIONS OF THE NOTES

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

1. **General**

1.1 The £400,000,000 Class A Mortgage Backed Floating Rate Notes due 2047 (the "**Class A Notes**") and the £47,000,000 Class B Mortgage Backed Floating Rate Notes due 2047 (the "**Class B Notes**" and, together with the Class A Notes, the "**Notes**") will be issued by Darrowby No. 3 plc (registered number 8603124) (the "**Issuer**") on or about the Closing Date.

1.2 The Issuer has agreed to issue the Notes subject to and with the benefit of the terms of the Trust Deed and the Agency Agreement. The security for the Notes is created pursuant to, and on the terms set out in, the Deed of Charge.

1.3 The Agency Agreement records certain arrangements in relation to the payment of interest and principal in respect of the Notes.

1.4 Certain provisions of these Conditions are summaries of the Trust Documents and the Incorporated Terms Memorandum and the Agency Agreement and are subject to their detailed provisions.

1.5 The Noteholders are bound by the terms of the Trust Documents and the Incorporated Terms Memorandum, and are deemed to have notice of all the provisions of the Transaction Documents.

1.6 Copies of the Transaction Documents, the Incorporated Terms Memorandum and the Memorandum and Articles of Association of each of the Issuer and Holdings are available for inspection by Noteholders during normal business hours at the Specified Office of the Principal Paying Agent, the initial Specified Office of which is set out below.

2. **Definitions**

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

"**Account Bank**" means Citibank N.A., London Branch acting in such capacity (or any successor duly appointed);

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

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

"**Administration Agreement**" means the agreement so named dated on or about the Closing Date between the Issuer, the Back-Up Administrator Facilitator, the Administrator, the Seller and the Trustee, and/or any successor or replacement administration agreement entered into by the Issuer from time to time;

"**Administration Services**" or "**Services**" means the services to be provided by the Administrator set out in the Administration Agreement including in schedule 1 (*The Services*) thereto and the services to be provided under the Replacement Administration Agreement, as the case may be;

"**Administrator**" means Skipton Building Society or such other person as may from time to time be appointed as administrator of the relevant Loans in the Portfolio pursuant to the Administration Agreement and the Replacement Administration Agreement;

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

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

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

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

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

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

"**Authorised Investments**" means:

(a) Sterling gilt-edged securities and/or Sterling treasury bills ("**UK Government Securities**"), Sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper), *provided that* in each case such investments are scheduled to mature on or before the next Interest Payment Date subject to:

  (i) investments with remaining maturities which are greater than or equal to three months, having a short term rating of at least F1+ by Fitch and P-1 by Moody's and a long term rating of AA- by Fitch and Aa3 by Moody's (or such other short term or long term rating which would not affect the then current rating of the Class A Notes); or

  (ii) investments with remaining maturities which are greater than or equal to 30 days but less than three months, having a short term rating of at least F1+ by Fitch and P-1 by Moody's and a long term rating of AA- by Fitch and A2 by Moody's (or such other short term or long term rating which would not affect the then current rating of the Class A Notes); or

  (iii) investments with remaining maturities which are less than 30 days, having a short-term rating of at least F1 by Fitch and P-1 by Moody's and a long term rating of A by Fitch and A2 by Moody's (or such other short term or long term rating which would not affect the then current rating of the Class A Notes); or

(b) Reverse Repo transactions, provided that in all cases such Reverse Repo transactions are scheduled to mature on or before the next Interest Payment Date and:

  (i) are entered into with a counterparty which is rated at least A (long term) and F1 (short term) by Fitch and A2 (long term) and P-1 (short term) by Moody's (where the maturity of the Reverse Repo transaction is less than 30 days), or AA- (long term) and F1+ (short term) by Fitch and A2 (long term) and P-1 (short term) by Moody's (where the maturity of the Reverse Repo transaction is greater than or equal to 30 days); or

  (ii) relate to either:

    (A) the sale and repurchase of Standard Permitted Investments; or

(B) the sale and repurchase of UK Government Securities having a long term rating of at least AA- by Fitch and Aa3 by Moody's and maturing within 10 years of the next Interest Payment Date, where the Valuation Percentage is required to be equal to or less than the Maximum Valuation Percentage on each Business Day, such Valuation Percentage value to be determined and tested by the Cash Manager on each Business Day, *provided that* the underlying UK Government Securities purchased under the Reverse Repo are required to be sold by the Issuer within 1 business day following the occurrence of an event of default by the relevant repo counterparty.

For the purposes of the definition of "Authorised Investments", "**Standard Permitted Investments**" means investments falling within paragraph (a) of the definition of "Authorised Investments".

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

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

(a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period;

(b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (j) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date; and

(c) in respect of the first Interest Period only, any funds representing the excess of the proceeds of the issue of the Notes over the Initial Consideration,

less:

(x) the amount of Principal Receipts received by the Issuer during the immediately preceding Collection Period which are to be applied to cover Remaining Income Deficits on such Interest Payment Date; and

(y) the amount of Principal Receipts to the extent comprised in paragraph (a) above used or to be used by the Issuer to purchase Further Advances made during the immediately preceding Collection Period;

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

(a) Revenue Receipts received during the immediately preceding Collection Period, less amounts applied during such Collection Period in making payment of certain moneys which properly belong to third parties such as (but not limited to):

(i) payments of certain insurance premiums;

(ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account (including any amounts required to satisfy any of the obligations and/or liabilities incurred by the Collection Account Bank under the direct debit scheme), any other amounts due to the Collection Account Bank in respect of amounts which are credited to the Collection Account but which are subsequently recalled or reversed as an unpaid sum and the Collection Account Bank's fees and charges for the operation of the Collection Account;

(iii) any amount received from a Borrower at any time (including upon redemption of the relevant Loan) for the express purpose of payment being made to a third party or the Seller for the provision of a service to that Borrower or the Seller,

(items within paragraphs (i), (ii) and (iii) being collectively referred to herein as "**Permitted Withdrawals**"), which amounts may be deducted by the Cash Manager on a daily basis from the Transaction Account to make payment to the persons entitled thereto;

(b) interest payable to the Issuer on the Transaction Account and income from any Authorised Investments in each case received during the immediately preceding Collection Period;

(c) amounts received by the Issuer under the Swap Agreement (other than (i) any amounts or securities to be credited to the Swap Collateral Accounts; and (ii) any amount received by the Issuer in respect of Swap Tax Credits) on or in respect of such Interest Payment Date;

(d) any Swap Collateral Account Surplus;

(e) any amounts standing to the credit of the General Reserve Fund equal to the General Reserve Fund Excess, provided that the General Reserve Fund Excess Conditions (if applicable) are met;

(f) in respect of the first Interest Period, all amounts representing the Initial Revenue Advance, if any; and

(g) other net income of the Issuer received during the immediately preceding Collection Period, excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (e) above;

"**Back-Up Administration Agreement**" means the agreement dated on or about the Closing Date between the Back-Up Administrator, the Administrator, the Back-Up Administrator Facilitator, the Seller, the Issuer and the Trustee pursuant to which the Back-Up Administrator will be appointed as back-up administrator in relation to the Loans or any agreement entered into between the Issuer, the Trustee and any replacement back-up administrator;

"**Back-Up Administrator**" means Crown Management Limited in its capacity as back-up administrator pursuant to the Back-Up Administration Agreement (or any successor duly appointed);

"**Back-Up Administrator Facilitator**" means Structured Finance Management Limited (or any successor duly appointed);

"**Back-Up Cash Management Agreement**" means the agreement so named dated on or about the Closing Date between the Back-Up Cash Manager, the Issuer, the Seller, the Cash Manager, the Administrator and the Trustee pursuant to which the Back-Up Cash Manager will be appointed as back-up cash manager or any agreement entered into between the Issuer, the Seller, the Cash Manager and the Trustee and any replacement Back-Up Cash Manager;

"**Back-Up Cash Manager**" means The Royal Bank of Scotland plc in its capacity as back-up cash manager pursuant to the Back-Up Cash Management Agreement (or any successor duly appointed);

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

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

"**Building Societies Act**" means the Building Societies Act 1986;

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

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

"**Capital Balance**" means in respect of a Loan at any date the principal balance of that Loan;

"**Capitalised Arrears**" means, in relation to any Loan, at any date, amounts (excluding Arrears of Interest or amounts comprising Capitalised Expenses) which are overdue in respect of that Loan and which as at that date have been added to the Capital Balance of the Loan in accordance with the Mortgage Conditions or otherwise by arrangement with the relevant Borrower;

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

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

"**Cash Management Agreement**" means the cash management agreement so named entered into on or about the Closing Date between the Cash Manager, the Issuer and the Trustee and/or any successor or replacement cash management agreement entered into by the Issuer from time to time;

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

"**Charged Accounts**" means the Issuer Accounts, the Swap Collateral Accounts and any bank or other account in which the Issuer may at any time acquire a Benefit and over which the Issuer has created an Encumbrance in favour of the Trustee pursuant to the Deed of Charge;

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

"**Class A Global Note**" means the global note representing the Class A Notes;

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

"**Class A Notes**" means the £400,000,000 Class A mortgage backed floating rate notes due 2047;

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

"**Class B Global Note**" means the global note representing the Class B Notes;

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

"**Class B Notes**" means the £47,000,000 Class B mortgage backed floating rate notes due 2047;

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

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*, with offices at 42 Avenue J.F. Kennedy L-1855 Luxembourg;

"**Closing Date**" means 16 April 2014, or such other date as the Issuer, the Joint Lead Managers and the Seller may agree;

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

"**Collection Account Bank**" means Barclays Bank PLC acting in its capacity as the bank at which the Collection Account is maintained;

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

"**Collection Period**" means each period from (but excluding) the last day in the calendar month immediately preceding a Calculation Date (or, in the case of the first Collection Period, from (and including) 1 April 2014) to (and including)) the last day in the calendar month immediately preceding the immediately following Calculation Date (or, in the case of the first Collection Period, the last day in the calendar month immediately preceding the first Calculation Date);

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

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

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

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

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

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

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

(a) the items described in (a) to (m) inclusive of the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date;

(b) the items described in (a) and (b) inclusive of the Pre-Enforcement Principal Priority of Payments on each Interest Payment Date; or

(c) the items described in (a) to (l) inclusive of the Post-Enforcement Priority of Payments;

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

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

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

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

"**Euroclear**" means Euroclear Bank S.A./N.V., with offices in 1 Boulevard du Roi Albert II B-1210 Brussels, Belgium, and any successor to such business;

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

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

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

"**FATCA**" means the rules of U.S. Internal Revenue Code Sections 1471 through 1474 (or any amended or successor provisions), any inter-governmental agreement or implementing legislation adopted by another jurisdiction or any agreement with the US Internal Revenue Service in connection with these provisions;

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

"**Final Maturity Date**" means the Interest Payment Date falling in March 2047;

"**First Interest Payment Date**" means the Interest Payment Date falling in June 2014;

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

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

"**FSMA**" means the Financial Services and Markets Act 2000;

"**Further Advance**" means, in relation to a Loan, any advance of further money after the Closing Date following a request from an existing Borrower following the making of the Loan which is secured by the same Property as the Loan where the Seller has a discretion as to whether to accept that request, but does not include the amount of any retention advanced to the relevant Borrower as part of the Initial Advance after completion of the Mortgage;

