

IMPORTANT NOTICE

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

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

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

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

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

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

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

Friary No. 2 plc

(incorporated with limited liability in England and Wales under number 9000695)

Notes	Initial Principal Amount	Issue Price	Interest Rate	Margin/ Step-Up Margin	Step-Up Date/Call Option Date	Pre-enforcement Redemption Profile	Final Maturity Date	Ratings (Fitch/Moody's)
Class A	475,000,000	100%	3 month GBP Libor (interpolated for 3 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	Up to and excluding the Step-Up Date, 0.57% per annum/ from and including the Step-Up Date, 1.14% per annum	The Interest Payment Date falling in Jul 2019	Pass through amortisation	The Interest Payment Date falling in Oct 2046	AAAsf/Aa a(sf)
Class B	45,548,000	100%	3 month GBP Libor (interpolated for 3 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin	0.00% per annum	The Interest Payment Date falling in Jul 2019	Pass through amortisation	The Interest Payment Date falling in Oct 2046	N/A

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	<p>The Issuer will make payments on the Notes from, <i>inter alia</i>, payments of principal and revenue on a portfolio comprising mortgage loans originated by Principality Building Society (Principality) and secured over residential properties located in England and Wales (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.</p> <p>Please refer to the section entitled "<i>The Portfolio</i>" for further information.</p>
Credit Enhancement	<ul style="list-style-type: none"> • Subordination of junior ranking Notes; • General Reserve Fund; and • Excess Available Revenue Receipts. <p>Please refer to sections entitled "<i>Key Structural Features</i>" and "<i>Cashflows and Cash Management</i>" for further information.</p>
Liquidity Support	<p><u>Liquidity Support Features for the Class A Notes</u></p> <ul style="list-style-type: none"> • General Reserve Fund; and • Principal Receipts applied to make up any Remaining Income Deficit; <p>Please refer to the section entitled "<i>Key Structural Features</i>" for further information.</p>
Redemption Provisions	Information on any optional and mandatory redemption of the Notes is summarised on page 43 (" <i>Transaction Overview – Overview of the Terms and Conditions of the Notes</i> ") and is set out in full in Condition 9 (" <i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i> ").
Rating Agencies	<p>Moody's Investors Service Limited (Moody's) and Fitch Ratings Limited (Fitch) and, together with Moody's, the Rating Agencies. As of the date of this Prospectus, each of the Rating Agencies is a credit rating agency established in the European Union and is registered under Regulation (EU) No 1060/2009 (as amended) (the CRA Regulation). As such each of the Rating Agencies is included on the list of credit rating agencies published by the European Securities and Markets Authority on its website (at www.esma.europa.eu/page/list-registered-and-certified-CRAs). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.</p> <p>All references to Moody's and Fitch in this Prospectus are to the entities defined in the above paragraph.</p>
Credit Ratings	Ratings are expected to be assigned to the Class A Notes by the Rating Agencies as set out

	<p>above on or before the Closing Date. The Class B Notes will not be rated.</p> <p>The ratings reflect the views of the Rating Agencies and are based on the Loans, the Related Security and the Properties and the structural features of the transaction, including, <i>inter alia</i>, the current ratings of the Interest Rate Swap Provider.</p> <p>The ratings assigned by Fitch address the likelihood of full and timely payment to the Noteholders (i) of interest due on each Interest Payment Date and (ii) of principal on a date that is not later than the Final Maturity Date.</p> <p>The ratings assigned by Moody's address the expected loss to a Noteholder in proportion to the initial principal amount of the class of Notes held by the Noteholder by the Final Maturity Date. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal on or before the Final Maturity Date.</p> <p>The assignment of ratings to the Notes is not a recommendation to invest in the Notes and ratings may be suspended, revised or withdrawn at any time by the assigned rating agency.</p>
Listing	<p>This document comprises a prospectus (the Prospectus) for the purpose of Directive 2003/71/EC (the Prospectus Directive). The Prospectus has been approved by the Central Bank of Ireland (the Central Bank) 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.</p> <p>Application has been made to the Irish Stock Exchange (the Irish Stock Exchange) for the Notes to be admitted to the official list of the Irish Stock Exchange (the Official List) and 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.</p>
Obligations	<p>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.</p>
Retention Undertaking	<p>Principality will undertake to the Issuer and the Trustee, on behalf of the Noteholders, that it will retain a material net economic interest of at least 5% in accordance with each of Article 405 of Regulation (EU) No.575/2013 (the Capital Requirements Regulation (the CRR)) and Article 51 of Regulation (EU) No 231/2013, referred to as the Alternative Investment Fund Managers Regulation (AIFMR) (which, in each case, does not take into account any corresponding national measures). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche, in this case the Class B Notes, as required by Article 405 of the CRR and Article 51 of the AIFMR. Please refer to the sections entitled "<i>Risk Retention Requirements</i>" and "<i>Subscription and Sale</i>" for further information.</p>
Significant Investor	<p>Principality, will on the Closing Date purchase all of the Class B Notes.</p> <p>Please refer to the section entitled "<i>Subscription and Sale</i>" for further information.</p>

A "RISK FACTORS" SECTION BEGINNING ON PAGE 7 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
Barclays Bank PLC
HSBC

The date of this Prospectus is 6 June 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, including the information provided by the Interest Rate Swap Provider in the section entitled "*Interest Rate Swap Provider*", 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.

Principality accepts responsibility for the information set out in the sections headed "*Principality Building Society*", "*The Portfolio*" and "*Risk Retention Requirements*". To the best of the knowledge and belief of Principality (having taken all reasonable care to ensure that such is the case), the information contained in such sections 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 Principality 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.

Barclays Bank PLC accepts responsibility for the relevant information set out in the section headed "*Interest Rate Swap Provider*". To the best of the knowledge and belief of Barclays 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 Barclays Bank PLC 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.

Virtus Group LP accepts responsibility for the relevant information set out in the section headed "*Back-Up Cash Manager*". To the best of the knowledge and belief of Virtus Group LP (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 Virtus Group LP 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.

Homeloan Management Limited accepts responsibility for the relevant information set out in the section headed "*Back-Up Servicer*". To the best of the knowledge and belief of Homeloan Management Limited (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 Homeloan Management Limited 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 relevant information set out in the section headed "*Account Bank*". 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 section referred to above) or any other information supplied in connection with the Notes or their distribution. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. No representation is made by any Transaction Party that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and none of them assumes any responsibility for facilitating any such distribution or offering. In particular, save for obtaining the approval of this prospectus as a Prospectus for the purposes of the Prospectus Directive by the 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 document (or any part hereof), see the section entitled "*Subscription and Sale*" below.

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

None of the Joint Lead Managers, the Arrangers, the Agents 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, the Agents 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, the Agents 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 Agents, the Interest Rate Swap Provider, the directors of the Issuer, the Joint Lead Managers or the Arrangers.

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

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

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

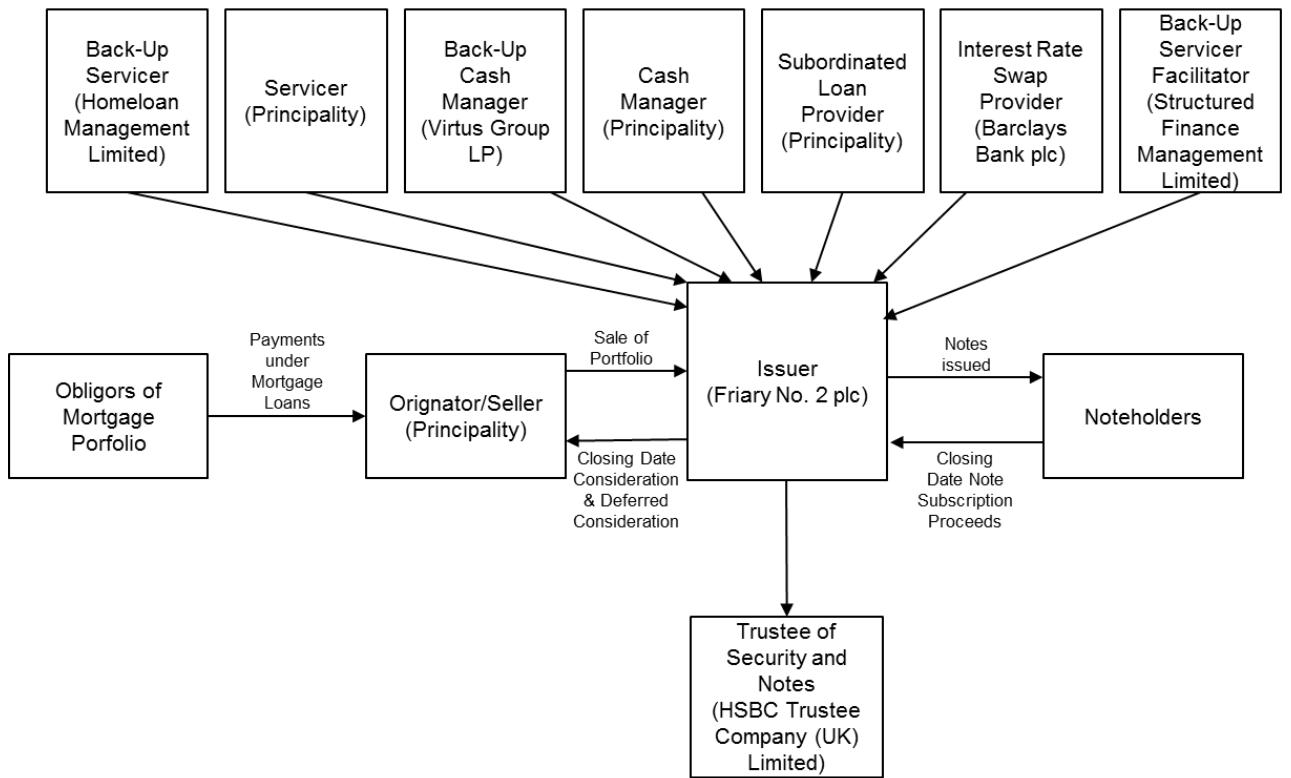
Forward-Looking Statements and Statistical Information

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

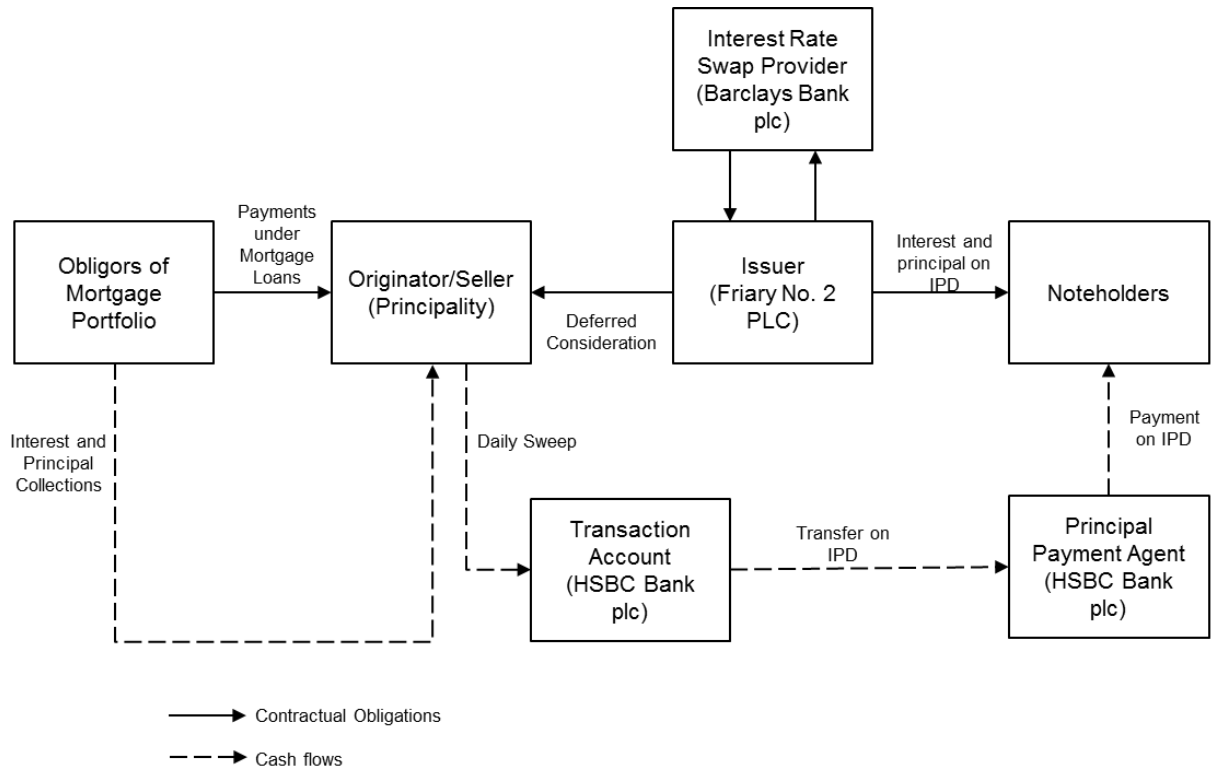
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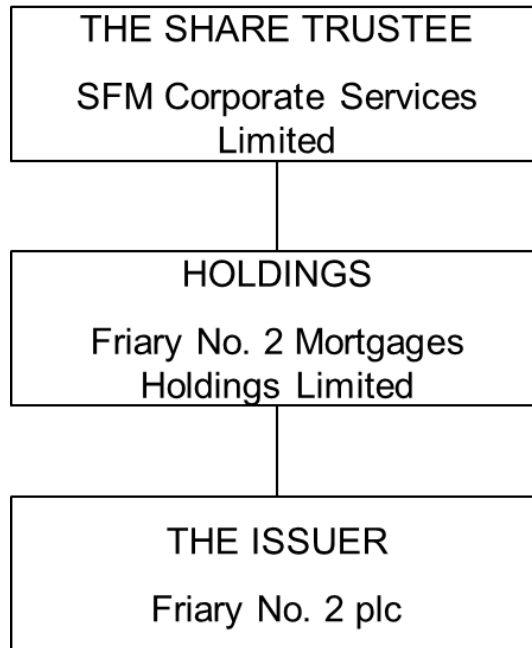
DIAGRAMMATIC OVERVIEW OF TRANSACTION



DIAGRAMMATIC OVERVIEW OF ONGOING 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 and is held on discretionary trust, the benefit of which is expressed to be for discretionary purposes.

TRANSACTION OVERVIEW

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

TRANSACTION PARTIES ON THE CLOSING DATE

Party	Name	Address	Document under which appointed / Further Information
Issuer:	Friary No. 2 plc	35 Great St. Helen's, London EC3A 6AP	N/A (Please refer to the section entitled " <i>Issuer</i> " for further information on this.)
Holdings:	Friary No.2 Mortgages Holdings Limited	35 Great St. Helen's, London EC3A 6AP	N/A (Please refer to the section entitled " <i>Holdings</i> " for further information on this.)
Seller:	Principality Building Society	Principality Buildings Queen Street Cardiff CF10 1UA	N/A (Please refer to the section entitled " <i>Principality Building Society</i> " for further information on this.)
Servicer:	Principality Building Society	Principality Buildings Queen Street Cardiff CF10 1UA	Servicing Agreement (Please refer to the section entitled " <i>The Servicer</i> " for further information on this.)
Back-Up Servicer Facilitator:	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Servicing Agreement (Please refer to the section entitled " <i>The Servicer – The Servicing Agreement</i> " for further information on this.)
Cash Manager:	Principality Building Society	Principality Buildings Queen Street Cardiff CF10 1UA	Cash Management Agreement (Please refer to the section entitled " <i>Cashflows and Cash Management</i> " for further information on this.)

Party	Name	Address	Document under which appointed / Further Information
Subordinated Loan Provider:	Principality Building Society	Principality Buildings Queen Street Cardiff CF10 1UA	Subordinated Loan Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
Interest Rate Swap Provider	Barclays Bank PLC	5 The North Colonnade, Canary Wharf, London E14 4BB	Interest Rate Swap Agreement (Please refer to the section entitled " <i>Key Structural Features</i> " for further information on this.)
Trustee:	HSBC Corporate Trustee Company (UK) Limited	8 Canada Square, London E14 5HQ	Trust Deed (See the Conditions for further information on this.)
Principal Paying Agent:	HSBC Bank plc	8 Canada Square, London E14 5HQ	Agency Agreement
Agent Bank:	HSBC Bank plc	8 Canada Square, London E14 5HQ	Agency Agreement
Registrar:	HSBC Bank plc	8 Canada Square, London E14 5HQ	Agency Agreement
Account Bank and Swap Collateral Account Bank:	HSBC Bank plc	8 Canada Square, London E14 5HQ	Account Bank Agreement, Swap Collateral Account Agreements
Corporate Services Provider:	Structured Finance Management Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Services Agreement
Arrangers:	Barclays Bank PLC	5 The North Colonnade, Canary Wharf, London E14 4BB	N/A
	HSBC Bank plc	8 Canada Square, London E14 5HQ	

Party	Name	Address	Document under which appointed / Further Information
Joint Lead Managers:	Barclays Bank PLC	5 The North Colonnade, Canary Wharf, London E14 4BB	N/A
	HSBC Bank plc	8 Canada Square, London E14 5HQ	
The Share Trustee	SFM Corporate Services Limited	35 Great St. Helen's, London EC3A 6AP	N/A
Auditors of the Issuer	Deloitte LLP	5 Callaghan Square Cardiff CF10 5BT	N/A
Irish Listing Agent	Arthur Cox Listing Services Limited	Earlsfort Centre Earlsfort Terrace Dublin 2 Ireland	N/A
Back-Up Servicer	Homeloan Management Limited	The Bailey Skipton North Yorkshire BD23 1DN	Back-Up Servicing Agreement
Back-Up Cash Manager	Virtus Group LP	25 Canada Square London E14 5LQ	Back-Up Cash Management Agreement

RISK FACTORS

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

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

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

Credit Structure

Notes obligations of Issuer only

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

Limited source of funds

The ability of the Issuer to meet its obligations to pay principal and interest on the Notes and its operating and administrative expenses will be dependent primarily on Revenue Receipts and Principal Receipts in respect of the Loans in the Portfolio, interest earned on the Transaction Account, the receipts under the Interest Rate 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 material 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 in the limited circumstances 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. 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 (except in the case of the Agents, the Account Bank and the Swap Collateral Account Bank which will hold such funds as a bank and to the order of the 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 the Notes other than the Most Senior Class of 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. 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.