"**General Reserve Fund**" means the reserve fund established on the Closing Date which will be initially funded by the Subordinated Loan up to the General Reserve Required Amount and which will subsequently be funded from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments;

"**General Reserve Fund Excess**" means, on any Interest Payment Date, the amount by which the funds standing to the credit of the General Reserve Fund (after deducting any amounts to be applied to eliminate any Income Deficit) exceed the General Reserve Required Amount;

"**General Reserve Fund Excess Conditions**" means each of the following conditions:

(a) no Event of Default has occurred and is continuing;

(b) the Class A Principal Deficiency Sub-Ledger will not have a debit balance on the next Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;

(c) the Current Balance of the Loans comprising the Portfolio, in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 5 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio;

(d) cumulative Losses on the Portfolio represent less than 1 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio as at the Closing Date; and

(e) the current LTV ratio of the Loans is less than 95 per cent.;

"**General Reserve Required Amount**" means (i) on the Closing Date and up to (but excluding) the Interest Payment Date falling no earlier than six months after the Closing Date £12,292,500.00 (being an amount equal to 2.75 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date), (ii) on and after the Interest Payment Date falling no earlier than six months after the Closing Date, 3 per cent. of the aggregate Principal Amount Outstanding of the Notes on such date, subject to a minimum of £8,940,000.00 (being an amount equal to 2 per cent. of the aggregate Principal Amount Outstanding of the Notes as at the Closing Date) and a maximum of £12,292,500.00 (being an amount equal to 2.75 per cent. of the Principal Amount Outstanding of the Notes as at the Closing Date), provided that if the General Reserve Fund Excess Conditions are not satisfied on the Calculation Date immediately preceding the relevant Interest Payment Date, the General Reserve Required Amount shall be such amount as determined on the immediately preceding Interest Payment Date and (iii) upon redemption of the Class A Notes in full, zero;

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

"**Holdings**" means Darrowby 3 Holdings Limited (registered number 8819714), a private limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;

"**In Arrears**" means, in respect of a mortgage account, that one or more monthly payments in respect of such mortgage account have become due and remain unpaid (either in whole or in part) by a Borrower;

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

"**Initial Advance**" means, in relation to a Loan, the original principal amount together with the amount of any retention advanced to the relevant Borrower after completion of the Mortgage, and it may include any fees (if capitalised);

"**Initial Consideration**" means £447,000,282.43 which is paid by the Issuer to the Seller in partial consideration of the Seller's sale to the Issuer of the Loans and their Related Security comprising the Portfolio;

"**Insolvency Act**" means the Insolvency Act 1986;

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

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

(a) multiplying the Principal Amount Outstanding of such Note on the Interest Payment Date coinciding with such Interest Determination Date by the relevant Note Rate; and

(b) then multiplying the amount so calculated in paragraph (a) by the relevant Day Count Fraction and rounding the resultant figure to the nearest Minimum Amount;

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

"**Interest Determination Ratio**" means (i) the aggregate Revenue Receipts calculated in the three preceding Administrator Reports divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Administrator Reports;

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

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

"**Irish Stock Exchange**" means the Irish Stock Exchange Limited;

"**Issuer**" means Darrowby No. 3 plc (registered number 8603124), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St Helen's, London EC3A 6AP;

"**Issuer Accounts**" means the Transaction Account, any Replacement Bank Account and any Additional Account(s) established or to be established pursuant to the Account Bank Agreement;

"**Issuer Covenants**" means the covenants of the Issuer set out in Schedule 5 of the Incorporated Terms Memorandum;

"**Issuer Insolvency Event**" in respect of the Issuer means:

(a) the Issuer is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts; or

(b) a moratorium is declared in respect of any indebtedness of the Issuer; or

(c) the commencement of negotiations with one or more creditors of the Issuer with a view to rescheduling any indebtedness of the Issuer other than in connection with any refinancing in the ordinary course of business; or

(d) any corporate action, legal proceedings or other procedure or step is taken in relation to:

    (i) the appointment of an Insolvency Official in relation to the Issuer or in relation to the whole or any part of its undertaking or assets except the application to the Court under paragraph 12 or the filing of notice of intention to appoint an administrator under paragraph 26 of Schedule B1 to the Insolvency Act by the Issuer or its directors, or the appointment of an administrative receiver by the Trustee following any such application or notice; or

    (ii) an encumbrancer (excluding the Trustee or any Receiver) taking possession of the whole or (in the opinion of the Trustee) any substantial part of the undertaking or assets of the Issuer; or

    (iii) the making of an arrangement, composition, or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of the Issuer, a reorganisation of the Issuer, a conveyance to or assignment for the creditors of the Issuer generally or the making of an application to a court of competent jurisdiction for protection from the creditors of the Issuer generally other than in connection with any refinancing in the ordinary course of business; or

(iv) any distress, execution, attachment, diligence or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of the Issuer (excluding by the Trustee or any Receiver); or

(e) any procedure or step is taken, or any event occurs, analogous to those set out in (a) - (d) above, in any jurisdiction;

"**Issuer Jurisdiction**" means England and Wales (and the United Kingdom, for tax purposes) or such other jurisdiction in which the Issuer or any Issuer substitute (as contemplated by Condition 21 (*Substitution of Issuer*)) is incorporated and/or subject to taxation;

"**Issuer Power of Attorney**" means the power of attorney granted by the Issuer in favour of the Trustee under the Deed of Charge on the Closing Date;

"**Issuer Profit Amount**" means £7,000 on each Interest Payment Date until (and including) the Interest Payment Date in December 2014 and £300 on each Interest Payment Date thereafter in each case to be credited to the Transaction Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

"**Issuer Variable Rate**" means any variable rate applicable to a Variable Rate Loan, a Capped (Variable) Loan and a Discount Rate Loan in the Portfolio;

"**Joint Lead Managers**" means HSBC Bank plc and The Royal Bank of Scotland plc;

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

"**LIBOR**" means the London Interbank Offered Rate;

"**Loans**" means the residential loans in the Portfolio sold or to be sold (as applicable) to the Issuer by the Seller on or about the Closing Date pursuant to the Mortgage Sale Agreement and the residential loans which are Substitute Loans sold or to be sold (as applicable) to the Issuer by the Seller on any Substitution Date, pursuant to the Mortgage Sale Agreement including, where the context so requires, any further advance made by the Seller to a Borrower prior to the Closing Date and sold to the Issuer pursuant to the Mortgage Sale Agreement, each Further Advance sold or to be sold (as applicable) to the Issuer by the Seller after the Closing Date and any loan which is the subject of a Product Switch but excluding (for the avoidance of doubt) each loan and its Related Security redeemed or repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it;

"**Losses**" means any losses arising in relation to a Loan in the Portfolio which causes a shortfall in the amount available to pay principal on the Notes;

"**Maximum Valuation Percentage**" means for any UK Government Securities sold to the Issuer under a Reverse Repo, the Repo Applicable Percentage Value. Where UK Government Securities with differing maturities have been sold to the Issuer under a Reverse Repo agreement, the Maximum Valuation Percentage will be the weighted average of the Repo Applicable Percentage Value for each such UK Government Security;

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

"**Minimum Amount**" means one penny;

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

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

"**Mortgage**" means each English Mortgage and each Scottish Mortgage, and together the "**Mortgages**";

"**Mortgage Conditions**" means the terms and conditions applicable to a Loan and/or Mortgage as contained in the Seller's "Mortgage Conditions" booklet applicable from time to time;

"**Mortgage Sale Agreement**" means the agreement so named dated on or about the Closing Date between the Seller, the Issuer, the Trustee and the Administrator in relation to the sale of the Portfolio to the Issuer;

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

"**Note Principal Payment**" means the principal amount redeemable in respect of each Note of a particular class, which shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such class of Notes rounded down to the nearest Minimum Amount; provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note;

"**Note Rate**" for each Interest Period means in respect of each class of Notes, the Reference Rate determined as at the related Interest Determination Date plus the Relevant Margin in respect of such class;

"**Noteholder**" means the Class A Noteholders and the Class B Noteholders or, where the context otherwise requires, the holders of Notes of a particular class or classes, as the case may be;

"**Notes**" means the Class A Notes and the Class B Notes;

"**Notices Condition**" means Condition 22 (*Notices*);

"**Notices Details**" means, in relation to any Agent, the provisions set out in Schedule 7 (*Notice Details*) of the Incorporated Terms Memorandum;

"**outstanding**" means, in relation to the Notes, all the Notes other than:

(a) those which have been redeemed in full and cancelled in accordance with the Conditions;

(b) those in respect of which the date for redemption, in accordance with the provisions of the Conditions, has occurred and for which the redemption monies (including all interest accrued thereon to such date for redemption) have been duly paid to, or to the order of, the Trustee or the Principal Paying Agent in the manner provided for in the Agency Agreement (and, where appropriate, notice to that effect has been given to the Noteholders in accordance with the Notices Condition) and remain available for payment in accordance with the Conditions;

(c) those which have been purchased and surrendered for cancellation as provided in Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and notice of the cancellation of which has been given to the Trustee;

(d) those which have become void under the Conditions;

(e) those mutilated or defaced Notes which have been surrendered or cancelled and those Notes which are alleged to have been lost, stolen or destroyed and in all cases in respect of which replacement Notes have been issued pursuant to the Conditions; and

(f) any Global Note, to the extent that it shall have been exchanged for the related Definitive Certificates pursuant to the provisions contained therein and the Conditions;

provided that for each of the following purposes, namely:

(i) the right to attend and vote at any meeting of Noteholders;

(ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 16 (*Waiver*), Clause 17 (*Modifications*), Clause 20 (*Proceedings and Actions by the Trustee*), Clause 28 (*Appointment of Trustees*) and Clause 29 (*Notice of New Trustee*) of the Trust Deed and Condition 13 (*Events of Default*), Condition 14 (*Enforcement*) and Condition 16 (*Meetings of Noteholders*) and the Provisions for Meetings of Noteholders; and

(iii) any discretion, power or authority, whether contained in the Trust Deed or provided by law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them,

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

"**Participants**" means persons that have accounts with Euroclear or Clearstream, Luxembourg;

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

"**Portfolio**" means the portfolio of Loans, the Mortgages, the Related Security and all moneys derived therefrom sold to the Issuer by the Seller on the Closing Date and thereafter in accordance with the terms of the Mortgage Sale Agreement (including pursuant to a substitution);

"**Post-Enforcement Priority of Payments**" means the provisions relating to the order of priority of payments from the Charged Accounts, set out in Clause 16 (*Post-Enforcement Priority of Payments*) of the Deed of Charge;

"**Potential Event of Default**" means any event which may become (with the passage of time, the giving of notice, the making of any determination or any combination thereof) an Event of Default;

"**Pre-Enforcement Principal Priority of Payments**" means the provision relating to the order of priority of payments from the Principal Ledger set out in Schedule 2 of the Cash Management Agreement;

"**Pre-Enforcement Revenue Priority of Payments**" means the provisions relating to the order of priority of payments from the Revenue Ledger set out in Schedule 2 of the Cash Management Agreement;

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

(a) in relation to a Note, the principal amount outstanding of that Note as at the Closing Date, less the aggregate amount of any principal payments in respect of that Note which have become due and payable (and been paid) on or prior to that day;

(b) in relation to a class, the aggregate of the amount in (a) in respect of all Notes outstanding in such class; and

(c) in relation to the Notes outstanding at any time, the aggregate of the amount in (a) in respect of all Notes outstanding, regardless of class;

"**Principal Deficiency Ledger**" means the Principal Deficiency Ledger comprising the Class A Principal Deficiency Sub-Ledger and the Class B Principal Deficiency Sub-Ledger maintained by the Cash Manager on behalf of the Issuer which records on it all deficiencies arising from Losses allocated to the Notes and Principal Receipts used to pay a Remaining Income Deficit;

"**Principal Ledger**" means the ledger maintained by the Cash Manager on behalf of the Issuer which records all Principal Receipts received by the Issuer and the distribution of the Principal Receipts in accordance with the provisions of the Cash Management Agreement and in particular with the Pre Enforcement Principal Priority of Payments or the Post Enforcement Priority of Payments (as applicable);

"**Principal Paying Agent**" means Citibank N.A., London Branch in its capacity as principal paying agent in accordance with the terms of the Agency Agreement (or any successor duly appointed);

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

"**Priorities of Payments**" means the Pre-Enforcement Revenue Priority of Payments, the Pre-Enforcement Principal Priority of Payments and the Post-Enforcement Priority of Payments;

"**Product Switch**" means a change or variation in the financial terms and conditions applicable to a Borrower's Loan other than:

(a) an addition or a release of a party to the Loan;

(b) any variation agreed with a Borrower to control or manage arrears on the Loan;

(c) any variation which extends the maturity date of the Loan up to the Interest Payment Date falling in March 2044;

(d) any variation imposed by statute; and

(e) any variation of a Loan from repayment loan to an interest only loan or vice *versa*.

"**Property**" means a freehold, heritable or leasehold property (or in Scotland property held under a long lease) which is subject to a Mortgage;

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

"**Rating Agencies**" means Moody's and Fitch and "**Rating Agency**" means any of them;

"**Receiver**" means any receiver, manager, administrator, receiver or manager, or administrative receiver appointed in respect of the Issuer by the Issuer at the request of the Trustee or by the Trustee in accordance with Clause 18.2 (*Appointment of a Receiver*) of the Deed of Charge;

"**Reconciliation Amount**" means in respect of any Collection Period, (i) the actual Principal Receipts as determined in accordance with the available Administrator Reports, less (ii) the calculated Principal Receipts in respect of such Collection Period, plus (iii) any Reconciliation Amount not applied in previous Collection Periods;

"**Reference Banks**" means the principal London office of four major banks in the London interbank market, selected by the Issuer (as approved by the Trustee) at the relevant time;

"**Reference Rate**" means, on any Interest Determination Date, the floating rate determined by the Agent Bank by reference to the Screen Rate on such date or if, on such date, the Screen Rate is unavailable:

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

(b) if, on such date, two or three only of the Reference Banks provide such quotations, the rate determined in accordance with paragraph (a) above on the basis of the quotations of those Reference Banks providing such quotations; or

(c) if, on such date, one only or none of the Reference Banks provide such a quotation, the Reserve Reference Rate;

"**Register**" means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

"**Registrar**" means the party responsible for the registration of the Notes, which at the Closing Date is Citibank N.A., London Branch acting in such capacity pursuant to the Agency Agreement (or any successor duly appointed);

"**Related Security**" means, in relation to a Loan, the security for the repayment of that Loan including the relevant Mortgage and all other matters applicable thereto acquired as part of the Portfolio sold to the Issuer pursuant to the Mortgage Sale Agreement including (without limitation):

(a) the benefit of all affidavits, declarations, consents, renunciations, guarantees, indemnities, waivers and postponements (including, without limitation, deeds of consent relating to the relevant Property) from occupiers and other persons having an interest in or rights in connection with the relevant Property (including any such affidavits, declarations, consents or renunciations granted in terms of the Matrimonial Homes (Family Protection) (Scotland) Act 1981 or (as applicable) the Civil Partnership Act 2004 in connection with a Scottish Mortgage or the property secured thereby);

(b) each right of action of the Seller against any person (including, without limitation, any solicitor, licensed conveyancer, qualified conveyancer, valuer, registrar or registry or other person) in connection with any report, valuation, opinion, certificate or other statement of fact or opinion (including, without limitation, each Certificate of Title and Valuation Report) given or received in connection with all or part of any Loan and its Related Security or affecting the decision of the Seller to make or offer to make all or part of the Loan; and

(c) the benefit of (including, without limitation, the rights as the insured person under and as notations of interest on, and returns of premium and proceeds of claims under) insurance and assurance policies (including, the relevant Insurance Policies) deposited, charged, obtained, or held in connection with the Loan, Mortgage and/or Property and relevant Loan files;

"**Relevant Margin**" means:

(a) for the Class A Notes, 0.57 per cent. per annum up to and excluding the Step-Up Date and thereafter 1.14 per cent. per annum; and

(b) for the Class B Notes, 0 per cent. per annum;

"**Relevant Period**" means, in relation to the first Interest Determination Date, the linear interpolation of 2 months and 3 months and, in relation to each subsequent Interest Determination Date, the length in months of the related Interest Period;

"**Relevant Screen**" means a page of the Reuters service or of the Bloomberg service, or of any other medium for the electronic display of data as may be selected by the Issuer or the Cash Manager on behalf of the Issuer and approved in writing by the Trustee and as has been notified to the Noteholders in accordance with Condition 22;

"**Remaining Income Deficit**" means for each Calculation Date, the extent, if any, by which Available Revenue Receipts are insufficient to pay or provide for payment of items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments after application by the Cash Manager (on behalf of the Issuer) of amounts standing to the credit of the General Reserve Fund;

"**Replacement Account Bank**" means any bank at which the Issuer holds a Replacement Bank Account which has at least the Account Bank Required Minimum Rating (or any successor duly appointed);

"**Replacement Account Bank Agreement**" means an agreement entered into pursuant to the Account Bank Agreement between the Issuer, the Trustee and a Replacement Account Bank in relation to the Replacement Bank Account;

"**Replacement Bank Account**" means an account of the Issuer with a Replacement Account Bank designated as such in accordance with the terms of the Account Bank Agreement;

"**Replacement Cash Management Agreement**" means the agreement so named dated on or about the Closing Date between the Issuer, the Seller, the Trustee and the Back-Up Cash Manager pursuant to which the Back-Up Cash Manager will replace the Cash Manager in providing the cash management services and/or any successor replacement cash management agreement entered into by the Issuer from time to time;

"**Repo Applicable Percentage Value**" means:

(a) In relation to fixed rate Sterling denominated UK Government securities with a remaining maturity of:

    (i) less than or equal to one year, 99 per cent.;

    (ii) greater than one year and less than or equal to two years, 98 per cent.;

    (iii) greater than two years and less than or equal to three years, 97 per cent.;

    (iv) greater than three years and less than or equal to five years, 96 per cent.;

    (v) greater than five years and less than or equal to seven years, 95 per cent.;

    (vi) greater than seven years and less than or equal to ten years, 94 per cent.; and

    (vii) greater than ten years, 90 per cent.; and

(b) in relation to floating rate Sterling denominated UK Government securities, 99 per cent.;

"**Representative Amount**" means £10,000,000;

"**Reserve Reference Rate**" means on any Interest Determination Date, if the Agent Bank certifies that it cannot determine a rate in accordance with paragraphs (a) or (b) of the definition of Reference Rate, or if no major banks have been selected by the Issuer (as approved by the Trustee) pursuant to the definition of Reference Banks, the Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

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

(a) to change any date fixed for payment of principal or interest in respect of the Notes of any class, to modify the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of, or date fixed for, any payment in respect of the Notes of any class;

(b) (except in accordance with Condition 21 (*Substitution of Issuer*) and Clause 16 (*Substitution*) of the Trust Deed) to effect the exchange, conversion or substitution of the Notes of any class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

(c) to change the currency in which amounts due in respect of the Notes are payable;

(d) to alter the priority of payment of interest or principal in respect of the Notes;

(e) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution of holders of the Most Senior Class then outstanding; or

(f) to amend this definition;

"**Revenue Ledger**" means the ledger maintained by the Cash Manager on behalf of the Issuer which records all Revenue Receipts received by the Issuer and distribution of the same in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);

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

"**Reverse Repo**" means a sale and repurchase agreement substantially in the form of the Global Master Repurchase Agreement entered into by the Issuer with a market counterparty pursuant to which the Issuer may agree to purchase certain debt securities from the repo counterparty at an agreed purchase price for an agreed period (such debt securities to be held under custody arrangements, on trust for the benefit of the Issuer) with an obligation to sell equivalent debt securities back to the repo counterparty at the maturity of the transaction, and subject to periodic mark to market margining. If the debt securities purchased by the Issuer from the repo counterparty under the Reverse Repo are in default on the maturity of the transaction, the repo counterparty shall remain liable to pay to the Issuer the agreed re-purchase price;

"**Rounded Arithmetic Mean**" means the arithmetic mean (rounded, if necessary, to the nearest 0.0001 per cent., 0.00005 per cent. being rounded upwards);

"**Scottish Declaration of Trust**" means each declaration of trust in relation to the relevant Scottish Loans and their Related Security made pursuant to the Mortgage Sale Agreement by means of which the sale of such Scottish Loans and their Related Security by the Seller to the Issuer and the transfer of the beneficial interest therein to the Issuer are given effect and together the "**Scottish Declarations of Trust**";

"**Scottish Loan**" means a Loan secured by a Scottish Mortgage;

"**Scottish Mortgage**" means a first priority standard security over a heritable Property or Property held under a long lease located in Scotland;

"**Scottish Sub-Security**" means each standard security to be executed in the form of schedule 2 to the Deed of Charge;

"**Scottish Supplemental Charge**" means each supplemental assignation in security governed by Scots law granted by the Issuer in favour of the Trustee pursuant to the Deed of Charge;

"**Screen**" means Reuters Screen LIBOR01; or

(a) such other page as may replace Reuters Screen LIBOR01 on that service for the purpose of displaying such information; or

(b) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one selected by the Issuer or the Cash Manager on behalf of the Issuer and approved in writing by the Trustee) as may replace such screen;

"**Screen Rate**" means, in relation to (i) the first Interest Determination Date, the linear interpolation of the offered quotations for sterling deposits for the Relevant Period in the London interbank market displayed on the Screen or (ii) any subsequent Interest Determination Date, the offered quotations for Sterling deposits for the Relevant Period which appears on the Screen as at or about 11:00 a.m. (London time) on that date (rounded upwards if necessary, to five decimal places);

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

"**Secured Creditors**" means the Trustee in its own capacity, any Receiver or any Appointee appointed by the Trustee, each in its own capacity, the Agent Bank, the Registrar, the Paying Agents, the Corporate Services Provider, the Administrator, the Back-Up Administrator, the Back-Up Administrator Facilitator (and any replacement of the Administrator, the Back-Up Administrator or the Back-Up Administrator Facilitator), the Cash Manager, the Back-Up Cash Manager (and any replacement of the Cash Manager or the Back-Up Cash Manager), the Account Bank, the Swap Provider, the Noteholders, the Subordinated Loan Provider, the Swap Collateral Account Bank (if appointed), the Seller (in respect of any Deferred Consideration) and any party named as such in a Transaction Document;

"**Security**" means the security granted by the Issuer to the Trustee under and pursuant to the Deed of Charge in favour of the Secured Creditors;

"**Seller**" means Skipton Building Society acting in its capacity as seller of the Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;