Credit risk

The Issuer is subject to the risk of default in payment by the Borrowers and the failure by the Servicer, on behalf of the Issuer, to realise or recover sufficient funds under the arrears and default procedures in respect of the 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 (a) the fixed rates of interest payable on the Fixed Rate Loans and the interest rate payable in respect of the Notes; and (b) the interest rate on BoE Base Rate linked Loans and standard variable rate linked Loans being determined on different bases from that on which the interest rate payable on the Notes is determined.

The Issuer will only enter into an Interest Rate Swap Transaction with the Interest Rate Swap Provider in respect of the mismatch between the fixed rates of interest payable on the Fixed Rate Loans and the interest payable in respect of the Notes, and not in respect of any other mismatch. The Interest 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 Interest Rate Swap Transaction will be set at the last day of the calendar month ending at the start of the relevant calculation period of the Interest Rate Swap Transaction and will only be reset on a monthly basis.

Interest Rate Swap Provider Risk and Swap Termination Payment

In the event that the Interest Rate Swap Provider does not pay the amount payable under the Interest Rate 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 Interest Rate 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 Interest Rate Swap Provider under the Interest Rate Swap Agreement. Any termination payment due by the Issuer to the Interest Rate Swap Provider will be paid first out of amounts standing to the credit of the relevant Swap Collateral Account in accordance with the relevant Swap Collateral Account Priority of Payments and then, to the extent that there are insufficient funds standing to the credit of the relevant Swap Collateral Account, using available funds in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments. Any termination payment due by the Issuer to the Interest Rate 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 Interest Rate 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 Interest Rate 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 Interest Rate Swap Provider were to default in respect of its obligations under the Interest Rate Swap Agreement so as to result in a termination of the Interest Rate 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 of 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 Interest Rate Swap Provider the Issuer will be treated as a general creditor of the Interest Rate Swap Provider. Consequently, the Issuer will be subject to the credit risk of the Interest Rate Swap Provider, as well as that of the Loans.

To mitigate this risk, under the terms of the Interest Rate Swap Agreement, in the event that the relevant ratings of the Interest Rate Swap Provider and any party providing credit support for the Interest Rate Swap Provider fail to meet the required ratings, such Interest Rate Swap Provider will, in accordance with the terms of the Interest Rate Swap Agreement, be required to elect to take certain remedial measures within the time frame stipulated in the Interest Rate Swap Agreement and at its own cost, which may include providing collateral for its obligations under the Interest Rate Swap Agreement, arranging for its obligations under the Interest Rate 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 Interest Rate Swap Agreement or such other action that would result in the Rating Agencies continuing the then current rating of the Notes or restoring such rating to the level prior to the downgrade event. However, no assurance can be given that, at the time that such actions are required, sufficient collateral will be provided by the Interest Rate 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 and/or Flexible Drawings by the Issuer are not met, then the Issuer will not be able to fund the purchase of such Further Advances and/or Flexible Drawings 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, Flexible Drawings 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. In addition should a Borrower elect, subject to the agreement of the Seller and Servicer, to change the terms of their Loans from an Interest Only Loan to a Repayment Loan, the Issuer would (subject to satisfaction of the Product Switch Conditions) receive principal payments in respect of the relevant Loan earlier than would otherwise be anticipated. 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% 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 Interest Rate Swap Provider being required to make a Tax Deduction in respect of any payment in respect of the Notes or the Interest Rate Swap Agreement, respectively, or the Issuer would be subject to UK corporation tax in an accounting period on an amount which materially exceeds the Issuer Profit Amount retained during that accounting period. See Condition 9.4 (*Optional Redemption in whole for taxation reasons*) for further information.

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

Ratings of the Notes

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

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

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration

application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended).

Rating Agency confirmation

The Conditions provide that if a Rating Agency Confirmation or other response by a Rating Agency is a condition to any action or step under any Transaction Document and a written request for such Rating Agency Confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer and (i) (A) one Rating Agency (such Rating Agency, a **Non-Responsive Rating Agency**) indicates that it does not consider such Rating Agency Confirmation or response necessary in the circumstances or that it does not, as a matter of practice or policy, provide such Rating Agency Confirmation or response or (B) within 30 days of delivery of such request, no Rating Agency Confirmation or response is received and/or such request elicits no statement by such Rating Agency that such Rating Agency Confirmation or response could not be given; and (ii) one Rating Agency gives such Rating Agency Confirmation or response based on the same facts, then such condition to receive a Rating Agency Confirmation or response from each Rating Agency shall be modified so that there shall be no requirement for the Rating Agency Confirmation or response from the Non-Responsive Rating Agency if the Cash Manager on behalf of the Issuer provides to the Trustee a certificate signed by two directors certifying and confirming that each of the events in subparagraphs (i) (A) or (B) and (ii) has occurred following the delivery by or on behalf of the Issuer of a written request to each Rating Agency. Where a Rating Agency Confirmation is a condition to any action or step under any Transaction Document and it is deemed to be modified as a result of a Non-Responsive Rating Agency not having responded to the relevant request from the Issuer within 30 days, there remains a risk that such Non-Responsive Rating Agency may subsequently downgrade, qualify or withdraw the then current ratings of the Class A Notes as a result of the action or step. Such a downgrade, qualification or withdrawal to the then current ratings of the Class A Notes may have an adverse effect on the value of the Class A Notes.

The Trustee shall be entitled to rely without Liability to any person on any certificate delivered to it in connection with a Non-Responsive Rating Agency pursuant to Condition 23. The Trustee shall not be required to investigate any action taken by the Issuer or such Non-Responsive Rating Agency and shall treat the applicable condition or requirement to receive a Rating Agency Confirmation or response from each Rating Agency as having been modified with the consent of all Noteholders and all parties to the relevant Transaction Documents so that there shall be no requirement for such Rating Agency Confirmation or response from Non-Responsive Rating Agency.

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. All of the Class A Notes will be sold to third-party investors. Principality will purchase all of the Class B Notes on the Closing Date. Any investor in the Notes must be prepared to hold its 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.

Whilst central bank schemes such as the Bank of England's Discount Window Facility, the Extended Term Collateral Repo and Funding for Lending Scheme 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 apply 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. No assurance is given that any class of Notes will be eligible for any specific central bank liquidity schemes.

The Funding for Lending scheme was announced by the Bank of England on 13 July 2012 and was extended on 24 April 2013 to 31 January 2015. The scheme allows banks to swap qualifying collateral pre-positioned at the Bank of England for treasury bills for a period of four years, in exchange for a fee. During the original scheme period from 1 August 2012 to 31 January 2014, each participant bank was able to borrow an amount of up to 5 per cent. of its end of June 2012 stock of existing loans to the UK

non-financial sector, plus any expansion of its lending during the reference period from that date until the end of 2013. During the extended scheme period from 3 February 2014 to 30 January 2015, each participant bank will be able to borrow an amount up to 5 per cent. of its group-wide (including some of its non-bank provider subsidiaries, but excluding SPVs related to securitisation, such as the Issuer) net lending to the UK non-financial sector over the period from 1 April 2013 to 31 December 2014, with the net lending to small and medium sized enterprises carrying a greater weighting factor in the calculation of borrowing allowance. Banks are able to borrow during the 30 months from 1 August 2012 until 31 January 2015. This scheme could significantly reduce the amount of UK residential mortgage backed security issuances to the primary market, which in turn could affect the level of liquidity in the secondary market for these securities.

It should also be noted that the market for the Notes is likely to be affected by any restructurings of sovereign debt by countries in the Eurozone. In particular, at the date of this Prospectus, certain governments have implemented austerity programmes. Greece has received assistance from the European Central Bank and the International Monetary Fund. If there is a deterioration in the financial position of any individual country it may have implications for the liquidity of the Notes in the secondary market.

Economic Conditions in the Eurozone

Concerns relating to credit risk (including that of sovereigns and of those entities which have exposure to sovereigns) have recently intensified. In particular, concerns have been raised with respect to current economic, monetary and political conditions in the Eurozone. If such concerns persist and/or such conditions further deteriorate (including as may be demonstrated by any relevant credit rating agency action, any default or restructuring of indebtedness by one or more Member States or institutions and/or any changes to, including any break up of, the Eurozone), then these matters may cause further severe stress in the financial system generally and/or may adversely affect the Issuer, one or more of the other parties to the Transaction Documents (including the Seller, the Servicer, the Back-Up Servicer, the Back-Up Servicer Facilitator, the Cash Manager, the Back-Up Cash Manager, the Account Bank, and/or the Interest Rate Swap Provider) and/or any borrower in respect of the Loans. Given the current uncertainty and the range of possible outcomes, no assurance can be given as to the impact of any of the matters described above and, in particular, no assurance can be given that such matters would not adversely affect the rights of the Noteholders, the market value of the Notes and/or the ability of the Issuer to satisfy its obligations under the Notes.

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 Class A Notes (provided that in relation to a Reserved Matter, the Trustee will have regard to the interests of the holders of the affected class or classes of Notes in accordance with the provisions of the Trust Deed).

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.

Risks relating to negative consent of Noteholders in respect of amendments to the Transaction Documents as a result of a change in the criteria of the Rating Agencies

The Trustee shall be obliged, without any consent or sanction of the Noteholders, or, subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or which, as a result of such amendment, would be further contractually subordinated to any Secured Creditor than would otherwise have been the case prior to such amendment, any of the other Secured Creditors, to concur with the Issuer in making any modification (other than in respect of a Reserved

Matter) to the Conditions or any other Transaction Document to which it is a party or in relation to which it holds security that the Issuer considers necessary, for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time.

In relation to any such proposed amendment, the Issuer is required to give at least 30 calendar days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 22 (Notices) and by publication on Bloomberg on the "Company News" screen relating to the Notes. However, Noteholders should be aware that in relation to such amendments, if Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the most senior Class of Notes then outstanding have not contacted the Trustee in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Trustee that such Noteholders do not consent to the modification, the modification will be passed without Noteholder consent.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the most senior Class of Notes then outstanding have notified the Issuer or the Principal Paying Agent in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the most senior Class of Notes then outstanding is passed in favour of such modification in accordance with Condition 16 (Meetings of Noteholders).

The full requirements in relation to any modification for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time is set out in Condition 17.2(c).

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 Mortgages (the **Loans**) and their Related Security (until legal title is conveyed) takes effect in equity only. 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, 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 Mortgages and their Related Security.

There are certain consequences under English 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 Servicing 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 Servicer vary certain terms in certain circumstances as set out in the Servicing Agreement, as between any Borrower and the Issuer, if the Seller were to modify the terms of the Loans and their Related Security the revised terms would apply and the Issuer would only have recourse against the Seller for breach of contract or breach of trust;
- (c) prior to the insolvency of the Seller, unless notice of the assignment is given to a Borrower who is a creditor of the Seller in the context of the Loans and their Related Security, equitable or

independent set-off rights may accrue in favour of the Borrower against its 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. However, where notice of the assignment is given to the Borrower, some rights of set-off may continue to arise after the date notice is given;

- (d) once notice has been given to the Borrowers of the assignment of the Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as, for example, set-off rights associated with Borrowers holding deposits with the Seller) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under "transaction set-off" (which are set-off claims arising out of a transaction connected with the Loan such as in respect of a flexible drawing) 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, 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 Loans will be given effect by an assignment. As a result, legal title to the 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. Once notice has been given to the Borrowers of the assignment of the Loans and their Related Security to the Issuer, independent set-off rights which a Borrower has against the Seller (such as set-off rights not associated with or connected to the relevant Loan, for example in relation to deposits held by a Borrower 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.

By way of example, set-off rights relating to transaction set-off may arise if the Seller fails to make to a Borrower a Further Advance having agreed to do so or if the Seller fails to advance to a Borrower a Flexible Drawing when the Borrower is entitled to draw additional amounts under a Flexible Loan.

The relevant Borrower may set off any claim for damages 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. 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, it 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 its damages claim against its mortgage payments. In that case, the Servicer will be entitled to take enforcement proceedings against the Borrower, although the period of non-payment by the Borrower is likely to continue until a judgment is obtained.

The exercise of set-off rights by Borrowers may adversely affect the realisable value of the 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 Class A 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, Flexible Drawings and Substitutions

A Loan and its Related Security may be repurchased where a Product Switch, Further Advance or Flexible Drawing 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, Flexible Drawings and substitution.

The number of Further Advance, Flexible Drawing and Product Switch requests received by the Seller and/or the Servicer may affect both the timing of principal amounts received by the Issuer from the Borrower and, as Available Principal Receipts will be used to pay amounts to the Seller in respect of consideration for such Further Advances and Flexible Drawings, the amount of Available Principal Receipts available to meet payments of principal and (in the event of a shortfall) interest on the Notes.

Selection of the Portfolio

The information in the section headed "*Statistical Information on the Portfolio*" has been extracted from the systems of the Seller as at 31 January 2014 (the **Portfolio Cut-Off Date**). The pool of Loans from which the Portfolio will be selected (the **Provisional Portfolio**) comprises of 5,494 Loans with a Current Balance of £550,000,054. 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.

Servicing 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 Interest Rate 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 Servicer has agreed to service the Portfolio, the Cash Manager has agreed to provide cash management services and the Paying Agents, the Registrar and the Agent Bank have all agreed to provide services with respect to the Notes and the Back-Up Servicer Facilitator has agreed to assist in appointing a Back-Up Servicer. In the event that any of the above parties was to fail to perform its obligations under the respective agreements to which they are a party, payments on the Notes may be adversely affected.

The Interest Rate Swap Provider has agreed to provide hedging to the Issuer and investors should be aware that, further to the European Market Infrastructure Regulation EU 648/2012 (**EMIR**), the Issuer is subject to certain regulatory requirements including, but not limited to, reporting transactions to a trade repository or the European Securities and Markets Authority and various compliance requirements for non-cleared OTC derivative transactions (known as the "risk mitigation techniques") which may result in future amendments by the Issuer to the Transaction Documents (see *Terms and Conditions of the Notes – Modifications and Waiver* and the risk factor entitled "*Meetings of Noteholders, Modification and Waivers*"), 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 agree to 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 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. In the event that any of the above parties were to fail to perform its obligations under the respective agreements to which they are a party (including as a result of insolvency of such parties), payments on the Notes may be adversely affected.

Ability to appoint Substitute Servicer

If the Servicer is removed in accordance with the terms of the Servicing Agreement, there is no guarantee that a substitute servicer would be found, which could delay collection of payments on the relevant Loans and ultimately could adversely affect payments of interest and principal on the Notes. Such risk is mitigated by the provisions of the Back-Up Servicing Agreement pursuant to which the Back-Up Servicer is appointed.

The Servicer will be appointed by the Issuer to service the Loans. If the Servicer breaches the terms of the Servicing Agreement, the Issuer and/or the Trustee may, having given notice to the Servicer and the Rating Agencies, terminate the appointment of the Servicer and the Back-Up Servicer will take over the servicing on substantially the same terms as those set out in the Servicing Agreement.

There can be no assurance that the Back-Up Servicer will be able to perform its obligations. If the Back-Up Servicer fails to perform its obligations to take over the servicing role, there can be no assurance that a

substitute servicer with sufficient experience of servicing mortgages of residential properties would be found who would be willing and able to service the Loans on the terms of the Servicing Agreement. In addition, as described below, any such substitute servicer will be required to be authorised under the Financial Services and Markets Act 2000 (the **FSMA**) in order to service Loans that constitute Regulated Mortgage Contracts. The ability of any entity acting as a substitute servicer to fully perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute servicer may affect payments on the Loans and hence the Issuer's ability to make payments when due on the Notes.

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

Certain material interests

The Arrangers and the Joint Lead Managers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, Principality. Barclays Bank PLC is acting as Arranger and a Joint Lead Manager, HSBC Bank plc is acting as Arranger, a Joint Lead Manager, the Principal Paying Agent, the Agent Bank, the Account Bank, and the Registrar. Other parties to the transaction may also perform multiple roles, including Principality, who will act as (among other roles) the Servicer, the Cash Manager and the Subordinated Loan Provider.

Nothing in the Transaction Documents shall prevent any of the parties to the Transaction Documents from rendering services similar to those provided for in the Transaction Documents to other persons, firms or companies or from carrying on any business similar to or in competition with the business of any of the parties to the Transaction Documents.

Accordingly, conflicts of interest may exist or may arise as a result of parties to this transaction:

- (a) having previously engaged or in the future engaging in transactions with other parties to the transaction;
- (b) having multiple roles in this transaction; and/or
- (c) carrying out roles in other transactions for third parties.

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% 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.

In relation to the undertaking to be given by the Seller to the Issuer and the Trustee on behalf of itself and the Noteholders in the Deed of Charge in accordance with Article 405 of the CRR and Article 51 of the AIFMR regarding the material net economic interest to be retained by the Seller and certain requirements as to providing investor information in connection therewith, the Trustee shall not be under any obligation to monitor the compliance by the Seller 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 the Most Senior Class of outstanding Notes.

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 Interest Rate Swap Provider) are required to satisfy certain criteria in order to remain a counterparty to the Issuer.