"**Seller Security Power of Attorney**" means the power of attorney granted by the Seller in favour of the Issuer and the Trustee on the Closing Date in substantially the same form as that set out in Schedule 8 to the Mortgage Sale Agreement;

"**Share Trustee**" means SFM Corporate Services Limited (registered number 3920255), a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helen's, London EC3A 6AP;

"**Specified Office**" means, in relation to any Agent:

(a) the office specified against its name in the Notices Details; or

(b) such other office as such Agent may specify in accordance with Clause 13.8 (*Changes in Specified Offices*) of the Agency Agreement;

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

"**Step-Up Date**" means the Interest Payment Date falling in March 2019;

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

"**Subordinated Loan**" means the subordinated loan that the Subordinated Loan Provider made available to the Issuer pursuant to the Subordinated Loan Agreement;

"**Subordinated Loan Agreement**" means the loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee;

"**Subordinated Loan Provider**" means Skipton Building Society in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;

"**Substitute Loan**" means a Loan and its Related Security which has been sold to the Issuer as consideration for the repurchase of a Loan which was found to be in breach of any representation or warranty in accordance with the terms of the Mortgage Sale Agreement;

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

"**Substitution Date**" means the date upon which a Substitute Loan is assigned to or placed in trust for the Issuer;

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

"**Swap Collateral**" means any cash or securities transferred by the Swap Provider to the Issuer on any date pursuant to the terms of the Swap Credit Support Annex (and any income or distributions earned thereon);

"**Swap Collateral Account Bank**" means any bank or financial institution appointed as the swap collateral account bank;

"**Swap Collateral Account Bank Agreement**" means any agreement pursuant to which a Swap Collateral Account Bank is appointed;

"**Swap Collateral Account Priority of Payments**", in respect of the Swap Collateral Account, has the meaning given thereto in Paragraph 13 (*Swap Collateral Account Priority of Payments*) of Schedule 2 (*Cash Management and Maintenance of Ledgers*) to the Cash Management Agreement;

"**Swap Collateral Account Surplus**" means, in respect of the Swap Collateral Account, any surplus amounts remaining after funds standing to the credit of such Swap Collateral Account have been applied in accordance with the relevant Swap Collateral Account Priority of Payments;

"**Swap Collateral Accounts**" means any cash and/or securities accounts opened in the name of the Issuer for the purposes of, among other things, holding collateral transferred pursuant to the Swap Agreement;

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

"**Swap Provider**" means HSBC Bank plc and/or any successor or replacement swap provider from time to time;

"**Swap Provider Jurisdiction**" means the jurisdiction in which the Swap Provider is incorporated and/or subject to taxation;

"**Swap Subordinated Amount**" means any amount due to the Swap Provider in connection with an early termination of the Swap Agreement where such termination results from an Event of Default (as defined in the Swap Agreement) in respect of which the Swap Provider is the

Defaulting Party (as defined in the Swap Agreement) or an Additional Termination Event (as defined in the Swap Agreement) resulting from a ratings downgrade of the Swap Provider, to the extent such amount is not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments;

"**Swap Tax Credit**" means any amounts relating to tax credits payable by the Issuer to the Swap Provider pursuant to the provisions of the ISDA Schedule to the Swap Agreement;

"**Tax**" shall be construed so as to include any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same, but excluding taxes on net income) imposed or levied by or on behalf of any Tax Authority in the Issuer Jurisdiction or the Swap Provider Jurisdiction (as the case may be) and "**Taxes**", "**taxation**", "**taxable**" and comparable expressions shall be construed accordingly;

"**Tax Authority**" means any government, state or municipality or any local, state, federal or other authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function (including, without limitation, Her Majesty's Revenue and Customs);

"**Tax Deduction**" means any deduction or withholding on account of Tax;

"**Transaction Account**" means the account in the name of the Issuer held at the Account Bank, or such additional or replacement bank account at such other Account Bank and/or other banks as may for the time being be in place with the prior consent of the Trustee and designated as such;

"**Transaction Documents**" means the Account Bank Agreement, the Administration Agreement, the Agency Agreement, the Cash Management Agreement, the Collection Account Declaration of Trust, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge including each Scottish Supplemental Charge and Scottish Sub-Security), the Swap Agreement, the Issuer Power of Attorney, the Incorporated Terms Memorandum, the Mortgage Sale Agreement (and any documents entered into pursuant to the Mortgage Sale Agreement including each Scottish Declaration of Trust), the Seller Security Power of Attorney, the Subordinated Loan Agreement, the Trust Deed, any Swap Collateral Account Bank Agreement, the Back-Up Cash Management Agreement, the Replacement Cash Management Agreement, the Back-Up Administration Agreement, the Replacement Administration Agreement, such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes and any other document designated as such;

"**Transaction Party**" means any person who is a party to a Transaction Document and "**Transaction Parties**" means some or all of them;

"**Treaty**" means the Treaty establishing the European Community, as amended;

"**Trust Deed**" means the deed so named dated on or about the Closing Date between the Issuer and the Trustee and any document expressed to be supplemented to the Trust Deed;

"**Trust Documents**" means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);

"**Trustee**" means Citicorp Trustee Company Limited in its capacity as trustee under the terms of the Trust Documents, or such other person as may be appointed from time to time as Trustee (or co-Trustee) pursuant to the Trust Documents;

"**Valuation Percentage**" means the purchase price under the Reverse Repo transaction divided by the market value of such UK Government Securities; and

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

2.2 ***Interpretation***: Any reference in the Conditions to:

"**continuing**", in respect of an Event of Default, shall be construed as a reference to an Event of Default which has not been waived in accordance with the terms of the Conditions or, as the case may be, the relevant Transaction Document;

a "**class**" shall be a reference to a class of the Notes being the Class A Notes or the Class B Notes and "**classes**" shall be construed accordingly;

"**including**" shall be construed as a reference to "**including without limitation**", so that any list of items or matters appearing after the word "**including**" shall be deemed not to be an exhaustive list, but shall be deemed rather to be a representative list, of those items or matters forming a part of the category described prior to the word "**including**";

"**indebtedness**" shall be construed so as to include any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;

a "**law**" shall be construed as any law (including common or customary law), statute, constitution, decree, judgement, treaty, regulation, directive, bye-law, order or any other legislative measure of any government, supranational, local government, statutory or regulatory body or court;

a "**person**" shall be construed as a reference to any person, firm, company, corporation, government, state or agency of a state or any association or partnership (whether or not having separate legal personality) of two or more of the foregoing;

"**principal**" shall, where applicable, include premium;

"**redeem**" and "**pay**" shall each include both of the others and "**redeemed**", "**redeemable**" and "**redemption**" and "**paid**", "**payable**" and "**payment**" shall be construed accordingly;

a reference to any person defined as a "**Transaction Party**" in the Conditions shall be construed so as to include its and any subsequent successors and permitted transferees in accordance with their respective interests; and

a "**successor**" of any party shall be construed so as to include an assignee or successor in title of such party and any person who under the laws of the jurisdiction of incorporation or domicile of such party has assumed the rights and obligations of such party under any Transaction Document or to which, under such laws, such rights and obligations have been transferred.

2.3 ***Transaction Documents and other agreements***: Any reference to any document defined as a Transaction Document or any other agreement or document shall be construed as a reference to such Transaction Document or, as the case may be, such other agreement or document as the same may have been, or may from time to time be, amended, restated, varied, novated, supplemented or replaced.

2.4 ***Statutes and Treaties***: Any reference to a statute or treaty shall be construed as a reference to such statute or treaty as the same may have been, or may from time to time be, amended or, in the case of a statute, re-enacted.

2.5 ***Schedules***: Any Schedule of, or Appendix to a Transaction Document forms part of such Transaction Document and shall have the same force and effect as if the provisions of such Schedule or Appendix were set out in the body of such Transaction Document. Any reference to a Transaction Document shall include any such Schedule or Appendix.

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

2.7 ***Sections***: Except as otherwise specified in the Condition, reference in the Conditions to:

(a) a "**Section**" shall be construed as a reference to a Section of such Transaction Document;

(b) a "**Part**" shall be construed as a reference to a Part of such Transaction Document;

(c) a "**Schedule**" shall be construed as a reference to a Schedule of such Transaction Document;

(d) a "**Clause**" shall be construed as a reference to a Clause of a Part or Section (as applicable) of such Transaction Document; and

(e) a "**Paragraph**" shall be construed as a reference to a Paragraph of a Schedule of such Transaction Document.

2.8 **Number**

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

3. **Form and Denomination**

3.1 The Notes are in fully registered form in the Minimum Denomination for such Notes, without principal receipts, interest coupons or talons attached.

3.2 The Principal Amount Outstanding of the Notes of each class initially offered and sold outside the United States to non U.S. persons pursuant to Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**") is represented by one or more global registered notes in fully registered form (the "**Global Notes**") without coupons attached. References herein to the "**Notes**" shall include (i) in relation to any Notes of a class represented by a Global Note, units of the Minimum Denomination of such class, (ii) any Global Note and (iii) any Definitive Certificate issued in exchange for a Global Note.

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

3.4 For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradable only in minimal amounts of £100,000 and integral multiples of £1,000 thereafter.

3.5 Certificates evidencing definitive registered Notes in an aggregate principal amount equal to the Principal Amount Outstanding of the Global Notes (the "**Definitive Certificates**") will be issued in registered form and serially numbered in the circumstances referred to below. Definitive Certificates, if issued, will be issued in the denomination of £100,000 and any amount in excess thereof in integral multiples of £1,000.

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

(a) in the case of a Global Note held in Euroclear or Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do so cease business and no alternative clearing system satisfactory to the Trustee is available; or

(b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee,

(each a "**relevant event**") the Issuer will issue Definitive Certificates to Noteholders whose accounts with the relevant clearing systems are credited with interests in that Global Note in exchange for those interests within 30 days of the relevant event but not earlier than the Exchange Date. The Global Note will not be exchangeable for Definitive Certificates in any other circumstances.

4. **Title**

4.1 The person registered in the Register as the holder of any Note will (to the fullest extent permitted by applicable law) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon or, if more than one person, the first named of such persons who will be treated as the absolute owner of such Note.

4.2 The Issuer shall cause to be kept at the Specified Office of the Registrar, the Register on which shall be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers and redemptions of the Notes.

4.3 No transfer of a Note will be valid unless and until entered on the Register.

4.4 Transfers and exchanges of beneficial interests in the Global Note and any Definitive Certificates and entries on the Register relating thereto will be made subject to any restrictions on transfers set forth on such Notes and the detailed regulations concerning transfers of such Notes contained in the Agency Agreement, the Trust Deed and the legend appearing on the face of the Notes. In no event will the transfer of a beneficial interest in a Global Note or the transfer of a Definitive Certificate be made absent compliance with the regulations referred to above, and any purported transfer in violation of such regulations shall be void *ab initio* and will not be honoured by the Issuer or the Trustee. The regulations referred to above may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be sent by the Principal Paying Agent in the U.K. or the Registrar to any holder of a Note who so requests (and who provides evidence of such holding where the Notes are in global form) and will be available upon request at the Specified Office of the Registrar or the Principal Paying Agent.

4.5 A Definitive Certificate, may be transferred in whole or in part upon the surrender of the relevant Definitive Certificate, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar or the Principal Paying Agent. In the case of a transfer of part only of a Definitive Certificate, a new Definitive Certificate, in respect of the balance remaining will be issued to the transferor by or by order of the Registrar.