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

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

The Portfolio

Default by Borrowers in paying amounts due on their Loans

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

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

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

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

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

Borrowers with a Loan subject to a variable rate of interest or with a Loan for which the related interest rate adjusts following an initial fixed rate or low introductory rate, as applicable, may be exposed to increased monthly payments if the related mortgage interest rate adjusts upward (or, in the case of a Loan with an initial fixed rate or low introductory rate, at the end of the relevant fixed or introductory period). This increase in Borrowers' monthly payments, which (in the case of a Loan with an initial fixed rate or

low introductory rate) may be compounded by any further increase in the related mortgage interest rate during the relevant fixed or introductory period, ultimately may result in higher delinquency rates and losses in the future.

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

These events, alone or in combination, may contribute to higher delinquency rates, slower prepayment spreads and higher losses 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 Loan. If the value of the Security backing the Loans is reduced this may ultimately result in losses to Noteholders if the Security is required to be enforced and the resulting proceeds are insufficient to make payments on all Notes.

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

Geographic Concentration Risks

Loans in the Portfolio may also be subject to geographic concentration risks within certain regions of the United Kingdom and particularly will be dependent on the housing market and economic conditions in Wales, which may be different from the general conditions experienced in the UK. 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 Portfolio 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, the 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 on an interest basis. 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 under which no further benefits may be accruing. 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 is 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.

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

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

Neither the Trustee, the Arrangers, the Joint Lead Managers nor the Issuer has undertaken, or will undertake, any investigations, searches or other actions of any nature whatsoever in respect of any Loan or its Related Security in the Portfolio and each relies instead on the warranties given in the Mortgage Sale Agreement by the Seller. Loans which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the Related Security not being accepted as security for a Loan had such matters been revealed. The primary remedy of the Issuer against the Seller if any of the warranties made by the Seller is materially breached or proves to be materially untrue as at the Closing Date or, as the case may be, as at the last day of the calendar month in which any relevant Advance Date, Switch Date or Substitution Date occurred and is not remedied within 30 days of receipt by the Seller of a notice from the Issuer that such conditions are not satisfied, shall be to require the Seller to repurchase any relevant Loan and its Related Security. In addition the Seller will be required to repurchase a loan that is subject to a Further Advance, Flexible Drawing, Product Switch or substitution for a Loan that is subject to a repurchase (**Substitution**) if the relevant Further Advance Conditions, Flexible Drawing Conditions, Product Switch Conditions or Substitution Conditions are not satisfied as at the last day of the calendar month in which such Further Advance, Flexible Drawing, Product Switch or Substitution is made and such breach is not remedied within 30 days of receipt by the Seller of a notice from the Issuer that such conditions are not satisfied. 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.

Help to Buy Scheme not applicable to Loans in the Portfolio

In March 2013, the UK Government announced the "Help to Buy" Scheme involving two separate proposals to assist home buyers. The first involves a shared equity loan made available by the UK

Government to Borrowers for the purchase of new homes. The shared equity loans were available from 1 April 2013. No shared equity loans are included in the Portfolio. The second involves a guarantee provided by the UK Government for loans made to borrowers allowing up to a 95% loan-to-value ratio. The guarantee loans were available from 1 October 2013 (each of the loans under this scheme, a **Help to Buy Loan**). The Loans in the Portfolio do not benefit from any guarantee provided under the "Help to Buy" Scheme and the Portfolio does not contain any Help to Buy Loans.

Certain Regulatory Considerations

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

Certain lending in the United Kingdom is regulated by the Consumer Credit Act 1974 (the **CCA**). The regulator for credit agreements regulated by the CCA was the Office of Fair Trading (the **OFT**) before 1 April 2014, which issued licences and guidance on conduct of business under the CCA, and is the Financial Conduct Authority (the **FCA**) from 1 April 2014, which issues authorisation and permission and rules and guidance on conduct of business under the FSMA. The FCA is also the regulator for regulated mortgage contracts under the FSMA (please see "*Mortgage regulation under the FSMA*" below).

A credit agreement is regulated by the CCA where: (i) the borrower is or includes an "individual" as defined in the CCA; (ii) 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 (iii) the credit agreement is not an exempt agreement under the CCA.

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 be treated as such, and any credit agreement intended to be regulated by the CCA or be treated as such, or unregulated, might instead be a regulated mortgage contract under the FSMA because of technical rules on:

- (a) determining whether any credit under the CCA arises, or whether any applicable financial limit of the CCA is exceeded;
- (b) determining whether the credit agreement is an exempt agreement under the CCA (for example, certain types of credit agreement to finance the purchase of, or alteration to, homes or business premises, or regulated mortgage contracts under the FSMA); or
- (c) changes to credit agreements.

Any credit agreement that is wholly or partly regulated by the CCA or treated as such has to comply with the requirements as to licensing or authorisation of lenders and brokers, documentation and 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: (i) without an order of the FCA or the court, if the lender or any broker did not hold the required licence or authorisation at the relevant time; (ii) totally, for agreements entered into before 6 April 2007, if the form to be signed by the borrower was not signed by the borrower personally or omits or misstates a "prescribed term"; or (iii) 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 by the lender.

A court order under section 126 of the CCA is necessary to enforce a land mortgage securing a loan or further advance to the extent that the credit agreement is regulated by the CCA or treated as such. In dealing with such an application, the court has the power, if it appears just to do so, to amend the 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 a credit agreement that is wholly or partly regulated by the CCA or treated as such. 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 a rule under the FSMA. From 1 April 2014, such rules will include rules in the Consumer Credit sourcebook (**CONC**). The borrower may set off the amount of the claim against the

lender under section 75 of the CCA, or for contravention of CONC, against the amount owing by the borrower under the loan or under any other loan that the borrower has taken with the lender. Any such set-off in relation to a Loan in the Portfolio may adversely affect the Issuer's ability to make payments on the Notes.

Consumer Credit Act 2006

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

The "extortionate credit" regime is 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. If the court makes a determination that the relationship between the lender and the borrower is unfair, then it may make an order, among other things, requiring the originator, or any assignee such as the Issuer, to repay to the borrower any sum paid by it. In applying the unfair relationship test, the courts are 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 United Kingdom legislation, due to the Unfair Terms in Consumer Contracts Regulations 1999. The courts may, but are not obliged to, look solely to the CCA 2006 for guidance. The principle of "treating customers fairly" under the FSMA, and guidance published by the FSA and, as of 1 April 2013, the FCA on that principle and by the OFT on the unfair relationship test may also be relevant. Once the borrower alleges that an unfair relationship exists, then the burden of proof is on the creditor to prove the contrary.

The financial limit of £25,000 for CCA regulation is removed for credit agreements made on or after 6 April 2008, except for: (i) certain changes to credit agreements; and (ii) certain buy-to-let loans made before 31 October 2008.

To the extent that a credit agreement is regulated by the CCA or treated as such, it is unenforceable for any period in which the lender fails to comply with requirements as to default notices. From 1 October 2008: (i) the credit agreement is also unenforceable for any period in which the lender fails to comply with further requirements as to periodic statements and arrears notices; (ii) the borrower is not liable to pay interest or, in certain cases, default fees for any period in which the lender fails to comply with further requirements as to post-contract disclosure; and (iii) interest upon default fees is restricted to nil until the 29th day after the day on which a prescribed notice is given and then to simple interest (i.e. interest may only be calculated on the principal amount of the default sum).

Early repayment charges 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 generally to all such credit agreements made on or after 11 June 2010.

These changes to the CCA may adversely affect the ability of the Issuer to make payments 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 Ombudsman (as defined below), 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 cannot be or is not cured within 30 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.

Mortgage regulation under the FSMA

Residential mortgage lending in the United Kingdom became a regulated activity under the FSMA on 31 October 2004 (the date known as **N(M)**). Residential mortgage lending under the FSMA is regulated by the FCA (known before 1 April 2013 as the FSA).

Certain provisions of the FSMA apply to a **regulated mortgage contract**. A mortgage loan contract is a regulated mortgage contract under the FSMA if it is entered into on or after N(M) or originated prior to N(M) but varied on or after N(M) such that a new contract is entered into and if, at the time it is entered into: (i) the borrower is an individual or trustee; (ii) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage on land (other than timeshare accommodation) in the United Kingdom; and (iii) at least 40% 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 (broadly, the person's spouse, near relative or a person with whom the person has a relationship which is characteristic of a spouse).

On and from N(M), subject to any exemption, persons carrying on any specified regulated mortgage-related activities by way of business must be authorised under the FSMA. The specified activities currently are: (i) entering into a regulated mortgage contract as lender; (ii) administering a regulated mortgage contract (**administering** in this context broadly means notifying borrowers of changes in mortgage payments and/or collecting payments due under the mortgage loan); (iii) advising in respect of regulated mortgage contracts; and (iv) arranging in respect of regulated mortgage contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to authorisation of lenders and brokers are not complied with, a regulated mortgage contract will be unenforceable against the borrower except with the approval of a court and the unauthorised person may commit a criminal offence. An unauthorised person who carries on the regulated mortgage activity of administering a regulated mortgage contract that has been validly entered into may commit an offence, although this will not render the contract unenforceable against the borrower. The regime under the FSMA regulating financial promotions covers the content and manner of promotion of agreements relating to qualifying credit and by whom such promotions can be issued or approved. In this respect, the FSMA regime not only covers financial promotions of regulated mortgage contracts but also promotions of certain other types of secured credit agreements under which the lender is a person (such as the Seller) who carries on the regulated activity of entering into a regulated mortgage contract. Failure to comply with the financial promotions regime (as regards by whom promotions can be issued or approved) is a criminal offence and will render the regulated mortgage contract or other secured credit agreement in question unenforceable against the borrower except with the approval of a court.

Any credit agreement intended to be a regulated mortgage contract under the FSMA might instead be wholly or partly regulated by 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: (i) determining whether the credit agreement or any part of it falls within the definition of "a regulated mortgage contract"; and (ii) changes to credit agreements.

The Seller is required to hold, and holds, authorisation and permission to enter into and to administer and, where applicable, to advise on regulated mortgage contracts. Subject to any exemption, brokers are required to hold authorisation and permission to arrange and, where applicable, to advise on regulated mortgage contracts.

The Issuer is not, and does not propose to become, an authorised person under the FSMA. The Issuer does not carry on the regulated activity of administering (servicing) regulated mortgage contracts, because the Loans are serviced pursuant to the Servicing Agreement by the Servicer, which has the required authorisation and permission under the FSMA. If the Servicing Agreement terminates, either the Back-Up Servicer (which has the required authorisation and permission under the FSMA) will assume the role of Servicer or the Issuer together with the Back-Up Servicer Facilitator will be required to arrange for mortgage servicing to be carried out by a replacement servicer having the required FSMA authorisation and permission. In addition, no variation is permitted to be made to the Loans and no further advance or product switch is permitted to be made in relation to a Loan where it would result in the Issuer arranging or advising in respect of, administering (servicing) 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.

The Mortgages and Home Finance: Conduct of Business sourcebook (**MCOB**), which sets out rules under the FSMA for regulated mortgage activities, was published on 31 October 2004. These rules cover certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and with a start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. Further rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, also came into force on 31 October 2004.

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 a rule under the FSMA 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 with the lender. Any such set-off in relation to a Loan in the Portfolio may adversely affect the Issuer's ability to make payments on the Notes.

So as to avoid dual regulation, it is intended that regulated mortgage contracts under the FSMA are not regulated by the CCA, and relevant regulations made in 2005 and 2008 under the FSMA are designed to clarify the position in this regard. This exemption only affects credit agreements made on or after N(M) and credit agreements made before N(M) but subsequently varied such that a new contract is entered into on or after N(M) and constitutes a separate regulated mortgage contract. A court order under section 126 of the CCA is, however, necessary to enforce a land mortgage 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.

It should be noted that, prior to N(M), self-regulation of mortgage business existed in the UK under the Mortgage Code (the **Mortgage Code**) issued by the Council of Mortgage Lenders (the **CML**). The Seller subscribed to the Mortgage Code. Membership of the CML and compliance with the Mortgage Code were voluntary. The Mortgage Code set out a minimum standard of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Since 30 April 1998, lender-subscribers to the Mortgage Code could not accept mortgage business introduced by intermediaries who were not registered with (before 1 November 2000) the Mortgage Code Register of Intermediaries or (on and after 1 November 2000 until 31 October 2004) the Mortgage Code Compliance Board. Complaints relating to breach of the Mortgage Code were dealt with by the relevant scheme, such as the Banking Ombudsman Scheme or the Mortgage Code Arbitration Scheme. The Mortgage Code ceased to have effect on N(M) when the FSA assumed responsibility for regulated mortgage contracts.

In June 2010, the FSA made changes to MCOB which effectively converted previous guidance on the policies and procedures to be applied by authorised firms with respect to forbearance in the context of regulated mortgage contracts into formal mandatory rules. Under these rules, a firm is restricted from repossessing a property unless all other reasonable attempts to resolve the position have failed and, in complying with such restriction, a firm is required to consider whether, given the borrower's circumstances, it is appropriate to take certain actions. Such actions refer to (amongst other things) the extension of the term of the mortgage, product type changes and deferral of interest payments. While the FSA indicated that it did not expect each forbearance option referred to in the new rules to be explored at every stage of interaction with the borrower, it is clear that these 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 Servicer to take certain forbearance-related actions which do not comply with the Transaction Documents (and, in particular, the servicing arrangements contemplated by such documents) in respect of one or more Loans and their Related Security. No assurance can be made that any such actions will not reduce the amounts available to meet the payments due in respect of the Notes, although the impact of this will depend on the number of Loans which involve a Borrower who experiences payment difficulties.

Distance Marketing

In the United Kingdom, the Financial Services (Distance Marketing) Regulations 2004 apply to 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 the FSMA, if originated by a United Kingdom lender from an establishment in the United Kingdom, will not be cancellable under these regulations, but will be subject to related pre-contract disclosure requirements in MCOB. Certain other credit agreements will be cancellable under these regulations if the borrower does not receive prescribed information at the prescribed time, or in any event for certain unsecured lending. 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 notice of cancellation or, if later, the lender 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 is to be treated as never having had effect for the cancelled agreement. If a significant portion of the Loans is characterised as being cancellable under these regulations, then there could be an adverse effect on the Issuer's receipts in respect of the Loans, affecting the Issuer's ability to make payments in full on the Notes when due.

Mortgage Directive

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 Directive**). The Council of the European Union adopted the Mortgage Directive on 28 January 2014 and it was published in the Official Journal of the European Union on 28 February 2014. It entered into force twenty days after such publication and Member States are required to implement the Mortgage Directive into national law within two years after such entry into force.

The Mortgage Directive applies to: (i) credit agreements secured by a mortgage or comparable security commonly used in a member state of the European Union (a **Member State**) on residential immovable property, or secured by a right relating to residential immovable property; (ii) credit agreements the purpose of which is to finance the purchase or retention of rights in land or in an existing or proposed residential building, and (iii) extends the Consumer Credit Directive (2008/48/EC) to unsecured credit agreements, the purpose of which is to renovate residential immovable property involving a total amount of credit above €75,000. The Mortgage Directive does not apply to certain equity release 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 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 Directive also imposes prudential and supervisory requirements for credit intermediaries and non-bank lenders.

Until the Mortgage Directive is implemented into UK law, it is too early to tell what effect the implementation of the Mortgage Directive into UK law would have on the Seller, the Issuer and/or the Servicer and their respective businesses and operations.

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 provide that:

- a consumer 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 agreement itself continues to bind the parties if it is capable of continuing in existence without the unfair term); and
- the lead enforcement body and any qualifying body for the UTCCR (such as the FCA) may seek to enjoin a business from relying on unfair terms.

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, or price terms (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer's attention). The UTCCR may affect terms that are not considered to be terms which define the main subject matter of the contract or price terms, 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 that the borrower has taken with the lender. Any such non-recovery, claim or set-off in relation to a Loan in the Portfolio may adversely affect the Issuer's ability to make payments on the Notes.

The lead enforcement body for the UTCCR was the OFT before 1 April 2014, and is the Competition and Markets Authority (the **CMA**) from 1 April 2014. The qualifying body in relation to regulated mortgage contracts and mortgage loans originated by lenders authorised under the FSMA was the FSA before 1 April 2013, and is the FCA from 1 April 2013. The lead enforcement body was and is responsible for enforcing the UTCCR in relation to other mortgage loans.

In February 2000, the OFT issued a guidance note on what the OFT considers to be fair terms and unfair terms for interest variation in mortgage contracts. Where the interest variation term does not provide for precise and immediate tracking of an external rate outside the lender's control, and if the borrower is locked in, for example by an early repayment charge that is considered to be a penalty, the term is likely to be regarded by the OFT as unfair under the UTCCR unless the lender: (i) notifies the affected borrower in writing at least 30 days before the rate change; and (ii) permits the affected borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The OFT withdrew the guidance note from its website, but the guidance note may remain as a factor that the FCA and CMA may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts. This statement provides that, for locked-in borrowers (i.e. where the borrower is required to give advance notice or to pay a cost or to give up a benefit in order to withdraw from the contract), a firm 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 on 5 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. In August 2007, the Unfair Contract Terms Regulatory Guide (previously in the FSA handbook and now in the FCA handbook) came into force. This guide is designed to explain the FCA's policy on how it would use its powers under the 1999 Regulations. In January 2012, the previous regulator, the FSA published finalised guidance entitled "Unfair contract terms: improving standards in consumer contracts" and "Statement on using Switching Terms in mortgage contracts under the Unfair Terms in Consumer Contracts Regulations 1999". Under the later guidance the FSA considered that terms in interest only mortgage contracts that allow firms to switch consumers from an interest only mortgage to a repayment

mortgage may be regarded as unfair if they give the firm too broad a discretion to determine when such switching terms will apply. Further, where switching terms are determined to be unfair by a court, the firms will be unable to switch the consumer from an interest only mortgage to a repayment mortgage, as such switching terms will not bind that consumer. Even with changes in regulatory structure in the United Kingdom that came into effect on 1 April 2013, the guidance issued by the FSA previously remains strongly influential until amendments or new guidance is announced by the FCA. It remains to be seen if the FCA may adopt a more stringent approach towards such regulation than that previously adopted by the FSA.