4.6 Each new Definitive Certificate, to be issued upon transfer of Definitive Certificates will, within five Business Days of receipt of such request for transfer, be available for delivery at the Specified Office of the Registrar or the Principal Paying Agent stipulated in the request for transfer, or be mailed at the risk of the holder entitled to the Definitive Certificate, to such address as may be specified in such request.

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

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

5. **Status and Ranking**

5.1 ***Status***: The Notes of each class constitute direct, secured and unconditional obligations of the Issuer.

5.2 ***Ranking***: The Class A Notes will at all times rank without preference or priority *pari passu* amongst themselves. The Class B Notes will at all times rank without preference or priority *pari passu* amongst themselves.

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

5.4 ***Priority of Interest Payments***: Payments of interest on the Class A Notes will at all times rank in priority to payments of interest on the Class B Notes, in accordance with the Pre-Enforcement Revenue Priority of Payments.

5.5 ***Priority of Principal Payments***: Payments of principal on the Class A Notes will rank in priority to payments of principal on the Class B Notes.

5.6 ***Priority of Payments***: Prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Revenue Receipts and Available Principal Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments and Pre-Enforcement Principal Priority of Payments (as applicable) and thereafter, in accordance with the Post-Enforcement Priority of Payments.

6. **Security**

6.1 ***Security***: The Notes are secured by the Security.

6.2 ***Enforceability***: The Security will become enforceable upon the delivery by the Trustee of an Enforcement Notice in accordance with Condition 13 (*Events of Default*) and subject to the matters referred to in Condition 14 (*Enforcement*).

7. **Issuer Covenants**

The Issuer makes the Issuer Covenants in favour of the Trustee which, amongst other things, restrict the ability of the Issuer to create or incur any indebtedness (save as permitted in the Trust Deed), dispose of assets or change the nature of its business, without the prior written consent of the Trustee. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

8. **Interest**

8.1 ***Accrual of Interest***: Each Note bears interest on its Principal Amount Outstanding, from (and including) the Closing Date.

8.2 ***Cessation of Interest***: Each Note (or, in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the principal is improperly withheld or refused or default is otherwise made in respect of the payment, in which case, it will continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of:

(a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and

(b) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders of such class (in accordance with Condition 22 (*Notices*)) that the full amount payable is available for collection by the Noteholder, provided that on due presentation payment is in fact made.

8.3 ***Interest Payments***: Interest on each Note is payable in Sterling in arrear on each Interest Payment Date commencing on the First Interest Payment Date, in an amount equal to the Interest

Amount in respect of such Note for the Interest Period ending on the day immediately preceding such Interest Payment Date.

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

8.5 ***Determination of Note Rate, Interest Amount and Interest Payment Date***: The Agent Bank will, on each Interest Determination Date, determine:

(a) the Note Rate for each class for the related Interest Period;

(b) the Interest Amount for each class for the related Interest Period; and

(c) the Interest Payment Date next following the related Interest Period;

and notify the Issuer, the Administrator, the Cash Manager, the Trustee, the Registrar, the Swap Provider and the Paying Agents and for so long as the Notes are listed on the Irish Stock Exchange and the Irish Stock Exchange so requires, the Irish Stock Exchange.

8.6 ***Publication of Note Rate, Interest Amount and Interest Payment Date***: As soon as practicable after receiving each notification of the Note Rate, the Interest Amount and the Interest Payment Date in accordance with Condition 8.5 (*Determination of Note Rate, Interest Amount and Interest Payment Date*) and in any event no later than the second Business Day thereafter, the Issuer will cause such Note Rate and Interest Amount for each class and the next following Interest Payment Date to be published in accordance with the Notices Condition.

8.7 ***Amendments to Publications***: The Note Rate, Interest Amount for each class and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the relevant Interest Period.

8.8 ***Determination or Calculation by Trustee***: If the Agent Bank does not at any time for any reason determine the Note Rate or the Interest Amount for each class in accordance with this Condition 8 (*Interest*), the Trustee may (but without, save in the case of any fraud or negligence by the Trustee, any liability accruing to the Trustee as a result):

(a) determine the Note Rate for each class at such rate as, in its absolute discretion (having such regard as it shall think fit to the procedure described in this Condition), it shall deem fair and reasonable in all the circumstances; and/or

(b) calculate the Interest Amount for each class in the manner specified in this Condition,

and any such determination and/or calculation shall be deemed to have been made by the Agent Bank. In each case the Trustee may, at the expense of the Issuer, employ an expert to make the determination and any such determination shall be deemed to have been made by the Agent Bank.

8.9 ***Notifications to be final***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 8 (*Interest*), whether by the Reference Banks (or any of them), the Paying Agents, the Registrar, the Agent Bank or the Trustee shall (in the absence of any Breach of Duty, or manifest error) be binding on the Issuer and all Noteholders and (in the absence of any Breach of Duty or manifest error) no liability to the Trustee or the Noteholders shall attach to the Reference Banks, the Agents, the Registrar or the Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 8 (*Interest*).

8.10 ***Reference Banks and Agent Bank***: The Issuer shall use reasonable endeavours to ensure that, so long as any of the Notes remains outstanding there shall at all times be four Reference Banks, an Agent Bank, a Paying Agent and a Principal Paying Agent. In the event of any of the Reference Banks being unable or unwilling to continue to act as a Reference Bank or an Agent being unable or unwilling to continue to act as an Agent, the Issuer shall appoint such other bank as may be previously approved in writing by the Trustee to act as such in its place. The Agent Bank may not resign until a successor approved in writing by the Trustee is appointed by the Issuer. Notice of any change in any of the Reference Banks or Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with the Notices Condition.

8.11 ***Interest Accrual:***

(a) To the extent that funds available to the Issuer to pay interest on the Notes of any class (other than the Class A Notes) on an Interest Payment Date are insufficient to pay the full amount of such interest, payment of the shortfall in respect of such class of Notes ("**Deferred Interest**") will not then fall due but will instead be deferred until the first Interest Payment Date thereafter on which funds are available to the Issuer (after allowing for the Issuer's liabilities of higher priority and subject to and in accordance with these Conditions) to fund the payment of such Deferred Interest to the extent of such available funds.

(b) Such Deferred Interest will accrue interest ("**Additional Interest**") at the rate of interest applicable from time to time to such Notes and such portion of interest (as determined by this Condition 8 (*Interest*)) and payment of any Additional Interest will also be deferred until the first Interest Payment Date thereafter on which funds are available (subject to and in accordance with these Conditions) to the Issuer to pay such Additional Interest to the extent of such available funds.

(c) Payment of any amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date or beyond any earlier date on which each respective class of Notes falls to be redeemed in full in accordance with Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*) and any such amount which has not then been paid in respect of the relevant class of Notes shall thereupon become due and payable in full.

8.12 ***Determinations and Reconciliation***

(a) In the event that the Cash Manager does not receive an Administrator Report with respect to a Collection Period (the "**Determination Period**"), then the Cash Manager may use the Administrator Report in respect of the three most recent Collection Periods (or, where there are not at least three previous Administrator Reports, any previous Administrator Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 8.12 (*Determinations and Reconciliation*). When the Cash Manager receives the Administrator Report relating to the Determination Period, it will make the reconciliation calculations and reconciliation payments as set out in Condition 8.12(c). Any (i) calculations properly done on the basis of such estimates in accordance with Conditions 8.12(b) and/or 8.12(c); (ii) payments made under any of the Notes and Transaction Documents in accordance with such calculations; and (iii) reconciliation calculations and reconciliation payments made as a result of such reconciliation calculations, each in accordance with Condition 8.12(b) and/or 8.12(c), shall be deemed to be done, in accordance with the provisions of the Transaction Documents will in themselves not lead to an Event of Default and no liability will attach to the Cash Manager in connection with the exercise by it of its powers, duties and discretion for such purposes.

(b) Where, in respect of any Determination Period the Cash Manager shall:

(i) determine the Interest Determination Ratio by reference to the three most recently received Administrator Reports (or, where there are not at least three previous Administrator Reports, any previous Administrator Reports received in the preceding Collection Periods);

(ii) calculate the Revenue Receipts for such Determination Period as the product of (i) the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the "**Calculated Revenue Receipts**");

(iii) calculate the Principal Receipts for such Determination Period as the product of (i) 1 minus the Interest Determination Ratio and (ii) all collections received by the Issuer during such Determination Period (the "**Calculated Principal Receipts**").

(c) Following any Determination Period, upon receipt by the Cash Manager of the Administrator Reports in respect of such Determination Period, the Cash Manager shall reconcile the calculations made in accordance with Condition 8.12(b) above to the actual collections set out in the Administrator Reports by allocating the Reconciliation Amount as follows:

(i) If the Reconciliation Amount is a positive number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Revenue Ledger, as Principal Receipts (with a corresponding debit of the Revenue Ledger);

(ii) If the Reconciliation Amount is a negative number, the Cash Manager shall apply an amount equal to the lesser of (i) the absolute value of the Reconciliation Amount and (ii) the amount standing to the credit of the Principal Ledger, as Revenue Receipts (with a corresponding debit of the Principal Ledger),

provided that the Cash Manager shall apply such Reconciliation Amount in determining Available Revenue Receipts and Available Principal Receipts for such Collection Period in accordance with the terms of the Cash Management Agreement and the Cash Manager shall promptly notify the Issuer and the Trustee of such Reconciliation Amount.

9. **Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation**

9.1 ***Final Redemption***: Unless previously redeemed or purchased and cancelled as provided in this Condition 9 (*Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation*), the Issuer shall redeem the Notes in each class at their Principal Amount Outstanding together with any accrued interest on the Final Maturity Date.

9.2 ***Mandatory Redemption in part***: On each Interest Payment Date prior to the delivery of an Enforcement Notice, the Issuer is required to apply Available Principal Receipts towards the redemption of the Notes to the extent that there are such amounts available to do so in accordance with the Pre-Enforcement Principal Priority of Payments.

9.3 ***Optional Redemption in whole***: The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding on any Interest Payment Date:

(a) when, on the related Calculation Date, the aggregate of the Principal Amount Outstanding of the outstanding Notes is less than 10 per cent. of the Principal Amount Outstanding of all of the Notes as at the Closing Date; or

(b) from and including the Step-Up Date,

subject to the following:

(a) no Enforcement Notice has been delivered by the Trustee;

(b) the Issuer has given not more than 60 nor less than 14 days' notice to the Trustee and the Noteholders in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes in each class; and

(c) prior to giving any such notice, the Issuer shall have provided to the Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre-Enforcement Principal Priority of Payments.