MCOB rules for regulated mortgage contracts require that: (i) arrears charges represent a reasonable estimate of the cost of the additional administration required as a result of the borrower being in arrears; and (ii) from 25 June 2010, the borrower's payments are allocated first towards paying off the balance of any payment shortfall, excluding any interest or charges on that balance. In October 2010, the FSA issued a statement that, in its view, early repayment charges are likely to amount to the price paid by the borrower in exchange for services provided and may not be reviewable for fairness under the UTCCR, provided that they are written in plain and intelligible language and are adequately drawn to the borrower's attention. In January 2012, the FSA issued a further statement intended to raise awareness of issues that it commonly identifies under the UTCCR.

In March 2013, the Law Commission and the Scottish Law Commission (together, the **Commissions**) published advice to the UK Government on reforming the UTCCR. The Commissions recommended, among other things, that no assessment of fairness shall be made of a term that specifies the main subject matter of the contract, or of a price term, provided that the term in question is transparent and prominent. The Commissions also recommend that the UTCCR should expressly provide that, in proceedings brought by consumers, the court is required to consider the fairness of a 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 first presented to Parliament in January 2014.

Whilst the CMA 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 or may be made to borrowers covered by the UTCCR may contain unfair terms which may result in the possible unenforceability of the terms of the underlying loans.

The guidance issued by the FSA (and, as of 1 April 2013, the FCA) and the 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 1999 Regulations, or reform of the 1999 Regulations, will not have a material adverse effect on the Seller, the Servicer and their respective businesses and operations. This may adversely affect the ability of the Issuer to make payments in full on the Notes when due.

Decisions of the Ombudsman could lead to some terms of the Loans being varied, which may adversely affect payments on the Notes

Under the FSMA, the Financial Ombudsman Service (the **Ombudsman**) is required to make decisions on certain complaints relating to the activities and transactions under its jurisdiction on the basis of what, in the Ombudsman's opinion, would be fair and reasonable in all circumstances of the case, taking into account law and guidance. Transitional provisions exist by which certain complaints relating to breach of the Mortgage Code (described above) occurring before N(M) may be dealt with by the Ombudsman. Complaints properly brought before the Ombudsman for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

As the Ombudsman is required to make decisions on the basis of, among other things, the principles of fairness, and may order a money award to the 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 the Council adopted a Directive on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally the Unfair Practices Directive applies full harmonisation, which means that Member States may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, the Unfair Practices Directive permits Member States to impose more stringent provisions in the fields of financial services and immovable property, such as mortgage loans.

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

The Unfair Practices Directive is implemented in the UK by the Consumer Protection from Unfair Trading Regulations 2008 (the **CPUTR**), which came into force on 26 May 2008. The CPUTR prohibit certain practices which are deemed "unfair" within the terms of the CPUTR. Breach of the CPUTR does not (of itself) render an agreement void or unenforceable, but the possible liabilities for misrepresentation or breach of contract in relation to the underlying credit agreement may result in irrecoverable losses on amounts to which such agreements apply. Breach of certain CPUTR provisions is a criminal offence. Draft amendments to the CPUTR propose to give consumers a right to redress for prohibited practices, including a right to unwind agreements.

In addition, the Unfair Practices Directive is taken into account in reviewing rules under the FSMA. For example, MCOB rules for regulated mortgage contracts from 25 June 2010 (formerly these were matters of non-binding guidance) prevent the lender from: (i) repossessing the property unless all other reasonable attempts to resolve the position have failed, which include considering whether it is appropriate to offer an extension of term, or conversion to interest only for a period, or a product switch; and (ii) automatically capitalising a payment shortfall.

The Unfair Practices Directive provided for a transitional period until 12 June 2013 for the application of full harmonisation in the fields to which it applies. In March 2013, the European Commission published a report on the application of the Unfair Practices Directive, which indicated (among other things) that there is no case for further harmonisation in the fields of financial services and immovable property. No assurance can be given that the implementation of the Unfair Practices Directive into UK law and any further harmonisation will not have a material adverse effect on the Loans or the manner in which they are serviced and accordingly on the ability of the Issuer to make payments to Noteholders.

Mortgage repossession

A protocol for mortgage repossession cases in England and Wales came into force on 19 November 2008, which sets out the steps that judges will expect any lender to take before starting a claim. A number of mortgage lenders, including the Seller, 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 moratorium may be subject to the wishes of the relevant borrower and may not apply in cases of fraud. The Mortgage Repossessions (Protection of Tenants etc.) Act 2010 came into force on 1 October 2010. This 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.

This protocol and this Act may have adverse effects in markets experiencing above average levels of repossession claims. Delays in the initiation of responsive action in respect of the Loans may result in lower recoveries and may adversely affect the ability of the Issuer to make payments to Noteholders.

UK proposals for changes to mortgage regulation and to the regulatory framework

In January 2011, HM Treasury announced proposals to enhance consumer protection in the mortgage market. Regulations have been drafted to provide for consumer protection when a mortgage book is sold by a regulated mortgage lender to an unregulated entity. In this regard, it is proposed that the definition of the regulated activity of administering a regulated mortgage contract will be expanded so that any entity which exercises specified rights in relation to regulated mortgage contracts, such as changing

interest rates or taking action to repossess a property against a borrower, will be required to be authorised and regulated under the FSMA.

In December 2011, the FSA published a consultation paper that consolidates proposals arising out of its wide-ranging mortgage market review which was launched in October 2009 to consider strengthening rules and guidance on, *inter alia*, affordability assessments, product regulation, arrears charges and responsible lending. The FSA's aim was to ensure the continued provision of mortgage credit for the majority of borrowers who can afford the financial commitment of a mortgage, while preventing a re-emergence of poor lending practices as the supply of mortgage credit in the market recovers. In October 2012, the FSA 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.

In December 2012, the Financial Services Act 2012 received royal assent. This Act contains provisions which (among other things) on 1 April 2013 replaced the FSA with the UK Prudential Regulation Authority (the **Prudential Regulation Authority** or **PRA**), which is responsible for micro-prudential regulation of financial institutions that manage significant risks on their balance sheets, and the FCA, which is responsible for conduct of business. This Act also contains provisions enabling the transfer of regulation of credit agreements regulated by the CCA from the OFT to the FCA. The relevant secondary legislation was enacted in 2013 and 2014 and the transfer was effected on 1 April 2014.

Under the Financial Services Act 2012 and from dates to be specified: (i) carrying on servicing activities otherwise than in accordance with permission from the FCA will render the credit agreement unenforceable without FCA approval; and (ii) the FCA will have power to render unenforceable contracts made in contravention of its rules on cost and duration of credit agreements or in contravention of its product intervention rules. This Act also 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.

Any further changes to MCOB arising from the FCA's mortgage market review, or to MCOB or the FSMA arising from HM Treasury's proposals to change mortgage regulation or changes in the regulatory framework, may adversely affect the Loans, the Seller and/or the Servicer and their respective businesses and operations.

General

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

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 provisions of section 176A of 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. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Trustee in respect of the floating charge assets.

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

Liquidation expenses

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

Insolvency proceedings and subordination provisions

There is uncertainty as to the validity and/or enforceability of a provision which, based on contractual (such as the contractual Priority of Payments as contemplated in this transaction) and/or trust principles, subordinates certain payment rights of a creditor to the payment rights of other creditors of its counterparty upon the occurrence of insolvency proceedings relating to that creditor. In particular, recent cases have focused on provisions involving the subordination of a party's payment rights upon the occurrence of insolvency proceedings or other default on the part of such counterparty (so-called "flip clauses"). Such provisions are similar in effect to the terms included in the Transaction Documents

relating to the subordination of Swap Subordination Amounts payable in respect of the Interest Rate Swap Agreement (or any replacement interest rate swap agreement).

The English Supreme Court has held that a flip clause as described above is valid under English law. Contrary to this, however, the U.S. Bankruptcy Court has held that such a subordination provision is unenforceable under U.S. bankruptcy law and that any action to enforce such provision would violate the automatic stay which applies under such law in the case of a U.S. bankruptcy of the counterparty. The implications of this conflicting judgment are not yet known, particularly as the U.S. Bankruptcy Court approved, in December 2010, the settlement of the case to which the judgment relates and subsequently the appeal was dismissed. However, there remains a stayed action in the U.S. commenced by the Lehman Brothers Chapter 11 debtors concerning the enforceability of flip clauses and, in addition, in February 2012, a complaint was filed by certain parties seeking recognition and enforcement of the Belmont decision (and corresponding lower court decisions) and other declaratory relief with respect to the flip clause in question in the case described above. At the same time as filing the complaint, the relevant parties also filed a motion seeking the withdrawal of the reference from the U.S. Bankruptcy Court, requesting that the complaint be heard instead by the U.S. District Court. It has not yet been determined whether the complaint will be addressed by the U.S. Bankruptcy Court or the U.S. District Court, nor is it known when the complaint will be addressed.

If a creditor of the Issuer (such as the Interest Rate Swap Provider) or a related entity becomes subject to insolvency proceedings in any jurisdiction outside England and Wales (including, but not limited to, the U.S.), and it is owed a payment by the Issuer, a question arises as to whether the insolvent creditor or any insolvency official appointed in respect of that creditor could successfully challenge the validity and/or enforceability of subordination provisions included in the English law governed Transaction Documents (such as a provision of the Priority of Payments which refers to the ranking of a swap provider's payment rights in respect of Swap Subordinated Amounts). In particular, based on the decision of the U.S. Bankruptcy Court referred to above, there is a risk that such subordination provisions would not be upheld under U.S. bankruptcy laws. Such laws may be relevant in certain circumstances with respect to a range of entities including U.S. established entities and certain non-U.S. established entities with assets or operations in the U.S. (although the scope of any such proceedings may be limited if the relevant non-U.S./ entity is a bank with a licensed branch in a U.S. state). In general, if a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction outside England and Wales and any relevant foreign judgment or order was recognised by the English courts, there can be no assurance that such actions would not adversely affect the rights of the Class A Noteholders, the market value of the Class A Notes and/or the ability of the Issuer to satisfy its obligations under the Class A Notes.

Lastly, given the general relevance of the issues under discussion in the judgments referred to above and that the Transaction Documents include terms providing for the subordination of the Swap Subordinated Amounts, there is a risk that the final outcome of the dispute in such judgments (including any recognition action by the English courts) may result in negative rating pressure in respect of the Class A Notes. If any rating assigned to the Class A Notes is lowered, the market value of the Class A Notes may reduce.

Risks relating to the Banking Act 2009

The Banking Act 2009 (the **Banking Act**) includes provision for a special resolution regime pursuant to which specified UK authorities have extended tools to deal with the failure (or likely failure) of a UK bank or building society such as the Seller, the Interest Rate Swap Provider, the Account Bank and the Swap Collateral Account Bank (each a **relevant entity**). In addition, pursuant to recent amendments made to the Banking Act (which have not yet taken effect and key aspects of which remain unclear), provision has been made for certain tools to be used in respect of a wider range of UK entities, including investment firms and certain banking group companies provided that certain conditions are met. The tools available under the Banking Act include share and property transfer powers (including powers for partial property transfers), certain ancillary powers (including powers to modify certain contractual arrangements in certain circumstances) and special insolvency procedures which may be commenced by the UK authorities. In respect of UK building societies, the relevant tools include: (i) modified property transfer powers which also refer to cancellation of shares and conferring rights and liabilities in place of such shares; and (ii) in place of the share transfer powers, a public ownership tool which may involve (amongst other things) arranging for deferred shares in a building society to be publicly owned, cancellation of private membership rights and the eventual winding up or dissolution of the building

society. It is possible that the tools described above could be used prior to the point at which an application for insolvency proceedings with respect to a relevant entity could be made.

In general, the Banking Act requires the UK authorities to have regard to specified objectives in exercising the powers provided for by the Banking Act. One of the objectives (which is required to be balanced as appropriate with the other specified objectives) refers to the protection and enhancement of the stability of the financial systems of the United Kingdom. The Banking Act includes provisions related to compensation in respect of transfer instruments and orders made under it. In general, there is considerable uncertainty about the scope of the powers afforded to UK authorities under the Banking Act and how the UK authorities may choose to exercise them.

If an instrument or order were to be made under the Banking Act in respect of a relevant entity (as described above), 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). As a result, the making of an instrument or order in respect of a relevant entity as described above may affect the ability of the Issuer to meet its obligations in respect of the Notes. While there is power for the payment of compensation to be ordered 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 noted above, amendments have been made to the Banking Act (but not yet taken effect) such that specified stabilisation tools (including the property transfer powers) may be used in respect of certain banking group companies provided certain conditions are met. The UK authorities have indicated that a portion of the definition of such companies will be specified in corresponding secondary legislation (which has not yet been published or made). In the absence of such secondary legislation, it is not possible to determine whether the Issuer would be regarded as a banking group company for these purposes. As such, it is too early to anticipate the full impact of the amendments made to the Banking Act and there can be no assurance that the Noteholders will not be adversely affected by an action taken under the relevant amended provisions, once such provisions have taken effect. That said, it should be noted that the Government is currently consulting on the conditions to be specified in respect of banking group companies and the relevant consultation paper refers to the intention to exclude entities that facilitate capital market arrangements.

Further amendments have been made to the Banking Act (but again have not yet taken effect) to introduce a new bail-in tool, which would permit the Bank of England in certain circumstances to cancel or modify contracts for the purposes of reducing or deferring liabilities of relevant entities (including UK banks, banking group companies and building societies) and/or to convert liabilities of such entities into different forms. When in force, there can be no assurance that the Noteholders will not be adversely affected by the amendments and/or any action taken under the new bail-in tool.

At present, the UK authorities have not made an instrument or order under the Banking Act in respect of the entities referred to above and there has been no indication that they 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.

Lastly, the European Commission, Council and Parliament have agreed a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms, although the final version is yet to be published. Amongst other things, the proposed directive contemplates the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The resolution tools and powers referred to in the directive include certain tools and powers which overlap in part with those available under the Banking Act and also certain further tools, such as provision for authorities to bail-in eligible liabilities of relevant institutions (however, in this regard, it should be noted that, in line with international policy recommendations, the draft directive excludes secured liabilities from these liabilities that may be potentially subject to bail-in). As the final version of the proposed directive has not yet been published, it is too early to anticipate the full impact of

the directive and there can be no assurance that Noteholders will not be adversely affected by an action taken under it, once it is agreed upon and implemented.

Building Societies (Financial Assistance) Order 2010

On 7 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 for the purpose of modifying the application of the Building Societies Act in certain circumstances to facilitate the provision of relevant financial assistance (including the giving of guarantees or indemnities or any other kind of financial assistance (actual or contingent)) by certain "qualifying institutions". Qualifying institutions for this purpose include HM Treasury, the Bank of England, another central bank of a member state of the European Economic Area, the European Central Bank, or any person acting for or on behalf of any such institution or providing financial assistance to a building society on the basis of financial assistance from such an institution. Most significantly, the Financial Assistance Order would permit any qualifying institution to provide such assistance without it counting for the purpose of the 50% limit on a building society's non-member funding. It also modifies the restriction in section 9B of the Building Societies Act on the creation of floating charges by a building society and would permit the society to create a floating charge over its assets in favour of a qualifying institution in respect of any financial assistance provided. The creation of a floating charge by a building society in favour of a qualifying institution would allow an administrative receiver to be appointed over the assets of the building society.

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. As of the date of this Prospectus, only draft technical standards have been prepared by the European Securities and Markets Authority 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.

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: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

Securitisation Company Tax Regime

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

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

Investors should note, however, that the TSC Regulations are in short-form and it is expected that advisers 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 regime provided for by the TSC Regulations.

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

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

If a payment by the Issuer in respect of the Notes were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer, any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Notes as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The Proposed financial transactions tax

On 14 February 2013, the European Commission issued proposals, including a draft Directive (the **Commission's proposal**) 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 the Commission's proposal was adopted, 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 Commission's proposal, 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.

The FTT may give 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)) if it

is adopted based on the Commission's proposal. Any such tax 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.

A joint statement issued in May 2014 by ten of the eleven participating member states indicated that a progressive implementation is being considered and that the FTT may initially extend to transactions involving shares and certain derivatives, with this initial implementation occurring by 1 January 2016. However, full details are not available and further changes could be made prior to adoption.

The FTT proposal remains subject to negotiation between the participating member states. It may therefore be altered prior to any implementation. 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.

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

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) imposes a new reporting regime and, potentially, a 30% withholding tax with respect to: (i) certain payments from sources within the United States; (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime; and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution.

While the 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 Class A Notes are discharged once it has paid the common depository for the clearing systems (as registered holder of the Class A Notes) and the Issuer has therefore no responsibility for any amount thereafter transmitted through the clearing systems and custodians or intermediaries. Prospective investors should refer to the section "*Taxation – Foreign Account Tax Compliance Act.*"

European Monetary Union

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

Book-Entry Interests

Unless and until Definitive Certificates are issued in exchange for the Book-Entry Interests, holders and beneficial owners of Book-Entry Interests will not be considered the legal owners or holders of the Notes

under the Trust Deed. After payment to the Principal Paying Agent, the Issuer will not have responsibility or liability for the payment of interest, principal or other amounts in respect of the Notes to Euroclear or Clearstream, Luxembourg or to holders or beneficial owners of Book-Entry Interests.

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

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

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

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

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

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

Meetings of Noteholders, modification and waiver

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

The Trust Deed provides that, without the consent or sanction of the Noteholders or any of the other Secured Creditors, the Trustee may (but subject in each case to the more detailed provisions of the Trust Deed):

- (a) concur with the Issuer and/or any other person, in making:
 - (i) any modification to the 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, will not be materially prejudicial to the holders of the Most Senior Class of outstanding Notes; or
 - (ii) any modification to the 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;
- (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 a specified 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) above 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% in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding (but no such direction or request shall affect: (i) any authorisation, waiver or determination previously given or made; or (ii) shall authorise or waive any proposed breach or breach relating to a Reserved Matter unless each Class of Notes, has by Extraordinary Resolution, so authorised its exercise).