9.4 ***Optional Redemption in whole for taxation reasons***: The Issuer may redeem all (but not some only) of the Notes in each class at their Principal Amount Outstanding, on any Interest Payment Date:

(a) after the date on which, by virtue of a change in Tax law (or the application or official interpretation of Tax law), the Issuer (or the Paying Agents on the Issuer's behalf) are to make any payment in respect of the Notes or Swap Provider is to make any payments in respect of the Swap Agreement and either the Issuer (or the Paying Agents on the Issuer's behalf) or the Swap Provider, as the case may be, would be required to make a Tax Deduction in respect of such relevant payment; or

(b) after the date on which, by virtue of a change in the Tax law (or the application or official interpretation of Tax law), the Issuer would be subject to United Kingdom corporation tax in an accounting period on an amount which materially exceeds the aggregate Issuer Profit Amount retained during that accounting period;

subject to the following:

(c) no Enforcement Notice has been delivered by the Trustee;

(d) that the Issuer has given not more than 60 nor less than 14 days' notice to the Trustee and the Noteholders in accordance with the Notices Condition of its intention to redeem all (but not some only) of the Notes in each class; and

(e) that prior to giving any such notice, the Issuer (or in respect to Condition (a), the Swap Provider (if applicable)) has provided to the Trustee:

    (i) in the case of 9.4(a) above only, a legal opinion (in form and substance satisfactory to the Trustee) from a firm of lawyers in the applicable jurisdiction (approved in writing by the Trustee), opining on the relevant change in Tax law; and

    (ii) in the case of 9.4(b) above only, a certificate signed by two directors of the Issuer or, in the case of the Swap Provider, an Authorised Signatory to the effect that the obligation to make a Tax Deduction cannot be avoided; and

    (iii) in the case of 9.4(a) and 9.4(b) above only, a certificate signed by two directors of the Issuer to the effect that it will have the funds on the relevant Interest Payment Date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition and meet its payment obligations of a higher priority under the Pre–Enforcement Principal Priority of Payments.

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

(a) the aggregate of any Note Principal Payment due in relation to each class on the Interest Payment Date immediately succeeding such Calculation Date;

(b) the Principal Amount Outstanding of each Note in each class on the Interest Payment Date immediately succeeding such Calculation Date (after deducting any Note Principal Payment due to be made on that Interest Payment Date in relation to such class); and

(c) the fraction expressed as a decimal to the sixth point (the "**Pool Factor**"), of which the numerator is the Principal Amount Outstanding of a Note of that class (as referred to in Condition 9.5(b) above) and the denominator is the principal amount of that Note on issue expressed as an entire integer,

and notify the Issuer, the Trustee, the Paying Agents, the Agent Bank, the Swap Provider, the Registrar and for so long as the Notes are listed on the Irish Stock Exchange and the Irish Stock Exchange so requires, the Irish Stock Exchange by not less than two Business Days prior to the relevant Interest Payment Date.

9.6 ***Calculations final and binding***: Each calculation by or on behalf of the Issuer of any Note Principal Payment, the Principal Amount Outstanding of a Note of each class and the Pool Factor shall in each case (in the absence of any Breach of Duty or manifest error) be final and binding on all persons.

9.7 ***Trustee to determine amounts in case of Issuer default***: If the Issuer does not at any time for any reason calculate (or cause the Cash Manager to calculate) any Note Principal Payment, the Principal Amount Outstanding in relation to each class or the Pool Factor in accordance with this Condition, such amounts may be calculated by the Trustee (without, in the absence of fraud or negligence, any liability accruing to the Trustee as a result) in accordance with this Condition (based on information supplied to it by the Issuer or the Cash Manager) and each such calculation shall be deemed to have been made by the Issuer. In each case, the Trustee may, at the expense of the Issuer employ an expert to make such calculations and any such calculations shall be deemed to have been made by the Issuer.

9.8 ***Conclusiveness of certificates and legal opinions***: Any certificate and legal opinion given by or on behalf of the Issuer or, as the case may be, the Swap Provider pursuant to Condition 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional Redemption in whole for taxation reasons*) may be relied on by the Trustee without further investigation, without liability to any other person and shall be conclusive and binding on the Noteholders, the Trustee and on the other Secured Creditors.

9.9 ***Notice of Calculation***: The Issuer will cause each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each class and the Pool Factor to be notified immediately after calculation to the Trustee, the Agents and, for so long as the Notes are listed on the Irish Stock Exchange and the Irish Stock Exchange so requires, the Irish Stock Exchange and will immediately cause details of each calculation of a Note Principal Payment, Principal Amount Outstanding in relation to each class and the Pool Factor to be published in accordance with the Notices Condition by no later than two Business Days prior to each Interest Payment Date.

9.10 ***Notice irrevocable***: Any such notice as is referred to in Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) or Condition 9.9 (*Notice of Calculation*) shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes to which such notice relates at their Principal Amount Outstanding if effected pursuant to Condition 9.3 (*Optional Redemption in whole*) or Condition 9.4 (*Optional Redemption in whole for taxation reasons*) and in an amount equal to the Note Principal Payment in respect of each Note calculated as at the related Calculation Date if effected pursuant to Condition 9.2 (*Mandatory Redemption in part*).

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

10. Limited Recourse

10.1 If at any time following:

(a) the occurrence of either:

(i) the Final Maturity Date or any earlier date upon which all of the Notes of each class are due and payable; or

(ii) the service of an Enforcement Notice; or

(b) realisation of the Charged Property and application in full of any amounts available to pay amounts due and payable under the Notes in accordance with the applicable Priority of Payments; and

the proceeds of such Realisation are insufficient, after payment of all other claims ranking in priority in accordance with the applicable Priority of Payments, to pay in full all amounts then due and payable under any class of Notes then the amount remaining to be paid (after such application in full of the amounts first referred to in (b) above) under such class of Notes (and any class of Notes junior to that class of Notes) shall, on the day following such application in full of the amounts referred to in (b) above, cease to be due and payable by the Issuer. For the purposes of this Condition 10, "**Realisation**" means, in relation to any Charged Property, the deriving, to the fullest extent practicable, (in accordance with the provisions of the Transaction Documents) of proceeds from or in respect of such Charged Property including (without limitation) through sale or through performance by an obligor.

11. **Payments**

11.1 ***Principal and interest***: Payments of principal and interest shall be made by cheque drawn in Sterling or, upon application by a Noteholder to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for payment, by transfer to an account in Sterling, maintained by the payee with a bank in London and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Notes at the Specified Office of any Paying Agent in accordance with the terms of the Agency Agreement.

11.2 ***Record date***: Each payment in respect of a Note will be made to the person shown as the Noteholder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Noteholder in the Register at the opening of business on the relevant Record Date. The person shown in the Register at the opening of business on the relevant Record Date in respect of a Note shall be the only person entitled to receive payments in respect of Notes represented by such Note and the Issuer will be discharged by payment to, or to the order of, such person in respect of each amount so paid.

11.3 ***Payments subject to fiscal laws***: All payments in respect of the Notes are subject in each case to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

11.4 ***Partial Payments***: If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note.

11.5 ***Payments on Business Days***: If the due date for payment of any amount in respect of any Note is not a Business Day, then the holder shall not be entitled to payment until the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note.

12. **Taxation**

12.1 ***Payments free of Tax***: Subject to 12.3 below, all payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by the Issuer Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer, the Trustee or the Paying Agents (as the case may be) are required by law to make any Tax Deduction. In that event, the Issuer, the Trustee or the Paying Agents (as the case may be) shall make such payments after such Tax Deduction and shall account to the relevant authorities for the amount so withheld or deducted.

12.2 ***No payment of additional amounts***: Neither the Issuer, the Trustee nor the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

12.3 ***FATCA***: Notwithstanding any other provision in these Conditions, the Issuer shall be permitted to withhold or deduct any amounts in connection with FATCA. The Issuer will have no obligation to pay additional amounts or otherwise indemnify a holder or any other person for any withholding deducted or withheld by the Issuer on account of FATCA, the Principal Paying Agent or any other party as a result of any person not being entitled to receive payments free of FATCA withholding.

13. **Events of Default**

13.1 ***Events of Default***: Subject to the other provisions of this Condition, each of the following events shall be treated as an "**Event of Default**":

(a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Most Senior Class of Notes within seven days following the due date for payment of such principal or fails to pay any amount of interest in respect of the Most Senior Class of Notes within fourteen days following the due date for payment of such interest (provided that, for the avoidance of doubt, a deferral of interest in respect of a class of Notes (other than the Class A Notes) in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest for the purposes of this Condition 13 (*Events of Default*)); or

(b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Most Senior Class of Notes, the Issuer Covenants, the Trust Deed, the Deed of Charge or any of the other Transaction Documents and such default (a) is, in the opinion of the Trustee, incapable of remedy or (b) is, in the opinion of the Trustee, capable of remedy, but remains unremedied for 30 days or such longer period as the Trustee may agree after the Trustee has given written notice of such default to the Issuer; or

(c) an Issuer Insolvency Event occurs; or

(d) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or Trust Documents or any of the other Transaction Documents.

13.2 ***Delivery of Enforcement Notice***: If an Event of Default occurs and is continuing, the Trustee may at its discretion and shall:

(a) if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes outstanding; or

(b) if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes outstanding;

deliver an Enforcement Notice to the Issuer.

13.3 ***Conditions to delivery of Enforcement Notice***: Notwithstanding Condition 13.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless:

(a) in the case of the occurrence of any of the events mentioned in Condition 13.1(b) (*Breach of other obligations*) the Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes outstanding; and

(b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

13.4 ***Consequences of delivery of Enforcement Notice***: Upon the delivery of an Enforcement Notice, the Notes of each class shall become immediately due and payable, without further action or formality, at their Principal Amount Outstanding together with any accrued interest.

14. **Enforcement**

14.1 ***Proceedings***: The Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under the other Transaction Documents or to enforce the Security, but it shall not be bound to do so unless:

(a) so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of outstanding Notes; or

(b) so directed by an Extraordinary Resolution of the Noteholders of the Most Senior Class of outstanding Notes,

and in any such case, only if it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.2 ***Directions to the Trustee***: If the Trustee shall take any action described in Condition 14.1 (*Proceedings*), it may take such action without having regard to the effect of such action on individual Noteholders or any other Secured Creditor, provided that so long as any of the Most Senior Class of Notes are outstanding, the Trustee shall not, and shall not be bound to, act at the request or direction of the Noteholders of any other class of Notes unless:

(a) to do so would not, in its opinion, be materially prejudicial to the interests of the Noteholders of the classes of Notes ranking senior to such other class; or

(b) (if the Trustee is not of that opinion) such action is sanctioned by an Extraordinary Resolution of the Noteholders of the Notes ranking senior to such other class.

14.3 ***Restrictions on disposal of Issuer's assets***: If an Enforcement Notice has been delivered by the Trustee otherwise than by reason of non-payment of any amount due in respect of the Notes, the Trustee will not be entitled to dispose of the Charged Property or any part thereof (apart from amounts or securities standing to the credit of the Swap Collateral Accounts in accordance with the relevant Swap Collateral Account Priority of Payment) unless either:

(a) the Cash Manager certifies to the Trustee that a sufficient amount would be realised to allow payment in full of all amounts owing to the Noteholders of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; or

(b) the Trustee is of the opinion, which shall be binding on the Noteholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, (and if the Trustee is unable to obtain such advice having made reasonable efforts to do so this Condition 14.3(b) shall not apply) that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; and

(c) the Trustee shall not be bound to make the determination contained in Condition 14.3(b) unless the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.4 ***Third Party Rights***: No person shall have any right to enforce any Condition or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999 or any equivalent rules under Scots common law.

15. No action by Noteholders or any other Secured Creditor

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

(a) otherwise than as permitted by these Conditions, to direct the Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security;

(b) to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due by the Issuer to such Noteholders or any other Secured Creditors;

(c) until the date falling two years after the Final Discharge Date, to initiate or join any person in initiating any insolvency proceeding in relation to the Issuer; or

(d) to take or join in the taking of any steps or proceedings which would result in the Priority of Payments not being observed.