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

The Trustee shall also be obliged, without any consent or sanction of the Noteholders, or, subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or which, as a result of such amendments, would be further contractually subordinated to any Secured Creditor than would otherwise have been the case prior to such amendment, any of the other Secured Creditors, to concur with the Issuer in making any modification (other than in respect of a Reserved Matter) to the Conditions or any other Transaction Document to which it is a party or in relation to which it holds security or enter into any new, supplemental or additional documents that the Issuer (in each case) considers necessary:

- (a) in order to enable the Issuer to comply with any requirements which apply to it under EMIR, subject to receipt by the Trustee of a certificate issued by the Issuer or the Cash Manager on behalf of the Issuer certifying to the Trustee the requested amendments are to be made solely for the purpose of enabling the Issuer to satisfy its requirements under EMIR and have been drafted solely to that effect;
- (b) in order to allow the Issuer to open additional accounts with an additional account bank or to move the Issuer Accounts to be held with an alternative account bank with the Account Bank Rating, provided that the Issuer or the Cash Manager has certified to the Trustee that (a) such action would not have an adverse effect on the then current ratings of the Class A Notes, and (b) if a new account bank agreement is entered into, such agreement will be entered into on substantially the same terms as the Account Bank Agreement provided further that if the Issuer or the Cash Manager determines that it is not practicable to agree terms substantially similar to those set out in the Account Bank Agreement with such replacement financial institution or institutions and the Issuer or the Cash Manager certifies in writing to the Trustee that the terms

upon which it is proposed the replacement bank or financial institution will be appointed are reasonable commercial terms taking into account the then prevailing current market conditions, whereupon a replacement agreement will 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 or other terms may differ materially from those on which the previously appointed bank or financial institution agreed to act); or

The Trustee is also obliged, in certain circumstances, to agree to amendments to the Conditions or the Transaction Documents for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time without the consent of Noteholders following a request for consent having been given to the Noteholders but an insufficient number of Noteholders notifying the Issuer or the Principal Paying Agent that they do not consent to such amendments (see “*Rights of Noteholders and Secured Creditors - Risks relating to negative consent of Noteholders in respect of amendments to the Transaction Documents as a result of a change in the criteria of the Rating Agencies*” above).

Change of law

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

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

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation 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 Arrangers or the Seller makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment in the Notes on the Closing Date or at any time in the future.

In particular, investors should be aware of the EU risk retention and due diligence requirements which currently apply, or are expected to apply in the future, in respect of various types of EU regulated investors including credit institutions, authorised alternative investment fund managers, investment firms, insurance and reinsurance undertakings and UCITS funds. Amongst other things, such requirements restrict a relevant investor from investing in asset-backed securities unless: (i) that investor is able to demonstrate that it has undertaken certain due diligence in respect of various matters including its note position, the underlying assets and (in the case of certain types of investors) the relevant sponsor or originator; and (ii) the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the investor that it will retain, on an ongoing basis, a net economic interest of not less than 5% in respect of certain specified credit risk tranches or asset exposures. Failure to comply with one or more of the requirements may result in various penalties including, in the case of those investors subject to regulatory capital requirements, the imposition of a penal capital charge on the notes acquired by the relevant investor.

Aspects of the requirements and what is or will be required to demonstrate compliance to national regulators remain unclear. In particular, in the context of the requirements which apply in respect of EU-regulated credit institution investors, investment firms and authorised alternative investment fund managers, coming legislative developments may result in changes to the corresponding interpretation materials which apply in respect of such requirements. No assurance can be provided that any such changes will not affect the compliance position of previously issued transactions and/or the requirements applying to relevant investors in general.

The risk retention and due diligence requirements described above apply, or are expected to apply, in respect of the Notes. Investors should therefore make themselves aware of such requirements (and any corresponding implementing rules of their regulator), where applicable to them, in addition to any other regulatory requirements applicable to them with respect to their investment in the Notes. With respect to the commitment of the Seller to retain a material net economic interest in the securitisation and with respect to the information to be made available by the Issuer or another relevant party (or, after the Closing Date, by the Seller in its capacity as the Servicer or the Cash Manager on the Issuer's behalf), please see the statements set out in the section of this Prospectus headed "*Risk Retention Requirements*". Relevant investors are required to independently assess and determine the sufficiency of the information described above for the purposes of complying with any relevant requirements and none of the Issuer, the Seller (in its capacity as the Seller), Principality (in its capacities as the Servicer or the Cash Manager), the Arrangers, the Joint Lead Managers nor 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 risk retention and due diligence requirements described above and what is required to demonstrate compliance to national regulators remain unclear. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non-compliance or to avoid being required to take corrective action should seek guidance from their regulator.

The EU risk retention and due diligence requirements described above 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 III reform package (a regulatory capital and liquidity framework approved by the Basel Committee on Banking Supervision (the **Basel Committee**)) has been implemented in the European Economic Area (the **EEA**) through a regulation (Capital Requirements Regulation (the **CRR**)) and an associated directive (the recast Capital Requirements Directive (the **CRD**)) (together, **CRD IV**), which was published in the Official Journal of the European Union on 27 June 2013. The CRR established a single set of harmonised prudential rules for financial institutions and certain minimum liquidity standards which apply directly to all credit institutions in the EEA, with the CRD containing less prescriptive provisions which are required to be transposed into national law. Together the CRR and the CRD reinforce capital standards and establish a leverage ratio "backstop". Full implementation began from 1 January 2014, with particular elements being phased in over a period of time (the requirements will be largely fully effective by 2019 and some minor transitional provisions provide for phase-in until 2024). As CRD IV allows certain national discretions, 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 certain proposed revisions to the securitisation framework, including changes to the approaches to calculating risk weights and a new risk weight floor of 15%.

The changes under CRD IV and Basel III as described above may have an impact on the capital requirements in respect of the Notes and/or on incentives to hold the Notes, therefore impacting 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.

TRANSACTION OVERVIEW – FULL CAPITAL STRUCTURE OF THE NOTES

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

	Class A Notes	Class B Notes
<i>Currency:</i>	GBP	GBP
<i>Initial Principal Amount:</i>	475,000,000	45,548,000
<i>Note Credit Enhancement:</i>	Subordination of Class B Notes, excess Available Revenue Receipts	Excess Available Revenue Receipts
<i>Reserve Credit Enhancement for the Class A Notes:</i>	General Reserve Fund	N/A
<i>Liquidity Support:</i>	General Reserve Fund applied to make up Income Deficit. Principal Receipts applied to make up Remaining Income Deficit (subject to conditions as set out in "Overview of Credit Structure and Cashflow – Income Deficiency")	N/A
<i>Issue Price:</i>	100 per. cent.	100 per. cent.
<i>Interest Rate:</i>	3 month GBP Libor (interpolated for 3 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin or Step-Up Margin, as applicable	3 month GBP Libor (interpolated for 3 and 6 month GBP Libor in respect of the first Interest Payment Date) + Margin
<i>Margin:</i>	Up to and excluding the Step-Up Date, 0.57% p. a.	0.00% p. a.
<i>Step-Up Margin:</i>	From and including the Step-Up Date, 1.14% p. a.	N/A
<i>Interest Accrual Method:</i>	Actual/365	Actual/365
<i>Calculation Date:</i>	The fifth Business Day prior to each Interest Payment Date.	The fifth Business Day prior to each Interest Payment Date
<i>Payment Dates:</i>	Interest and Principal will be payable quarterly in arrear on the Interest Payment Dates falling in January, April, July and October in each year.	Interest and Principal will be payable quarterly in arrear on the Interest Payment Dates falling in January, April, July and October in each year.
<i>Business Day Convention:</i>	Modified Following	Modified Following
<i>First Interest Payment Date:</i>	The Interest Payment Date falling in October 2014	The Interest Payment Date falling in October 2014
<i>First Interest Period:</i>	The period from the Closing Date to the Interest Payment Date falling in October 2014	The period from the Closing Date to the Interest Payment Date falling in October 2014
<i>Call Option / Step-Up Date:</i>	The Interest Payment Date falling in July 2019	The Interest Payment Date falling in July 2019
<i>Pre-Step-Up Date Redemption profile:</i>	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (Final Redemption, Mandatory Redemption in part, Optional	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (Final Redemption, Mandatory Redemption in part, Optional

	<i>Redemption and Cancellation).</i>	<i>Redemption and Cancellation</i>
<i>Post-Step-Up Date Redemption profile:</i>	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>).	Pass through redemption on each Interest Payment Date. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>).
<i>Other Early Redemption in Full Events:</i>	tax/illegality/clean up call. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>).	tax/illegality/clean up call. Please refer to Condition 9 (<i>Final Redemption, Mandatory Redemption in part, Optional Redemption and Cancellation</i>).
<i>Final Maturity Date:</i>	The Interest Payment Date falling in October 2046	The Interest Payment Date falling in October 2046
<i>Form of the Notes:</i>	Registered	Registered
<i>Application for Listing:</i>	Ireland	Ireland
<i>ISIN:</i>	XS1067654134	XS1067654563
<i>Common Code:</i>	106765413	106765456
<i>Minimum Denomination:</i>	£100,000 and £1,000 thereafter	£100,000 and £1,000 thereafter
<i>Expected Ratings (Fitch/Moody's):</i>	AAAsf/Aaa(sf)	N/A

TRANSACTION OVERVIEW – OVERVIEW OF THE TERMS AND CONDITIONS OF THE NOTES

Please refer to the section entitled "*Terms and Conditions of the Notes*" for further details 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:

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 Loans and the Related Security acquired by the Issuer;
- (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, the Swap Collateral Accounts and other bank accounts of the Issuer established on or after the Closing Date in accordance with the Account Bank Agreement or the other Transaction Documents;
- (e) 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 Interest Rate Swap Agreement shall be subject to any rights of set-off or netting provided for

thereunder;

- (f) 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
- (g) a first fixed security to the Trustee (or, to the extent not assignable, charges by way of a first fixed charge) over all of its rights, title, interest and benefit in all Loans and their Related Security.

Certain other Secured Amounts (including certain obligations owed to the Interest Rate Swap Provider under the Interest Rate 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% 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:

- (a) non-payment by the Issuer of principal in respect of the Most Senior Class of Notes within seven 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);
- (b) 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;
- (c) Issuer Insolvency Event; or
- (d) it is illegal for the Issuer to perform or comply with its obligations.

Limited Recourse:

The Notes are 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.

**TRANSACTION OVERVIEW – 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% of the aggregate 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.

Following an Event of Default: Following the occurrence of an Event of Default which is continuing, the Trustee may and shall if so requested in writing by the holders of at least 25% of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or 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 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 in respect of 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% 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 in respect of a Reserved Matter (which must be proposed separately to each Class of Noteholders), which requires one or more persons holding or representing not less than in aggregate 25% of the Principal Amount Outstanding of the relevant class or classes of Notes then outstanding).
	Required majority for Extraordinary Resolution:	Not less than 75% of votes cast	Not less than 75% of votes cast

Written Resolution: 100% of the Principal Amount Outstanding of the relevant Class of Notes outstanding. A Written Resolution has the same effect as an Extraordinary Resolution.

Electronic Consents: Noteholders may also pass an Extraordinary Resolution by way of electronic consents communicated through the electronic communications systems of the clearing system(s) to the Principal Paying Agent or another specified agent and/or the Note Trustee in accordance with the operating rules and procedures of the relevant clearing system(s) (**Electronic Consents**). Such consents are required from Noteholders of not less than 75% in aggregate Principal Amount Outstanding of the relevant class of Notes then outstanding for matters requiring Extraordinary Resolutions. A resolution passed by such means 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, to alter the priority of payment of interest or principal in respect of the Notes and changes to quorum and majority requirements and amendments to the definition of Reserved Matter.

**Relationship between
Classes of Noteholders:**

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

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

A Reserved Matter requires an Extraordinary Resolution of the relevant affected class or classes of Notes.

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, Servicer, Cash Manager or Subordinated Loan Provider, any holding company of the Seller, Servicer, Cash Manager or Subordinated Loan Provider 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, Servicer, Cash Manager or Subordinated Loan Provider, any holding company of the Seller, Servicer, Cash Manager or Subordinated Loan Provider 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, Servicer, Cash Manager or Subordinated Loan Provider, any holding company of the Seller, Servicer, Cash Manager or Subordinated Loan Provider 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.

TRANSACTION OVERVIEW – OVERVIEW OF CREDIT STRUCTURE AND CASHFLOW

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

Available Funds of the Issuer:

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

Available Revenue Receipts will comprise the following:

- (a) Revenue Receipts on the Loans received during the immediately preceding Collection Period or, if the immediately preceding Collection Period is a Determination Period, Calculated Revenue Receipts (excluding in each case an amount to be applied as Available Principal Receipts in accordance with Condition 8.12(c)(i) on the relevant Interest Payment Date);
- (b) interest payable to the Issuer on the Transaction Account and income from any Authorised Investments received in relation to the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Interest Rate Swap Agreement on or in respect of such Interest Payment Date, other than:
 - (i) any amounts or securities to be credited to the Swap Collateral Accounts; and
 - (ii) any amounts received by the Issuer in respect of Swap Tax Credits;
- (d) any Swap Collateral Account Surplus;
- (e) following the date on which the General Reserve Required Amount is reduced to zero and the Subordinated Loan has been repaid in full, any amount standing to the credit of the General Reserve Fund;
- (f) other net income of the Issuer received during the immediately preceding Collection Period excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (d) above;
- (g) any amounts available pursuant to paragraph (c) of the Pre-Enforcement Principal Priority of Payments on such Interest Payment Date;
- (h) any amounts available pursuant to paragraph (n) of the Pre-Enforcement Revenue Priority of Payments on the immediately preceding Interest Payment Date;

- (i) any amount applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii); and
- (j) any amounts standing to the credit of the General Reserve Fund equal to the General Reserve Fund Excess,

less:

- (k) Permitted Withdrawals (as described in "Cashflows and Cash Management – Definition of Available Revenue Receipts" below).

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

If the Cash Manager determines that there would be a deficit on an Interest Payment Date to pay items (a) to (f) (inclusive) of the Pre-Enforcement Revenue Priority of Payments, then the Issuer shall pay or provide for such deficit by applying (i) amounts standing to the credit of the General Reserve Fund; and (ii) (only in respect of any senior expenses of the Issuer which rank in priority to the Class A Notes in the relevant Priority of Payments (the **Senior Expenses**) and interest payments due on the Class A Notes) Principal Receipts (if any), subject to certain conditions. See "*Overview of Credit Structure and Cashflow – Income Deficiency*" below.

Available Principal Receipts will, broadly, include the following:

- (a) Principal Receipts on the Loans received during the immediately preceding Collection Period or, if the immediately preceding Collection Period is a Determination Period, Calculated Principal Receipts (excluding in each case an amount to be applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii) on the relevant Interest Payment Date);
- (b) amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (i) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date;
- (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;
- (d) any amount applied as Available Principal Receipts in accordance with Condition 8.12(c)(i),

less:

- (e) 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

- (f) the amount of Principal Receipts used during the immediately preceding Collection Period to purchase any Flexible Drawings and/or Further Advances.

Summary of Priority of Payments:

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

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

<u>Pre-Enforcement Revenue Priority of Payments</u>	<u>Pre-Enforcement Principal Priority of Payments</u>	<u>Post-Enforcement Priority of Payments</u>
<p>Required Amount;</p> <p>(h) Issuer Profit Amount;</p> <p>(i) an amount sufficient to eliminate any debit on the Class B Principal Deficiency Sub-Ledger;</p> <p>(j) Swap Subordinated Amounts due to the Interest Rate Swap Provider;</p> <p>(k) Class B interest;</p> <p>(l) interest payment to the Subordinated Loan Provider;</p> <p>(m) principal payment to the Subordinated Loan Provider;</p> <p>(n) if such Interest Payment Date falls immediately after a Determination Period, the excess (if any) to be retained in the Transaction Account to be applied as Available Revenue Receipts on the next following Interest Payment Date; and</p> <p>(o) Deferred Consideration to the Seller.</p>		

Summary of Key Structural Features:

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

- (i) availability of the General Reserve Fund, initially funded by a Subordinated Loan on the Closing Date up to the General Reserve Required Amount and replenished on each Interest Payment Date up to the General Reserve Required Amount from Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments. The General Reserve Fund will be credited to the Transaction Account. Monies standing to the credit of the General Reserve Fund will be applied to make up any Income Deficit. Any amount standing to the credit of the General Reserve Fund equal to the General Reserve Fund Excess will form part of Available Revenue Receipts. Any amount credited to the General Reserve Fund after the Class A Notes have been repaid in full shall be used to repay the Subordinated Loan in full and thereafter will form part of Available Revenue Receipts;
- (ii) 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;
- (iii) payments of principal and interest on the Class B Notes will be subordinated to payments on the Class A Notes;
- (iv) availability of interest provided by the Account Bank at a rate of interest specified in a separate fee letter between the Issuer and the Account Bank on any cleared credit balances standing to the credit of 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;
- (v) availability of an Interest Rate Swap Agreement provided by the Interest Rate 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
- (vi) it is expected that during the life of the Notes, the cash available to the Issuer 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 Class A 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).

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 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:

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

On each Interest Payment Date, the Issuer shall apply any Available Revenue Receipts in accordance with the Pre-Enforcement Revenue Priority of Payments to extinguish or reduce any balance on the Principal Deficiency Ledger. Any amounts credited to the Principal Deficiency Ledger will be applied as Available Principal Receipts on an Interest Payment Date. Any credit to the Principal Deficiency Ledger will be applied:

- (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 and such amounts will be applied as Available Principal Receipts (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 Servicer shall ensure that all amounts from (and including) the Cut-Off 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 into the Transaction Account on the next Business Day after that Daily Loan Amount is identified as received or in respect of amounts received from and including the Cut-Off Date to (and excluding) the Closing Date on the next Business Day after the Closing Date. 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.