16. **Meetings of Noteholders**

16.1 ***Convening***: The Trust Deed contains "*Provisions for Meetings of Noteholders*" for convening separate or combined meetings of Noteholders of any class to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed, which modification may be made if sanctioned by an Extraordinary Resolution.

16.2 ***Separate and combined meetings***: The Trust Deed and the Deed of Charge provide that:

(a) an Extraordinary Resolution which in the opinion of the Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;

(b) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one class of Notes and the holders of another class of Notes shall be transacted either at separate meetings of the Noteholders of each such class or at a single meeting of the Noteholders of all such classes of Notes as the Trustee shall determine in its absolute discretion; and

(c) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class and gives rise to any actual or potential conflict of interest between the Noteholders of one class of Notes and the Noteholders of any other class of Notes shall be transacted at separate meetings of the Noteholders of each such class.

16.3 ***Request from Noteholders***: A meeting of Noteholders of a particular class may be convened by the Trustee or the Issuer at any time and must be convened by the Trustee (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than ten per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that class. However, so long as no Event of Default has occurred and is continuing, the Noteholders are not entitled to instruct or direct the Issuer to take any action, either directly or indirectly through the Trustee, without consent of the Issuer and, if applicable, certain other Transaction Parties pursuant to any relevant Transaction Documents, unless the Issuer has an obligation to take such action under the relevant Transaction Documents.

16.4 ***Quorum***: The quorum at any meeting convened to vote on:

(a) an Extraordinary Resolution, other than regarding a Reserved Matter, relating to a meeting of a particular class or classes of the Notes will be one or more persons holding or representing, in aggregate, a majority of the Principal Amount Outstanding of the outstanding Notes in that class or those classes or, at any adjourned meeting, one or more persons being or representing Noteholders of that class or those classes, whatever the Principal Amount Outstanding of the outstanding Notes so held or represented in such class or classes; and

(b) an Extraordinary Resolution relating to a Reserved Matter (which must be proposed separately to each class of Noteholders) will be one or more persons holding or representing in aggregate 75 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes or, at any adjourned meeting, one or more persons holding or representing not less than in aggregate 25 per cent. of the Principal Amount Outstanding of the outstanding Notes in the relevant class or classes.

16.5 ***Relationship between classes:***

In relation to each class of Notes:

(a) no Extraordinary Resolution involving a Reserved Matter that is passed by the holders of one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes (to the extent that there are outstanding Notes in each such other classes);

(b) no Extraordinary Resolution to approve any matter other than a Reserved Matter of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes ranking senior to such class (to the extent that there are outstanding Notes ranking senior to such class); and

(c) any resolution passed at a Meeting of Noteholders of one or more classes of Notes duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders of such class or classes, whether or not present at such Meeting and whether or not voting and, except in the case of a meeting relating to a Reserved Matter, any resolution passed at a meeting of the holders of the Most Senior Class of Notes duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes.

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

17. **Modification and Waiver**

17.1 ***Modification***: the Trustee may (and, in the case of paragraph (c) and (d) below) shall) at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, concur with the Issuer and any other relevant parties in making:

(a) any modification to these Conditions, the Trust Documents, the Notes or the other Transaction Documents in relation to which its consent is required (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of a Reserved Matter) which, in the opinion of the Trustee, it may be proper to make and will not be materially prejudicial to the holders of the Most Senior Class of outstanding Notes;

(b) any modification to these Conditions, the Trust Documents or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error;

(c) any modification to these Conditions, the Trust Documents or the other Transaction Documents in order to enable the Issuer and/or the Swap Provider to comply with any requirements which apply to them in relation to any Swap Agreement (including any further hedging under any Swap Agreement) under Regulation (EU) 648/2012 of the European Parliament and of the Council on OTC derivatives, central counterparties and trade repositories dated 4 July 2012 (including, without limitation, any associated regulatory technical standards and advice, guidance or recommendations from relevant supervisory regulators) ("**EMIR**") subject to receipt by the Trustee of (i) a certificate of the Swap Provider or the Issuer (issued by the Administrator on behalf of the Issuer), as appropriate certifying to the Trustee that the requested amendments to be made are solely for the purpose of enabling the Issuer and/or the Swap Provider to satisfy requirements which apply to them in relation to the Swap Agreement under EMIR and have been drafted solely to such effect and (ii) a certificate issued by the Administrator on behalf of the Issuer certifying to the Trustee that the Swap Provider has given its prior written consent to such modification, provided that the Trustee shall not be obliged to agree to any such modification which, in the sole opinion of the Trustee would have the effect of (a) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (b) increasing the obligations or duties, or decreasing the protections, of the Trustee in the Transaction Documents and/or these Conditions and provided further that the powers conferred by this Condition 17.1(c) shall not extend to a Reserved Matter;

(d) any modification to any of the Transaction Documents (other than any amendment to any Priority of Payment) and take any such other actions required to effect the appointment of a Swap Collateral Account Bank that are requested in writing by the Cash Manager to effect the appointment of a Swap Collateral Account Bank and the entry into of related documentation (including any Swap Collateral Account Bank Agreement), in accordance with the terms of the Swap Agreement irrespective of whether such modifications are materially prejudicial to the interests of the Noteholders of any Class or any other Secured Creditor and subject to receipt by the Trustee of a certificate from the Issuer (issued by the Cash Manager on behalf of the Issuer) certifying to the Trustee that such amendments are required solely for the purpose of appointing a Swap Collateral Account Bank and that the level of remuneration payable to any such Swap Collateral Account Bank is reasonable taking into account then prevailing market conditions, provided that, the Trustee shall not be obliged to agree to any modification pursuant to this paragraph (d) which (in the sole opinion of the Trustee) would have the effect of (a) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction; or (b) increasing the obligations or duties, or decreasing the protections of the Trustee in the Transaction Documents and/or these Conditions. Notwithstanding anything to the contrary in the Trust Deed or the other Transaction Documents, when implementing any amendment pursuant to this paragraph (d), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor (other than itself as provided above) or any other person, shall act and rely solely and without further investigation on any certificate provided to it by the Issuer or the Cash Manager on behalf of the Issuer pursuant to this paragraph (d) and shall not be liable to any Noteholder or other Secured Creditor for so acting or relying,

provided that, in respect of any modifications to any of the Transaction Documents which would (in the commercially reasonable opinion of the Issuer) have the effect of requiring the Swap Provider to pay more or receive less were it to replace itself as swap counterparty, the written consent of the Swap Provider is required.

17.2 ***Waiver***: In addition, the Trustee may, without the consent of the Noteholders or any other Secured Creditor concur with the Issuer or any other relevant parties in authorising or waiving any proposed breach or breach of the covenants or provisions contained in the Trust Documents, the Notes or any of the other Transaction Documents (including an Event of Default or Potential Event of Default) if, in the opinion of the Trustee, the holders of the Most Senior Class of outstanding Notes will not be materially prejudiced by such waiver.

17.3 ***Restriction on power to waive***: The Trustee shall not exercise any powers conferred upon it by Condition 17.2 (*Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of outstanding Notes or of a request or direction in writing made by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of outstanding Notes, but so that no such direction or request (a) shall affect any authorisation, waiver or determination previously given or made or (b) shall authorise or waive any such proposed breach or breach relating to a Reserved Matter unless the holders of each class of outstanding Notes has, by Extraordinary Resolution, so authorised its exercise.

17.4 ***Notification***: Unless the Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification or determination to be notified to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the Transaction Documents, as soon as practicable after it has been made.

17.5 ***Binding Nature***: Any authorisation, waiver, determination or modification referred to in Condition 17.1 (*Modification*) or Condition 17.2 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.

18. Prescription

18.1 ***Principal***: Claims for principal in respect of Notes shall become void where application for payment is made more than ten years after the due date therefor.

18.2 ***Interest***: Claims for interest in respect of Notes, shall become void where application for payment is made more than five years after the due date therefor.

19. Replacement of Notes

If any Note is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and Irish Stock Exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

20. Trustee and Agents

20.1 ***Trustee's right to Indemnity***: Under the Transaction Documents, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid or reimbursed for any Liabilities incurred by it in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

20.2 ***Trustee not responsible for loss or for monitoring***: The Trustee is not responsible for any loss, expense or liability which may be suffered as a result of the Charged Property or any documents of title thereto being uninsured or inadequately insured or being held by or to the order of the Administrator or by any person on behalf of the Trustee (as applicable). The Trustee shall not be responsible for monitoring the compliance by any of the other Transaction Parties with their obligations under the Transaction Documents.

20.3 ***Regard to classes of Noteholders***: In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will:

(a) have regard to the interests of each class of Noteholders as a class and will not be responsible for any consequence for individual Noteholders as a result of such holders being domiciled or resident in, or otherwise connected in any way with, or subject to the jurisdiction of, a particular territory or taxing jurisdiction; and

(b) in the event of a conflict of interests of holders of different classes have regard only to the interests of the holders of the Most Senior Class of outstanding Notes and will not have regard to any lower ranking class of Notes nor, prior to the redemption in full of the Notes, to the interests of the other Secured Creditors except to ensure the application of the Issuer's funds after the delivery of an Enforcement Notice in accordance with the Post-Enforcement Priority of Payments.

20.4 ***Paying Agents solely agents of Issuer***: In acting under the Agency Agreement and in connection with the Notes, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

20.5 ***Initial Paying Agents***: The Issuer reserves the right (with the prior written approval of the Trustee) to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent or agent bank and additional or successor paying agents at any time, having given not less than 30 days notice to such Agent.

21. **Substitution of Issuer**

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

(a) the consent of the Issuer;

(b) the approval of the Rating Agencies in relation thereto; and

(c) such further conditions as are specified in the Trust Deed,

agree to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Trust Documents, the Transaction Documents, the Notes and the Secured Amounts.

21.2 ***Notice of Substitution of Issuer***: Not later than fourteen days after any substitution of the Issuer in accordance with this Condition, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the other relevant Transaction Documents.

21.3 ***Change of Law***: In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors to a change of the law governing the Notes and/or any of the Transaction Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes, provided that the Rating Agencies are notified. For the avoidance of doubt, a Transaction Document cannot be amended without the agreement of all the parties thereto.

21.4 ***No indemnity***: No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

22. **Notices**

22.1 ***Valid Notices***: For so long as the relevant Notes are in global form, any notice to Noteholders shall be validly given to the relevant Noteholders if sent to the Clearing Systems for communication by them to the holders of the relevant class of Notes and shall be deemed to be given on the date on which it was so sent. If Definitive Certificates are issued, any notice to the holders thereof shall be validly given if sent by first class mail to them at their respective addresses in the Register (or the first named of joint holders) and notice shall be deemed to have been given on the second Business Day after the date of mailing. So long as the relevant Notes are admitted to trading and listed on the official list of the Irish Stock Exchange any notice shall also be published in accordance with the relevant guidelines of the Irish Stock Exchange, and any notice so published shall be deemed to have been given on the date of publication.

22.2 ***Other Methods***: The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

23. **Governing Law and Jurisdiction**

23.1 ***Governing law***: The Transaction Documents and the Notes and all non-contractual obligations arising from or connected with them are governed by English law other than certain provisions of the Transaction Documents particular to the law of Scotland (which are governed by, and shall be construed in accordance with, Scots law).

23.2 ***Jurisdiction***: The Courts of England are to have exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Notes and the Transaction Documents (including a dispute relating to non-contractual obligations or a dispute regarding the existence, validity or termination of any of the Notes or the Transaction Documents or the consequences of their nullity) and accordingly any legal action or proceedings arising out of or in connection with the Notes and/or the Transaction Documents may be brought in such Courts. The Issuer has in each of the Transaction Documents to which it is a party irrevocably submitted to the jurisdiction of such Courts.

TAX TREATMENT ON THE NOTES

United Kingdom Taxation

The following is a summary of the United Kingdom withholding taxation treatment at the date hereof in relation to payments of principal and interest in respect of the Notes. It is based on current law and the practice of Her Majesty's Revenue and Customs ("**HMRC**"), which may be subject to change, sometimes with retrospective effect. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the Notes. The comments relate only to the position of persons who are absolute beneficial owners of the Notes. The following is a general guide for information purposes and should be treated with appropriate caution. It is not intended as tax advice and it does not purport to describe all of the tax considerations that may be relevant to a prospective purchaser. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

Interest on the Notes

Withholding tax on payments of interest on the Notes

The Notes will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Securities will be "listed on a recognised stock exchange" for this purpose if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioners for HMRC and they are 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 Irish 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 Official List and admitted to trading on the regulated market of the Irish Stock Exchange.

In all cases falling outside the exemption described above, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty, or to any other exemption which may apply.

Provision of Information

HMRC have powers to obtain information, including in relation to interest or payments treated as interest and payments derived from securities. This may include details of the beneficial owners of the Notes (or the persons for whom the Notes are held), details of the persons to whom payments derived from the Notes are or may be paid and information in connection with transactions relating to the Notes. Information obtained by HMRC may be provided to tax authorities in other countries.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "**Savings Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria 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. Luxembourg has announced it will no longer apply the withholding tax system as from 1 January 2015 and will provide details of payments of interest (or similar income) as from this date.

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 Council formally adopted a Council Directive amending the Savings Directive on 24 March 2014 (the "**Amending Directive**"). The Amending Directive broadens the scope of the requirements described above. Member States have until 1 January 2016 to adopt the national legislation necessary to comply with the Amending Directive. The changes made under the Amending Directive include extending the scope of the Savings Directive to payments made to, or secured for, certain other entities and legal arrangements. They also broaden the definition of "interest payment" to cover income that is equivalent to interest.

Other Rules Relating to United Kingdom Withholding Tax

(a) Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

(b) The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or principal" which may prevail under any other law.

(c) The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer pursuant to Condition 21 (*Substitution of the Issuer*) of the Notes or otherwise and does not consider the tax consequences of any such substitution.

SUBSCRIPTION AND SALE

HSBC Bank plc and The Royal Bank of Scotland plc (together, the "**Joint Lead Managers**") have, pursuant to a subscription agreement dated on or about the date hereof amongst the Seller, the Joint Lead Managers, the Arrangers and the Issuer (the "**Subscription Agreement**"), agreed with the Issuer (subject to certain conditions) to procure subscriptions and payments for or subscribe and pay for £400,000,000 of the Class A Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class A Notes.

In the Subscription Agreement the Seller undertakes (i) to hold a material net economic interest pursuant to paragraphs (a) to (e) (as applicable) of Article 405 of Regulation (EU) No. 575.2013 (the "**CRR**") and Article 51 of Commission Delegated Regulation (EU) No 231/2013 (the "**AIFM Regulation**") until maturity of the Notes and (ii) to comply with its obligations under Articles 405-409 of the CRR and Article 52 of the AIFM Regulation, subject always to any requirement of law, provided that the Seller will not be in breach of such undertaking if the Seller fails to so comply due to events, actions or circumstances beyond the Seller's control. The information made available by the Seller pursuant to this undertaking can be viewed by Noteholders on the Seller's website at www.skipton.co.uk/about_us. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

Skipton Building Society has, pursuant to a note purchase agreement dated on or about the date hereof between Skipton Building Society and the Issuer (the "**Note Purchase Agreement**"), agreed with the Issuer (subject to certain conditions) to subscribe and pay for 100 per cent. of the Class B Notes at the issue price of 100 per cent. of the aggregate principal amount of the Class B Notes as at the date hereof.

The Issuer has agreed to indemnify Skipton Building Society, the Arrangers and the Joint Lead Managers against certain liabilities and to pay certain costs and expenses in connection with the issue of the Notes.

Other than admission of the Notes to the Official List and the admission to trading on the Irish Stock Exchange's regulated market, no action has been taken by the Issuer, the Joint Lead Managers or Skipton Building Society, which would or has been intended to permit a public offering of the Notes, or possession or distribution of this Prospectus or other offering material relating to the Notes, in any country or jurisdiction where action for that purpose is required.

This Prospectus does not constitute, and may not be used for the purpose of, an offer or a solicitation by anyone to subscribe for or purchase any of the Notes in or from any country or jurisdiction where such an offer or solicitation is not authorised or is unlawful.

United Kingdom

Each of the Joint Lead Managers and Skipton Building Society has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Each of the Joint Lead Managers and Skipton Building Society has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of FSMA, having applied for the admission of the Notes to the Official List and admission to trading on the Irish Stock Exchange, no further action has been or will be taken in any jurisdiction by the Joint Lead Managers or Skipton Building Society that would, or is intended to, permit a public offering of the Notes, or possession or distribution of the Prospectus or any other offering material in relation to the Notes, in any country or jurisdiction where such further action for that purpose is required.

United States

The Notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an exemption from registration requirements.

Accordingly, the Notes are being offered outside the United States to persons other than U.S. persons (as defined in and pursuant to Regulation S of the Securities Act).

Each of the Joint Lead Managers and Skipton Building Society has agreed that, except as permitted by the Subscription Agreement (in respect of the Joint Lead Managers) or Note Purchase Agreement (in respect of Skipton Building Society), it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering of the Notes and the closing date within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each affiliate or other dealer (if any) to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account of, U.S. persons.

Ireland

Each of the Joint Lead Managers has represented and agreed that it has not made and will not make an offer of any Notes to the public in Ireland, except that it may make an offer of Notes to the public in Ireland:

(a) in the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in Ireland or, if approved by the competent authority of a home EEA Member State of the Issuer, which has been notified to the competent authority in Ireland, in either case in accordance with the Prospectus (Directive 2003/71/EC) Regulations 2005 and ending on the date which is 12 months after the date of such publication; or

(b) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, the corporate purpose of which is solely to invest in securities; or

(c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR 43,000,000; and (3) an annual net turnover of more than EUR 50,000,000, all as shown in its last annual or consolidated accounts; or

(d) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Lead Managers for any such offer; or

(e) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression "offer to the public" in relation to any Notes 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 for any Notes, as the same may be varied in Ireland by any measure implementing the Prospectus Directive in Ireland, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in Ireland.

General

Each of the Joint Lead Managers and Skipton Building Society has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in respect of the Notes in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

LISTING AND GENERAL INFORMATION

(a) It is expected that the admission of the Notes to the Official List and the admission of the Notes to trading on the Irish Stock Exchange's regulated market will be granted on or around 16 April 2014.

(b) None of the Issuer or Holdings is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Holdings respectively is aware), since 9 July 2013 (being the date of incorporation of the Issuer) and 18 December 2013 (being the date of incorporation of Holdings) which may have, or have had in the recent past, significant effects upon the financial position or profitability of the Issuer or Holdings (as the case may be).

(c) The auditors for the Issuer are KPMG Audit plc. KPMG Audit plc is a member of the Institute of Chartered Accountants in England and Wales. No statutory or non-statutory accounts within the meaning of Sections 434 and 435 of the Companies Act 2006 (as amended) in respect of any financial year of the Issuer have been prepared. So long as the Notes are admitted to trading on the Irish Stock Exchange's regulated market, the most recently published audited annual accounts of the Issuer from time to time shall be filed with the Irish Stock Exchange and shall be available at the Specified Office of the Principal Paying Agent in London.

(d) The Issuer does not publish interim accounts.

(e) Since 9 July 2013 (being the date of incorporation of the Issuer), there has been (a) no material adverse change in the financial position or prospects of the Issuer and (b) no significant change in the financial or trading position of the Issuer.

(f) Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.

(g) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 10 April 2014.

(h) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Codes:

Class of Notes	ISIN	Common Code
Class A	XS1042831443	104283144
Class B	XS1042832094	104283209

(i) From the date of this Prospectus and for so long as the Notes are listed on the Irish Stock Exchange's regulated market, physical copies of the following documents may be inspected at the Specified Office of the Principal Paying Agent during usual business hours, on any weekday (public holidays excepted):

- (i) the Memorandum and Articles of Association of each of the Issuer and Holdings;
- (ii) copies of the following documents:
  - (A) the Trust Deed;
  - (B) the Deed of Charge;
  - (C) the Agency Agreement; and
  - (D) the Incorporated Terms Memorandum.

(j) The Cash Manager on behalf of the Issuer will publish the monthly Investor Report detailing, *inter alia*, certain aggregated loan data in relation to the Portfolio. Such Investor Reports will be published on the Seller's website at www.skipton.co.uk/about_us, the first Investor Report being provided no earlier than the date falling one month from the Closing Date. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus. Investor Reports will also be made available to the Seller, the Swap Provider and the Rating Agencies. Other than as outlined above, the Issuer does not intend to provide post-issuance transaction information regarding the Notes or the Loans.

(k) The Issuer confirms that the Loans backing the issue of the Notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes. Investors are advised that this confirmation is based on the information available to the Issuer at the date of this Prospectus and may be affected by the future performance of such assets backing the issue of the Notes. Investors are advised to review carefully any disclosure in the Prospectus together with any amendments or supplements thereto.

(l) The total expenses to be paid in relation to admission of the Notes to the Official List and trading on the regulated market of the Irish Stock Exchange are estimated to be approximately €5,440.

(m) Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on its regulated market for the purposes of the Prospectus Directive.

INDEX OF DEFINED TERMS

ISSUER
Darrowby No. 3 plc
35 Great St Helen's
London EC3A 6AP

ADMINISTRATOR AND SELLER
Skipton Building Society
The Bailey
Skipton
North Yorkshire
BD23 1DN

ARRANGERS AND JOINT LEAD MANAGERS

HSBC Bank plc
8 Canada Square
London
E14 5HQ

The Royal Bank of Scotland plc
135 Bishopsgate
London
EC2M 3UR

TRUSTEE
Citicorp Trustee Company Limited
Citigroup Centre
Canada Square
London
E14 5LB

AGENT BANK, ACCOUNT BANK AND PRINCIPAL PAYING AGENT
Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London
E14 5LB

REGISTRAR
Citibank, N.A., London Branch
Citigroup Centre
Canada Square
London
E14 5LB

LEGAL ADVISOR TO ARRANGERS AND JOINT LEAD MANAGERS
as to English Law
Linklaters LLP
One Silk Street
London
EC2Y 8HQ

LEGAL ADVISOR TO SELLER
as to English Law
Clifford Chance LLP
10 Upper Bank Street
London
E14 5JJ

LEGAL ADVISOR TO THE TRUSTEE
as to English Law
Linklaters LLP
One Silk Street
London
EC2Y 8HQ

LEGAL ADVISOR TO SELLER
as to Scots Law
Tods Murray LLP
Edinburgh Quay
133 Fountainbridge
Edinburgh
EH3 9AG

AUDITORS OF THE ISSUER
KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW

LISTING AGENT
Arthur Cox Listing Services Limited
Earlsfort Centre
Earlsfort Terrace
Dublin 2
Ireland