TRANSACTION OVERVIEW – OVERVIEW OF THE PORTFOLIO AND SERVICING

Please refer to the section entitled "*The Portfolio – The Loans*", "*The Portfolio – Statistical Information on the Portfolio*" and "*The Servicer – Servicing 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 and any non-contractual obligations arising out of or in connection with them are governed by English law.

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

Features of Loans:

Certain features of the Loans as at the Portfolio Cut-Off Date are set out in the table below and investors should refer to, and carefully consider, further details in respect of the Loans set out in "*The Portfolio – Statistical Information on the Portfolio*". The Loans comprise loans to prime Borrowers and are secured by first priority charges over freehold and leasehold properties in England and Wales.

Type of Borrower	Prime		
Type of Loan	Repayment, Part and Part and Interest Only		
Number of Loans	5,494		
	Weighted average	Minimum	Maximum
Current Balance*	£100,109	£8,393	£741,418
Original LTV (%)	68.7	3.0	90.0
Current LTV ratio (%)	65.1	1.7	90.0
Current Indexed LTV (%)	61.8	1.4	90.0
Seasoning (months)	33.2	6.0	161.7
Remaining Term (years)	18.6	0.0	29.6

*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 the Related Security shall be: (i) an Initial Consideration of £520,532,973.92, being an amount equal to the Current Balance of the Loans of the Seller comprising the Portfolio determined as at opening of business on 31 May 2014 (the **Cut-Off Date**), which is due and payable on the Closing Date; and (ii) a Deferred Consideration, in each case, payable in accordance with the Mortgage Sale Agreement.

Any Deferred Consideration will be paid to the Seller in accordance with the Pre-Enforcement Revenue 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 Flexible Drawings or 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 Flexible Drawings or 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 and/or Flexible Drawings to the Issuer shall be the Further Advance Purchase Price and/or the Flexible Drawings Purchase Price, as applicable, which will, if sufficient, be met through Available Principal Receipts on the last day of the calendar month in which the Further Advance and/or Flexible Drawing is made.

Representations and Warranties:

The Seller will make certain representations and warranties to the Issuer and the Trustee on: (i) the Closing Date in respect of the Portfolio; (ii) each Advance Date in respect of the relevant Further Advances; (iii) each Drawings Date in respect of the relevant Flexible Drawing, (iv) each Switch Date in respect of the relevant Product Switches; and (v) each Substitution Date in respect of the relevant Substitute 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;
- Maximum loan amount not exceeding £1,000,000;

- Minimum payment made (not less than one monthly payment);
- No right of set-off;
- 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 in whole, or in part together with any cash payment amount, 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; 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, which have not been remedied by the Seller within 30 days of being notified by the Issuer of such breach;
- upon material breach of any of the representations or warranties given by the Seller: (i) in respect of a Further Advance, on the Advance Date; (ii) in respect of the relevant Flexible Drawing, on the Drawings Date; (iii) in respect of a Product Switch, on the Switch Date; or (iv) 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, Flexible Drawing 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 may also offer to repurchase the Loans and their Related Security from the Issuer, which the Issuer may or may not accept, 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% 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*)); or

- the Issuer exercises its call option following a change in Tax law in respect of which: (a) the Issuer (or the Paying Agents on the Issuer's behalf) or the Interest Rate Swap Provider, as the case may be, would be required to make a Tax Deduction in respect of such relevant payment or (b) the Issuer would be subject to United Kingdom corporation tax otherwise than in accordance with regulations 14 to 21 of the Securitisation Regulations, in each case in accordance with Condition 9.4 (*Optional Redemption in whole for taxation reasons*).

As an alternative to selling the Further Advance and/or Flexible Drawings to the Issuer, if the Available Principal Receipts are insufficient to pay the consideration for any Further Advance and/or Flexible Drawing 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, Flexible Drawing or Product Switch is made.

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

Consideration for repurchase:

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

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

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

Perfection Trigger Events:

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

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

Servicing of the Portfolio:

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

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

Delegation:

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

TRANSACTION OVERVIEW – TRIGGERS TABLES

Rating Triggers Table

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
Interest Rate Swap Provider (or any guarantor thereof):	<p>The Required Ratings in respect of each Rating Agency are set out below.</p> <p>The terms Moody’s Initial Required Rating, Moody’s Subsequent Required Rating, Fitch Initial Required Rating and Fitch Subsequent Required Rating have the meaning given to them below.</p>	
	Moody’s Initial Required Rating	
	<p>One of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider’s present and future obligations under the Interest Rate Swap Agreement must satisfy the following requirement to have the Moody’s Initial Required Rating: the long-term, unsecured and unsubordinated debt or counterparty obligations are rated “A3” or above by Moody’s.</p>	<p>The Interest Rate Swap Provider must provide collateral (to the extent required depending on the value of the Interest Rate Swap Transaction to each of the parties at such time) unless it transfers its obligations to an entity that is eligible to be a swap provider under the Moody’s criteria or it obtains a guarantee from an entity with the Moody’s Initial Required Rating.</p> <p>The Issuer may terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to provide collateral in the relevant time period (to the extent the Interest Rate Swap Provider is required to do so).</p>
	Moody’s Subsequent Required Rating	
<p>One of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider’s present and future obligations under the Interest Rate Swap Agreement must satisfy the following requirement to have the Moody’s Subsequent Required Rating: the long-term, unsecured and unsubordinated debt or counterparty obligations are rated “Baa2” or above by Moody’s.</p>	<p>The Interest Rate Swap Provider must at its own cost use commercially reasonable efforts to, as soon as reasonably practicable, either:</p> <ul style="list-style-type: none"> a) procure a guarantee from an entity with the Moody’s Subsequent Required Rating; b) transfer its rights and obligations under the Interest Rate Swap Agreement to a replacement counterparty with the Moody’s Subsequent Required 	

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
		<p>Rating; or</p> <p>c) take other such action (which may include inaction) as may be necessary and in respect of which Moody's confirms that there will not be an adverse impact on the current rating of the Class A Notes.</p> <p>Whilst this process is on-going the Interest Rate Swap Provider must also provide collateral (to the extent required depending on the value of the Interest Rate Swap Transaction to each of the parties at such time).</p> <p>The Issuer may terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to provide collateral in the relevant time period (to the extent the Interest Rate Swap Provider is required to do so). The Issuer may also terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to take action in accordance with (a), (b) or (c) above (provided that, in respect of (b) above, at least one eligible replacement counterparty has made an offer which is capable of becoming legally binding upon acceptance).</p>
	Fitch Initial Required Rating	
	<p>One of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider's present and future obligations under the Interest Rate Swap Agreement must satisfy the following requirements to have the Fitch Initial Required Rating:</p> <p>(a) if the Class A Notes have a current rating of "AAAsf", the long-term issuer default rating from Fitch must be "A" or above and, if applicable, the short-term issuer default rating from Fitch must be "F1" or above; or</p> <p>(b) if the Class A Notes have a current rating of "AA+sf" or "AAsf" or</p>	<p>The Interest Rate Swap Provider must post collateral in the form of cash or securities or both unless it:</p> <p>(a) transfers its rights and obligations to an eligible entity under the relevant Fitch ratings criteria; or</p> <p>(b) obtains a co-obligor commitment or guarantee from an entity with the Fitch Initial Required Rating; or</p> <p>(c) takes such action as will (i) maintain or restore the</p>

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
	<p>“AA-sf”, the long-term issuer default rating from Fitch must be “A-“ or above and, if applicable, the short-term issuer default from Fitch must be “F2” or above; or</p> <p>(c) if the Class A Notes have a current rating of “A+sf” or “Asf” or “A-sf”, the long-term issuer default rating from Fitch must be “BBB+” or above and, if applicable, the short-term issuer default rating from Fitch must be “F2” or above; or</p> <p>(d) if the Class A Notes have a current rating of “BBB+sf” or “BBBsf” or “BBB-sf”, the long-term issuer default rating from Fitch must be “BBB-“ or above and, if applicable, the short-term issuer default rating from Fitch must be “F3” or above; or</p> <p>if the Class A Notes have a current rating of “BB+sf” or below or are not rated by Fitch, the rating must be at least as high as the Class A Notes rating.</p>	<p>Class A Note rating to the level it would have been but for such breach of Fitch Initial Required Rating, and (ii) result in the Class A Notes not being placed on rating watch negative by Fitch due to the breach of Fitch Initial Required Rating.</p> <p>In all cases above, the Interest Rate Swap Provider must use commercially reasonable efforts and take such actions at its own cost and expense.</p> <p>The Issuer may terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to provide collateral or take one of the actions in (a)–(c) above within the relevant time period and provided that it is in receipt of a Firm Offer from an Eligible Replacement (each as such term is defined in the Interest Rate Swap Agreement).</p>
	<p>Fitch Subsequent Required Rating</p>	
	<p>One of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider’s present and future obligations under the Interest Rate Swap Agreement (provided that such guarantor is incorporated in the same jurisdiction as the Interest Rate Swap Provider or, where it is not incorporated in the same jurisdiction, Fitch has been provided with a legal opinion confirming the enforceability of subordination provisions against the guarantor in its jurisdiction) must satisfy the following requirements to have the Fitch Subsequent Required Rating:</p> <p>(a) if the Class A Notes have a current rating of “AAAsf”, the long-term issuer default rating from Fitch must be “BBB-” or above and, if applicable, the short-term issuer default rating from Fitch must be “F3” or above; or</p> <p>(b) if the Class A Notes have a</p>	<p>The Interest Rate Swap Provider must post collateral in the form of cash or securities or both (or continue to post collateral, as applicable).</p> <p>The Interest Rate Swap Provider must also either:</p> <p>(a) transfer its rights and obligations to an eligible entity under the relevant Fitch ratings criteria; or</p> <p>(b) obtain a co-obligor commitment or guarantee from an entity with the Fitch Subsequent Required Rating; or</p> <p>(c) take such action as will</p> <p>(i) maintain or restore the Class A Note rating to the level it would have been but for such</p>

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
	<p>current rating of “AA+sf” or “AAAsf” or “AA-sf”, the long-term issuer default rating from Fitch must be “BBB-“ or above and, if applicable, the short-term issuer default from Fitch must be “F3” or above; or</p> <p>(c) if the Class A Notes have a current rating of “A+sf” or “Asf” or “A-sf”, the long-term issuer default rating from Fitch must be “BB+” or above; or</p> <p>(d) if the Class A Notes have a current rating of “BBB+sf” or “BBBsf” or “BBB-sf”, the long-term issuer default rating from Fitch must be “BB-“ or above; or</p> <p>(e) if the Class A Notes have a current rating of “BB+sf” or “BBsf” or “BB-sf”, the long-term issuer default rating from Fitch must be “B” or above; or</p> <p>if the Class A Notes have a current rating of “B+sf” or below or are not rated by Fitch, the rating must be at least as high as the Class A Notes rating.</p>	<p>breach of Fitch Subsequent Required Rating, and (ii) result in the Class A Notes not being placed on rating watch negative by Fitch due to the breach of Fitch Subsequent Required Rating.</p> <p>In all cases above, the Interest Rate Swap Provider must use commercially reasonable efforts and take such actions at its own cost and expense.</p> <p>The Issuer may terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to provide (or continue providing) collateral in the relevant time period, provided that it is in receipt of a Firm Offer from an Eligible Replacement (each as such term is defined in the Interest Rate Swap Agreement).</p> <p>The Issuer may also terminate the Interest Rate Swap Agreement if the Interest Rate Swap Provider fails to take one of the actions listed in (a)-(c) above and provided that it is in receipt of a Firm Offer from an Eligible Replacement (each as such term is defined in the Interest Rate Swap Agreement), regardless whether the Interest Rate Swap Provider has posted collateral.</p>
	<p>One of the Interest Rate Swap Provider or any guarantor of the Interest Rate Swap Provider’s present and future obligations under the Interest Rate Swap Agreement (provided that such guarantor is not incorporated in the same jurisdiction as the Interest Rate Swap Provider and Fitch has not been provided with a legal opinion confirming the enforceability of subordination provisions against the guarantor in its jurisdiction) must satisfy the following requirements to have the Fitch Subsequent Required Rating:</p> <p>(a) if the Class A Notes have a current rating of “AAAsf”, the</p>	

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
	<p>long-term issuer default rating from Fitch must be “BBB+” or above and, if applicable, the short-term issuer default rating from Fitch must be “F2” or above; or</p> <p>(b) if the Class A Notes have a current rating of “AA+sf” or “AAsf” or “AA-sf”, the long-term issuer default rating from Fitch must be “BBB+” or above and, if applicable, the short-term issuer default from Fitch must be “F2” or above; or</p> <p>(c) if the Class A Notes have a current rating of “A+sf” or “Asf” or “A-sf”, the long-term issuer default rating from Fitch must be “BBB+” or above and, if applicable, the short-term issuer default from Fitch must be “F2” or above; or</p> <p>(d) if the Class A Notes have a current rating of “BBB+sf” or “BBBsf” or “BBB-sf”, the long-term issuer default rating from Fitch must be “BBB-“ or above and, if applicable, the short-term issuer default from Fitch must be “F3” or above; or</p> <p>if the Class A Notes have a current rating of “BB+sf” or below or are not rated by Fitch, the rating must be at least as high as the Class A Notes rating.</p>	
Account Bank:	(i) Short-term IDR must be at least F1 by Fitch and (ii) long term unsecured, unsubordinated and unguaranteed debt obligations of A3 by Moody’s; and long-term IDR must be at least A by Fitch (or such short-term or long-term rating which is otherwise acceptable to the relevant Rating Agency).	The consequences of breach may include replacement of Account Bank within 30 days from the date of such breach.
Swap Collateral Account Bank:	(i) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Swap Collateral Account Bank cease to have a rating of at least P-1 from Moody's and a short term IDR of at least F1 from Fitch; or (ii) the long-term IDR is at least A by Fitch (or, in each case, such other short-term or long-term rating which is otherwise	The consequences of breach may include replacement of Account Bank within 30 days from the date of such breach (provided that no termination will be effective until a replacement agreement with a replacement Swap Collateral Account Bank (which is an Authorised Entity) is entered

Transaction Party	Required Ratings on the Closing Date	Possible effects of Ratings Trigger being breached include the following
	acceptable to the relevant Rating Agency)	into).
Seller:	Long-term, unsecured and unsubordinated debt obligations from Moody's of at least Baa3 and the long-term IDR of at least BBB- from Fitch (or such other long-term rating which is otherwise acceptable to the relevant Rating Agency) (a Seller Downgrade Event).	Under the Mortgage Sale Agreement, the Seller shall be obliged to prepare the documentation required to perfect legal title to the Loans and Related Security, but shall not be required to give notice of the transfer of the equitable or beneficial interest in the Loans to the Borrowers nor complete any other step necessary to perfect legal title to the Loans or the Related Security to the Issuer. See the section entitled " <i>Sale of the Portfolio under the Mortgage Sale Agreement</i> ".
Seller	For so long as the short-term unsecured, unsubordinated and unguaranteed debt rating is below P-2 by Moody's or the short-term IDR from Fitch is below F2 (or such other lower short-term rating acceptable to the relevant Rating Agency).	Under the Mortgage Sale Agreement, the Seller shall be obliged to provide to the Issuer and the Trustee a valid solvency certificate signed in accordance with the Mortgage Sale Agreement. See the section entitled " <i>Product Switches, Flexible Drawings, Further Advances and Substitution</i> ".

Non-Rating Triggers Table

Nature of Trigger	Description of Trigger	Consequence of Trigger
<p>Requirement to appoint a replacement back-up servicer</p> <p>See the section entitled "<i>The Servicer</i>" for further information on this.</p>	<p>Insolvency Event in relation to the Back-Up Servicer</p>	<p>On the occurrence of an Insolvency Event in respect of the Back-Up Servicer and if the Back-Up Servicer's appointment has been terminated and no new back-up servicer has been appointed, the Issuer (with the assistance of the Back-Up Servicer Facilitator) will require the Servicer to use its best efforts to appoint a back-up servicer acceptable to the Trustee on terms substantially the same as those set out in this Agreement (the New Back-Up Servicer).</p>
<p>Servicer Termination Event</p> <p>See the section entitled "<i>The Servicer</i>" for further information on this.</p>	<p>(a) Servicer payment default;</p> <p>(b) Failure to comply with any of its other covenants or obligations; or</p> <p>(c) Servicer Insolvency Event.</p>	<p>The Back-Up Servicer will replace the Servicer and shall provide the servicing services in accordance with the Replacement Servicing Agreement as replacement Servicer.</p>
<p>Perfection Trigger Events</p> <p>See the section entitled "<i>The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement</i>" for further information on this.</p>	<p>Seller Insolvency Event.</p>	<p>The legal transfer by the Seller to the Issuer of all the Loans and their Related Security as soon as reasonably practicable.</p>
<p>Replacement of Cash Manager</p> <p>See the section entitled "<i>Cashflows and Cash Management</i>" for further information on this.</p>	<p>Following the termination of the appointment of the Cash Manager under the Cash Management Agreement.</p>	<p>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.</p>

TRANSACTION OVERVIEW – FEES

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

<u>Type of Fee</u>	<u>Amount of Fee</u>	<u>Priority in Cashflow</u>	<u>Frequency</u>
Servicing Fees	£1,200 per annum (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Cash Management Fees	£1,200 per annum (inclusive of any applicable VAT)	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date
Back-Up Servicing Fee	0.0074% per annum on the aggregate Current Balance of all Loans comprising the Portfolio (subject to a minimum annual fee of £36,000 exclusive of any applicable VAT) and following the date on which the Back-Up Servicer replaces the Servicer (pursuant to the terms of the Back-Up Servicing Agreement), 0.200% per annum on the aggregate Current Balance of all Loans comprising the Portfolio plus £50 per Loan in Arrear per month plus £120 per Loan which has been repaid in full during an Interest Period (in each case, exclusive of any applicable VAT subject to the Issuer only being required to pay an amount equal to the VAT up to a maximum rate of 20% of such fee).	Ahead of all outstanding Notes	Quarterly in arrear on each Interest Payment Date

Upon the Back-Up Servicer assuming the role of Servicer under the Back-Up Servicing Agreement, an invocation fee of £125,000 (exclusive of VAT) (the **Back-Up Servicer Invocation Fee**) will be payable by the Issuer to the Back-

Up Servicer.

Back-Up Cash Manager Fees	£7,500	Ahead of outstanding Notes	all	Quarterly in arrears on each Interest Payment Date
Other fees and expenses of the Issuer	Estimated at £80,000 each year (exclusive of VAT)	Ahead of outstanding Notes	all	Quarterly in arrears on each Interest Payment Date
Expenses related to the admission to trading of the Notes	Estimated at £4,500 (exclusive of any applicable VAT)			On or about the Closing Date

RISK RETENTION REQUIREMENTS

Principality will, for the life of the transaction, retain a material net economic interest of not less than 5% in the securitisation in accordance with the text of Article 405 of the CRR (**Article 405**) and Article 51 of the AIFMR (**Article 51**). As at the Closing Date, such interest will be comprised of an interest in the first loss tranche as required by Article 405 and Article 51. Such retention requirement will be satisfied by Principality by holding the Class B Notes. Any change to the manner in which such interest is held will be notified to the Trustee and the Noteholders.

For a description of the information to be made available after the Closing Date by Principality (in its capacity as the Servicer or the Cash Manager on the Issuer's behalf), please see the summary in relation to the Investor Reports set out in "*Cashflows and Cash Management – Investor Reports*".

Principality has provided a corresponding undertaking with respect to: (i) the provision of such investor information as specified in the paragraph above; and (ii) the interest to be retained by Principality as specified in the introductory paragraph above to the Joint Lead Managers in the Subscription Agreement and to the Issuer and the Trustee on behalf of the Noteholders pursuant to the Deed of Charge. The Trustee shall have the benefit of certain protections contained in the Trust Deed in relation to the compliance of Principality with such undertaking. For further information please refer to the Risk Factor entitled "*The Trustee is not obliged to act in certain circumstances*".

Each prospective investor is required to independently assess and determine the sufficiency of the information described above and in this Prospectus generally for the purposes of complying with each of Article 405 and Article 51 and none of the Issuer, Principality, the Trustee, the Arrangers nor the Joint Lead Managers makes any representation that the information described above or in this Prospectus is sufficient in all circumstances for such purposes. In addition each prospective Noteholder should ensure that they comply with the implementing provisions in respect of Article 405 and the CRR and Article 51 and the AIFMR in their relevant jurisdiction. Investors who are uncertain as to the requirements which apply to them in respect of their relevant jurisdiction, should seek guidance from their regulator.

For further information please refer to the Risk Factor entitled "*Regulatory initiatives may result in increased regulatory capital requirements for certain investors and/or decreased liquidity in respect of the Notes*".

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.

The average lives of the Notes cannot be stated, as the actual rate of repayment of the Loans and redemption of the Mortgages and a number of other relevant factors are unknown. However, calculations of the possible average lives of the Notes can be made based on certain assumptions. For example, based on the assumptions that:

- (a) the Issuer exercises its option to redeem the Notes on the Step-Up Date, in the first scenario, or the Issuer does not exercise its option to redeem the Notes on or after the Step-Up Date, in the second scenario;
- (b) the Loans are subject to a constant annual rate of repayment (inclusive of scheduled and unscheduled principal redemptions) of between 5 and 35 per cent. per annum as shown on the table below;
- (c) there are no arrears or enforcements;
- (d) no Loan is sold by the Issuer;
- (e) there is no debit balance on the Class A Principal Deficiency Sub-Ledger on any Interest Payment Date;
- (f) the Seller is not in breach of the terms of the Mortgage Sale Agreement;
- (g) no Loan is repurchased by the Seller;
- (h) no Substitute Loans are purchased;
- (i) no Further Advances and/or Flexible Drawings are made in respect of the Portfolio;
- (j) the Notes will be redeemed in accordance with the Conditions
- (k) the Security is not enforced
- (l) the assets of the Issuer are not sold by the Trustee or any Transaction Party except as may be necessary to enable the Issuer to realise sufficient funds to exercise its option to redeem the Notes;
- (m) no Enforcement Notice has been served on the Issuer and no Event of Default has occurred;
- (n) the Loans continue to be fully performing;
- (o) the ratio of the Principal Amount Outstanding of the Class A Notes to the Current Balance of the Portfolio as at the Closing Date is 91.25%;
- (p) the Notes are issued on or about 9 June 2014.

Constant Annual Rate of Repayment of the Loans	(Assuming Issuer call on Step-up Date) Possible Average Life of Class A Notes (years)	(Assuming no Issuer call on Step-up Date) Possible Average Life of Class A Notes (years)
5.0%	4.49	14.37
10.0%	3.93	7.47
15.0%	3.44	4.91

20.0%	2.99	3.63
25.0%	2.61	2.86
30.0%	2.26	2.34
35.0%	1.96	1.97

Assumption (a) (in relation to the Issuer exercising its option to redeem the Class A Notes on the Step-Up Date) reflects the current intention of the Issuer but no assurance can be given that such assumption will occur as described.

Assumption (b) is stated as an average annualised repayment rate as the repayment rate for one Interest Period may be substantially different from that for another. The constant repayment rates shown above are purely illustrative and do not represent the full range of possibilities for constant repayment rates.

Assumptions (b) to (n) (inclusive) relate to circumstances which are not predictable.

The average lives of the Notes are subject to factors largely outside the control of the Issuer and

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

USE OF PROCEEDS

The Issuer will use the gross proceeds of the Notes to pay the Initial Consideration of £520,532,973.92 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, Friary No. 2 plc, was incorporated in England and Wales on 16 April 2014 (registered number 9000695) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP. 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, 49,998 shares of which are partly paid to £0.25 each and two of which are fully paid and all of which are beneficially owned by Holdings (see the section entitled "*Holdings*" below). The authorised share capital of the Issuer is 50,000 ordinary shares of £1 each.

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.

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
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Director

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

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
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director and Company Secretary

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

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

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

HOLDINGS

Holdings was incorporated in England and Wales on 16 April 2014 (registered number 9000679) as a private limited company under the Companies Act 2006 (as amended). The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Holdings' registered office is 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, the benefit of which is expressed to be for discretionary purposes.

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

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

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

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

Directors

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
SFM Directors Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
SFM Directors (No.2) Limited	35 Great St. Helen's, London EC3A 6AP	Corporate Director
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Director

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

<u>Name</u>	<u>Business Address</u>	<u>Business Occupation</u>
Jonathan Keighley	35 Great St. Helen's, London EC3A 6AP	Director
Debra Parsall	35 Great St. Helens, London EC3A 6AP	Director
Robert Berry	35 Great St. Helen's, London EC3A 6AP	Director
JP Nowacki	35 Great St. Helen's, London EC3A 6AP	Director
Claudia Wallace	35 Great St. Helen's, London EC3A 6AP	Director
Vinoy Nursiah	35 Great St. Helen's, London EC3A 6AP	Director
Helena Whitaker	35 Great St. Helen's, London EC3A 6AP	Director and Company Secretary
Susan Abrahams	35 Great St. Helen's, London EC3A 6AP	Director

Jennifer Jones 35 Great St. Helen's, London EC3A 6AP Company Secretary

Michael Drew 35 Great St. Helen's, London EC3A 6AP Company Secretary

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

The accounting reference date of Holdings is 31 December.

PRINCIPALITY BUILDING SOCIETY

The Seller, the Servicer, the Cash Manager

Introduction

Principality Building Society (**Principality** or the **Society**) is the sixth largest building society, ranked by total assets, in the United Kingdom with total assets as at 31 December 2013 of £7.1 billion and a network of 53 branches and 17 agency offices. At 31 December 2013, The Principality Group had approximately 568,000 customers of which approximately 465,000 were investment and approximately 103,000 were mortgage customers including 24,000 Nemo mortgage customers.

The Society

Principality was incorporated in England and Wales for an unlimited duration under the Building Societies Act 1874 as the Principality Benefit Building Society on 11 March 1876 and adopted its present name in 1913. It operates under the Building Societies Act 1986 (as amended) (the **Building Societies Act**) and the Rules and Memorandum of the Society. The Society has permission under Part IV of the FSMA to carry out all regulated activity as prescribed under the Building Societies Act and is registered (registered number 155998) as an authorised building society with the Prudential Regulation Authority, and regulated by the Financial Conduct Authority (**FCA**) and the Prudential Regulation Authority (**PRA**).

As a mutual organisation, both retail investors and borrowers have membership rights which include rights to vote at general meetings as prescribed by the Building Societies Act and the Society's rules and memorandum. Members are eligible to vote as an investor or borrower or both, but are only entitled to one vote except where there are separate shareholding members' and borrowing members' resolutions.

The Society is the parent of the Principality Group (defined below); with its Registered Office and Customer Contact Centre located at Principality Buildings, Queen Street, Cardiff CF10 1UA, and its telephone number is 0330 333 4000.

Subsidiaries

Details of the Society's investments in the Principality Group (as defined below) can be found at Note 23 to the Audited Consolidated Accounts of Principality for the year ended 31 December 2013. The contents thereof do not form part of this Prospectus.

The two subsidiaries of Principality, which account for the majority of the revenue obtained from subsidiaries, are:

- (a) Peter Alan Limited, an estate and lettings agency and financial services provider; and
- (b) Nemo Personal Finance Limited, a specialist provider of secured residential mortgage loans (see further below).

Board of Directors

The affairs of the Society are conducted and managed by a Board of Directors (the **Board**) who are elected by Principality members and serve in accordance with the Rules and Memorandum. The Board is responsible to the membership for the proper conduct of affairs of the Society.

The directors of the Society as at the date of this Prospectus are set out in the table below.

Director	Role
Lawrence Phillip Adams LLB	Chairman
Langley Davies BSc (Hons) ACA	Deputy Chairman
Graeme Yorston FCIB MBA	Group Chief Executive

Director	Role
Stephen Hughes ACMA	Group Finance Director
Robert Michael Jones BA (Hons) MBA ACIB	Group Risk Director
William Guy Thomas Bsc (Hons) ACA FCT C.Dir	Chief Executive Officer Nemo Personal Finance Limited
Gordon MacLean BA FCA	Non-Executive Director
Joanne I. Kenrick LLB	Non-Executive Director
Menna Richards BA OBE	Non-Executive Director
Natalie Elphick LLB	Non-Executive Director
Nigel Charles Annett	Non-Executive Director
Derek Howell BSc FCA	Non-Executive Director

A list of each director's principal outside directorships as at 31 December 2013 can be found on pages 25 and 26 of the Society's 2013 Annual Report and Accounts. These outside directorships cover all of the significant principal activities performed by the directors outside of Principality.

There are no conflicts of interest between any duties of each of the directors as members of the Board of the Society and the other duties or private interests of those persons.

The business address of each of the directors is c/o Eversheds LLP, Reference PDV, 1 Callaghan Square, Cardiff CF10 5BT.

Business general

As prescribed by the Building Societies Act, the Society's core business is the making of mortgage advances to members secured on residential property, and is funded out of shares and deposits subscribed to by members and supplemented by funds raised in the wholesale and debt capital markets.

To complement its core business, the Society has developed a portfolio of businesses which are broadly related to its core, in order to utilise its central competencies to create additional value for members.

Mortgage lending activities – Residential

The Society competes in the UK residential mortgage market with a broad range of products targeted at different customer segments. The Society continually reviews its product offerings based on prudent underwriting standards and appropriate competitive risk-based pricing.

All underwriting decisions are made centrally in accordance with the Board approved lending policy statement drawn up in compliance with FCA and PRA regulations. Within agreed policy parameters (including credit scoring), care, prudence and control are exercised by experienced underwriting staff to ensure that the quality of lending is maintained.

Whilst competitive risk-based pricing is key to the Society's strategy its operational expertise lies in timely mortgage processing and arrears management. Principality and its subsidiaries (collectively, the **Principality Group**) continues to take all appropriate action to minimise losses on non-performing accounts and actively monitors the prudence of its lending policies, taking into account economic and other market conditions.

Mortgage lending activities – Nemo

Nemo Personal Finance Limited (**Nemo**) is a personal secured lending business operating in the broker and retail markets. It provides personal loans secured by a second charge over the equity value in a residential property or residential properties owned by the borrower. Excess of loss insurance is not carried in respect of these products. Whilst there is an increased degree of risk with this type of financing, such increased risk is, the Society believes, properly reflected in the higher pricing which Nemo is able to demand for this product in the market place.

Mortgage lending activities – Commercial

The Society established its specialist commercial mortgage business as a separate operational area in 2002. Its aim is to originate, underwrite and administer loans secured on commercial property and residential property through buy-to-let portfolios and loans advanced to Welsh housing associations.

Retail funding

The Society continues to obtain the majority of its funding through retail member deposits. The Society competes in the UK savings market with a broad range of products targeted at different customer segments. Principality offers a range of investment products through e-savings, postal, commercial savings accounts and its branch network.

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 mortgage loans to assign 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 assign a portfolio of Loans and Related Security to the Issuer on the Closing Date.

2. Characteristics of the Loans

Origination of the Loans

The Loans included in the Provisional Portfolio were all made no earlier than 1 July 2000 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 Wales and its bordering counties in England;
- a centralised telephone-based lending operation;
- an internet lending operation; and
- intermediaries that included mortgage brokers and independent financial advisers.

All sources use online systems to provide the mortgage applications to the Society.

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 the Standard Variable Rate (**SVR**) of the Seller, although the Seller may agree to further periods during which the rate is fixed by way of Product Switch during the life of the Loan. An Early Repayment Charge (**ERC**) 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. See "*Early Repayment Charges*" below.
- **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 the Standard Variable Rate (**SVR**) of the Seller or remain as Tracker Rate Loans. An Early Repayment Charge (**ERC**) 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. See "*Early Repayment Charges*" below.
- **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 Standard Variable Rate of the Seller (the **Discount Rate**). At the end of the discounted period, generally the interest rate in respect of the Loans convert to the Standard Variable Rate (**SVR**) of the Seller, although the Seller may agree to further periods during which a discounted rate is applied by way of Product Switch during the life of the 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. See "*Early Repayment Charges*" below.
- **Floored (BoE Base and Discount Rate) Loans:** Tracker Rate Loans or Discount Rate Loans which have a rate of interest which will not decrease below a specified rate for a set period of time but more usually for the life of the Loan. All Variable Rate Loans including those that revert

to the Standard Variable Rate (**SVR**) of the Seller are subject to a floor rate of 2% below which the interest rate cannot fall, save for Loans made prior to 28 October 2008, which have no floor. An Early Repayment Charge (**ERC**) 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. See "*Early Repayment Charges*" below.

- **Variable Rate Loans:** Loans subject to a rate of interest linked to the Seller Standard Variable Rate, for the life of the Loan or until an alternative product that the Borrower qualifies for is selected by the Borrower. The Standard Variable Rate is set by the Seller by reference to the general level of interest rates and competitor rates in the UK mortgage market. Variable Rate Loans will not usually have an Early Repayment Charge. See "*Early Repayment Charges*" below.

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, there must be plausible evidence (from the outset) that a suitable repayment mechanism is realistic and in place.
- **Part and Part Loans:** the Borrower is required to repay a portion of the principal amount of the Loan by making monthly payments of both interest and principal and to repay the remaining portion of the principal amount of the Loan in one lump sum when the Loan matures. For that portion of the Loan that is interest only there must be plausible evidence (from the outset) that a suitable repayment mechanism is realistic and in place.

Calculation of Current Balance

Principality 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 Flexible Drawings or 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 Flexible Drawings or 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 Capital Balance of each Loan.

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

Accrued Interest means in respect of a Loan as at any date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Day immediately preceding the relevant date 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 or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date.

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

Capitalised Arrears means for any Loan at any date, amounts (other than amounts in respect of interest) 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 in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the Mortgage Conditions.

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).

Principal Receipts means: (i) principal repayments under the Loans (including payments of Capitalised Interest and Capitalised Expenses and Capitalised Arrears); (ii) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property but excluding any recoveries of principal from defaulting Borrowers under loans in respect of which enforcement procedures have been completed); (iii) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio; and (iv) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (excluding, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

Mortgaged Property or Property means a freehold or leasehold property which is subject to a Mortgage and together, the **Mortgaged Properties** or **Properties**.

Revenue Receipts means: (i) payments of interest and other fees due from time to time under the Loans and other amounts received by the Issuer in respect of the Loans other than the Principal Receipts; (ii) recoveries of interest from defaulting Borrowers under Loans being enforced; and (iii) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed.

Standard Variable Rate means the Seller's discretionary standard variable rate from time to time.

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.

Early 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.

Cashback means, in relation to any Loan, the agreement by the Seller to pay an amount to the relevant Borrower upon completion of the relevant Loan.

Early Repayment Charge means, any charge or fee which the Mortgage Conditions applicable to a Loan require the relevant Borrower to pay in the event that all or part of that Loan is repaid before a certain date, including without limitation repayment of any Cashback.

Flexible mortgages

Included within the Portfolio will be flexible mortgages with the following features that do not apply to non-flexible mortgages.

Drawdown facility

The Borrower may borrow additional amounts, subject to a minimum of £1,000 and up to the borrowing limit the Seller will set which, taking into account all amounts owing, will not exceed 95% of the value of the Property and will be subject to an assessment of the Borrower's ability to repay (however, it should be noted, that no Loan in the Portfolio will exceed 90% of the value of the property). The Seller can vary the borrowing limit to reflect a change in circumstances. All additional drawdown borrowing must be repaid by the end of the Loan term.

Payment holiday

A Borrower can take a payment holiday of not more than a total of six months in any 12-month period, provided that the Loan is at least six months old, all payments are up to date with no arrears during the six months prior to the start of the payment holiday, the payment holiday does not cause the amount owed to the Seller to exceed the Borrower's maximum borrowing limit and the Borrower's written request signed by all Borrowers of the particular Loan is agreed by the Seller.

Overpayment

A Borrower can make additional payments or "overpayments" to reduce the Loan at any time. If there is an overpayment, or a lump sum repayment, the amount owed and the amount of interest payable is re-calculated and reduced immediately.

Underpayment

A Borrower may pay less than the monthly payment:

1. without the Seller's further agreement provided the underpayments do not exceed any overpayments already made and there have not been any drawings against the flexible mortgage account or a payment holiday taken; or
2. with the Seller's agreement provided that the underpayment will not cause the amount owed to the Seller to exceed the Borrower's maximum borrowing limit.

Further Advances and Flexible Drawings

With non-flexible Loans, 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.

With Flexible Drawings, a Borrower may make drawdowns as described above up to such Borrower's borrowing limit. A Borrower may also apply to increase such Borrower's borrowing limit up to 95% of the value of the Property subject to a revaluation (if deemed necessary) and an assessment of his or her ability to afford such increased borrowing (however, in respect of the Portfolio, the Further Advance Conditions or the Flexible Drawing Conditions, as applicable, will provide that such Further Advance or Flexible Drawing as applicable will not increase the borrowing limit to 90% of the value of the property).

Product Switches

From time to time a Borrower may request, or the Seller or the Servicer (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 is a **Product Switch** (as defined in "*Sale of the Portfolio under the Mortgage Sale Agreement – Product Switches, Flexible Drawings, Further Advances and Substitution*" below).

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 2002, supported that by an automated credit scoring system, thus providing a combined scoring and system-based approach to lending assessment. This assessment is made with reference to a number of components including:

- (a) credit score: calculation of propensity to default based on a combination of customer supplied, internal performance and credit bureau data; and
- (b) affordability: calculation of an individualised lending amount that reflects the applicant's income and long-term commitments, the credit score and a debt-to-income percentage using a stressed interest rate and an overall income multiplier cap. All Loans are underwritten on an affordability principle and verified by reference to appropriate documentation. Affordability is calculated by reference to gross income and long-term commitments, loans, credit cards etc; and
- (c) valuations: are carried out in full on all proposed Loans for the purchase of a property. A restricted automated valuation model policy exists for remortgages subject to certain exceptions including (i) in cases where the LTV is above 60%; (ii) the relevant property was built prior to the year 1850; (iii) the relevant property is a flat; or (iv) the relevant property has a value of below £100,000 and above £350,000. This policy was withdrawn between January 2009 and March 2011, during this period full valuations were carried out on all business. A House Price Indexed (**HPI**) calculator using Land Registry data has been used for some further advances to update property valuations subject to certain exceptions, such as where the LTV of the new loan and indexed valuation is within 10% of the maximum LTV, in which case full valuations are undertaken.

The lending system is supported by a mandate structure within the processing up to offer stage, with authority limits varying according to seniority and experience. This delegated authority is restricted to the underwriting function within the Seller's Mortgage Service Centre and a limited number of other Senior management. The Sales and Completions functions are a segregated function from the processing function.

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

Lending managers carry out sample checking at offer stage and file checking at completion stage to ensure adherence to the policy and underwriting process. Prior to April 2010 the Seller's mortgage indemnity guarantee insurers also carry out quarterly audit checks on higher loan-to-value (**LTV**) cases above 75% to ensure policy adherence.

Underwriting exceptions

On a case-by-case basis the Seller may have determined that, based upon compensating factors, an applicant that did not strictly qualify under the lending criteria at that time warranted an underwriting exception. Any such exceptions would have been approved by a mandated underwriter or a senior manager of the Seller. Compensating factors which may be considered include, but are not limited to, a low LTV ratio, overall affordability position and a proven borrowing history with the Seller.

Lending Criteria

The following is a summary of the lending criteria (the **Lending Criteria**) applied by the Seller in originating all its mortgage 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 Provisional Portfolio will have been originated under these terms. However, the lending criteria relevant to the origination of the Loans in the Provisional Portfolio were substantially similar to those set out below.

In addition Noteholders should be aware that the Lending Criteria applies to all mortgage loans. For further information on the Loans to be sold to the Issuer, Noteholders should review the warranties made by the Seller as set out in the "*Sale of the Portfolio under the Mortgage Sale Agreement*" below.

(a) *Property – location*

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

(b) *Property – Borrower's title*

Each Property is a freehold, leasehold or commonhold residential property in England or Wales, the legal title to which is vested in the Borrower, and is good and marketable title.

(c) *Property – leasehold term*

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

(d) *Property – valuation*

A valuation report is required to be performed by one of the Seller's internally employed surveyors/valuers or a panel valuer, in either case being an Associate or Fellow of the Royal Institution of Chartered Surveyors with a minimum of two years' post-qualified experience at the time of such valuation listed in the Seller's panel of valuers or is otherwise acceptable to the Seller acting as a Prudent Mortgage Lender. The Seller has previously also used automated valuation models although these were not used between January 2009 and March 2011.

(e) *Property – construction*

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

(f) *Property – occupiers*

Each Borrower must disclose the details of every person (except sons or daughters (who are aged 17 years or over) of the Borrower living with the Borrower) who, at the date upon which the Loan is entered into has 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.

(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 the Borrower (e.g. first time buyers), the value of the Property and the credit rating of the Borrower.

(i) *Loan – repayment methods*

Loans may be capital and interest repayment loans, part and part loans or interest only loans. Where or to the extent that Loans are interest only, there needs to be plausible evidence that a suitable repayment mechanism is realistic and in place.

(j) *Loan – term*

Loans usually have a term of up to 40 years (however, it should be noted that each Loan in the Portfolio will have a remaining term of less than 30 years).

(k) *Borrower – capacity and status*

Borrowers must all be private individuals. Borrowers must have a minimum age of 18 and must have been in employment for the last three months or with a single previous employer for at least 12 months or where the Loan continues beyond intended retirement age, the Borrower must evidence sufficient income to service and repay the Loan during the term or at maturity in the case of interest only loans.

(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 and/or an owner of a limited company), audited by qualified accountants where applicable or for sole traders where accounts are not available, copies of SA302 from HMR&C; or
- (v) previous mortgage statements.

(m) *Borrower – income and affordability*

A full income and expenditure assessment will be carried out 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 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 2007, the Seller employed standard income multiples as part of its Lending Criteria.

Since 2007 the Seller uses a model incorporating the applicant's gross income and long-term commitments (loans, credit cards etc.) plus a credit score, debt to income percentage, and a stressed interest rate are used to arrive at a bespoke maximum lending amount subject to an overall income multiplier cap.

(n) *Borrower – Deposit*

Applicants should be able to demonstrate having saved a personal deposit. Applicants with builder or vendor deposit funding are not accepted, although gifts from close relatives are 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 who generally satisfies the lending criteria of traditional sources of residential mortgage capital.

Interest Only Loans

In relation to Interest Only Loans, the Seller recommends that, and will ask for evidence, the Borrower has a suitable and credible 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 or if the appropriate evidence is not available. The Seller 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 where the lease requires the insurance to be in the name of the landlord, arrange for the Seller's interest to be noted on the relevant insurance policy) in an amount sufficient to recover the reinstatement value of the Property (save in the case of leasehold properties where the lease requires the insurance to be in the name of the landlord in which case the Borrower is to use best efforts to ensure that the amount of the insurance is sufficient to recover the reinstatement value of the Property).

(b) *Contingency Insurance*

In addition to the requirement that each Borrower effects and maintains a property insurance policy in relation to any Property upon which a Loan is secured, the Seller has, separately taken out two Insurance Policies, being the Householders' Contingency Policy and the Householders' Freedom of Agency Policy which are underwritten by Royal and Sun Alliance Insurance plc.

Householders' Contingency Policy

This policy provides buildings insurance standard type cover as follows:

- cover for loss where the Borrower has failed to arrange buildings insurance cover;
- cover where a landlord of a leasehold property charged to the Seller has failed to insure or inadequately insures;
- cover where landlord arranged insurance of a leasehold property is vitiated by an act of the lessee or any other occupiers of other leasehold flats in the same building;
- subsidence resulting from coal mining activities; and

- subsidence resulting from activities addressed by the Cheshire Brine Pumping (Compensation for Subsidence) Act 1952.

Householders' Freedom of Agency Policy

This policy covers destruction of or damage to a Property where a Borrower has insured other than through the Seller and where the Borrower's insurance fails to answer for reasons not being the fault of the Seller.

Selection of the Portfolio

The Loans in the Portfolio were initially selected 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*" and subsequently such initial pool was further reduced using a random selection process.

Information regarding the policies and procedures of the Seller

The Seller has internal policies and procedures in relation to the granting of credit, administration of credit-risk bearing portfolios and risk mitigation. The policies and procedures of the Seller in this regard broadly include the following:

- (a) criteria for the granting of credit and the process for approving, amending, renewing and re-financing credits, as to which please see the information set out earlier in this section of this Prospectus headed "*The Portfolio – The Loans – Lending Criteria*" and "*The Servicing Agreement*";
- (b) systems in place to administer and monitor the various credit-risk bearing portfolios and exposures, as to which we note that the Portfolio will be serviced in line with the usual servicing procedures of the Seller – please see further the section of this Prospectus headed "*The Servicing Agreement*";
- (c) adequate diversification of credit portfolios given the Seller's target market and overall credit strategy, as to which, in relation to the Portfolio, please see the section of this Prospectus headed "*The Portfolio*"; and
- (d) policies and procedures in relation to risk mitigation techniques, as to which please see further the section of this Prospectus headed "*The Servicing Agreement*" and the section of this Prospectus headed "*The Portfolio – The Loans – Lending Criteria*".

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, on the Closing Date the Seller will sell its interest in a portfolio of residential mortgage loans (the **Loans**) and their associated mortgages (the **Mortgage** and, together with the other security for the Loans, the **Related Security**) and all monies derived therefrom from and including the Cut-Off Date and from time to time thereafter (collectively referred to herein as the **Portfolio**) to the Issuer. 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 an assignment. The consideration due to the Seller in respect of the Portfolio will be the aggregate of:

- (a) £520,532,973.92 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 or, if applicable, the Post-Enforcement Priority of Payments.

The Issuer shall purchase Further Advances and/or Flexible Drawings 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 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 the following:

- (a) the Seller becomes insolvent or is deemed unable to pay its debts within the meaning of section 123(1)(a) of the Insolvency Act 1986 (as amended) (on the basis that the reference in such section to £750 was read as a reference to £10 million) or sections 1(b), (c), (d) or (e) of the Insolvency Act 1986 (as amended) (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, consents to or suffers the appointment of a liquidator, receiver, administrator, building society liquidator, 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, an effective resolution is passed or the necessary consent of the Seller's members is given for the winding up or dissolution of the Seller or the authorisation or registration of the Seller is or is proposed to be cancelled, suspended or revoked or anything analogous or similar to any of the foregoing occurs; or
- (c) if the Seller ceases or threatens to cease to carry on its business or substantially the whole of its business,

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% 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 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 Noteholders.

If the Seller ceases to be assigned a long-term unsecured, unsubordinated debt obligation rating from Moody's of at least Baa3 or the long-term IDR 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 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, 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, will make, 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

The Seller will represent and warrant to the Issuer and the Trustee in the Mortgage Sale Agreement, the Loan Warranties (as defined below) in each case subject to certain additional amendments and conditions as set out in the Mortgage Sale Agreement at the following times:

- (a) in respect of each Loan and its Related Security in the Portfolio, as at the Closing Date;
- (b) in relation to any Further Advance, Flexible Drawing and Product Switch as at the Testing Date;
and

- (c) in relation to any Substitute Loan, as at the Testing Date.

If any of the Loan Warranties are breached in respect of a Loan as at the Closing Date or if any of the Loan warranties in respect of a Further Advance, Flexible Drawing or Product Switch (as applicable) are breached in respect of a Further Advance, Flexible Drawing or Product Switch (as applicable) as at the Testing Date following the relevant Advance Date, Drawings Date or Switch Date, such Loan will be repurchased or substituted by the Seller in accordance with the provisions of the Mortgage Sale Agreement. (See "*Repurchase by the Seller*" below for more details.)

The Loan Warranties to be given by the Seller as at the Closing Date or, as applicable, the relevant Testing Date (the **Loan Warranties**) will include, *inter alia*, the following warranties (and a more limited set of the Loan Warranties will be made as at the relevant Testing Date in relation to Further Advances, Flexible Drawings and Product Switches):

Loans

- (a) the particulars of the Loans set out in the Portfolio Notice are true, complete and accurate in all material respects;
- (b) each Loan was originated by the Seller in the ordinary course of business and was denominated in pounds Sterling upon origination;
- (c) each Loan was originated by the Seller in the ordinary course of business no earlier than 1 July 2000;
- (d) no Loan has a Current Balance of more than £1,000,000 and each Loan has a positive net present value or outstanding principal balance;
- (e) as at the Closing Date, there are more than 1,000 Loans in the Portfolio;
- (f) prior to the making of each Initial Advance, Further Advance or Flexible Drawing, the Lending Criteria and all preconditions to the making of any Loan were satisfied in all material respects subject only to such exceptions and waivers as made on a case by case basis as would be acceptable to a Prudent Mortgage Lender;
- (g) each Loan and its Related Security satisfied in all material respects, subject only to such exceptions and waivers as made on a case by case basis as would be acceptable to a Prudent Mortgage Lender, the Seller's Lending Criteria in force at the time of its origination;
- (h) the Lending Criteria are consistent with the criteria that would be used by a Prudent Mortgage Lender;
- (i)
 - (i) each Loan was made and its Related Security taken or received on the terms of the Standard Documentation 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;
 - (ii) the brochures, application forms, offers, offer conditions and marketing material distributed by the Seller to the Borrower when offering a Loan to a Borrower:
 - (A) 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;
 - (B) do not conflict with and would not prohibit or otherwise limit the terms of the Transaction Documents or the matters contemplated thereby, including for the avoidance of doubt and without limitation the management of the Loans and their Related Security by the Seller or a delegate of the Seller or the appointment of a new Servicer following the occurrence of a Seller Insolvency Event;
- (j) at least one monthly payment due in respect of each Loan has been paid by the relevant Borrower as at the Cut-Off Date;

- (k) the Current Balance on each Loan and its Related Security constitute a legal, valid, binding, enforceable debt due to the Seller from the relevant Borrower except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;
- (l) each Loan has been entered into by the Seller and the relevant Borrower in accordance with all applicable laws to the extent that failure to comply with those laws would have a material adverse effect on the enforceability of collectability of that Loan or its Related Security;
- (m) the rate of interest under each Loan is charged in accordance with the Standard Documentation;
- (n) no agreement for any Loan or any agreement relating to a variation of such Loan, is wholly or partly a "regulated consumer credit agreement" as defined in section 8 of the CCA or treated as such;
- (o) 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;
- (p) each Loan has a remaining term of less than 30 years as at the Closing Date, Advance Date, Drawings Date, Switch Date or Substitution Date, as relevant;
- (q) each Loan has a remaining term ending no later than three years prior to the Final Maturity Date of the Notes;
- (r) each Loan and its Related Security is legal, valid, binding, enforceable and is non cancellable, and is subject only in certain appropriate cases to requisite applications for registrations at the Land Registry having been made and which are pending and, in relation to such cases, the Seller is not aware of any caution, notice, inhibition or any other matter that would prevent such registration except that enforceability may be limited by bankruptcy, insolvency or other similar laws of general applicability affecting the enforcement of creditors' rights generally and the court's discretion in relation to equitable remedies;
- (s) all approvals, consents and other steps necessary to permit a legal, equitable or beneficial transfer, or a transfer of servicing or other disposal as and in the manner contemplated by the Transaction Documents from the Seller to the Issuer, of the Loans and their related Mortgages to be sold under the Mortgage Sale Agreement have been obtained or taken, there being no requirement in order for the transfer to be effective to obtain the consent of the Borrower before, on or after any equitable or beneficial transfer or before any legal transfer of the Loans and their related Mortgages and such transfer or disposal shall not give rise to any claim by the Borrower against the Issuer, the Trustee or any of their successors in title or assigns;
- (t) none of the property assigned under the Mortgage Sale Agreement consists of stock or marketable securities within the meaning of section 125 of the Finance Act 2003, chargeable securities (for the purposes of section 99 of the Finance Act 1986) or a **chargeable interest** for the purposes of section 48 of the Finance Act 2003;
- (u) save in respect for Product Switches none of the provisions of the Loans have been waived, altered or modified in any way by the Seller other than:
 - (i) any variation agreed with a Borrower to control or manage arrears on a Loan;
 - (ii) any variation in the maturity date of a Loan, provided that the maturity date of such Loan falls three years before the Final Maturity Date of the Notes;
 - (iii) any variation imposed by statute or as a result of legally binding UK government policy changes or initiatives aimed at assisting home owners in meeting payments on their mortgage loans or any variation in the frequency with which the interest payable in respect of the Loan is charged;

- (iv) any variation to the interest rate as a result of the Borrowers switching to a different rate;
- (v) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan; or
- (vi) any change in the repayment method of the Loan (including from an interest only loan to a repayment loan),

provided that any such waiver, alteration or modification does not in any material way adversely affect the enforceability or collectability of such Loan;

- (v) no Loan is a staff loan;
- (w) no agreement for any Loan, whether taken alone or with a related agreement, gives rise to an "unfair relationship" between the creditor and the debtor for the purposes of section 140A to 140D of the CCA;
- (x) no Loan is categorised as a self-certified, equity release or a buy-to-let loan under the Seller's Lending Criteria;
- (y) each Loan has been designated as a prime Loan under the Seller's Lending Criteria;
- (z) so far as the Seller is aware, no Borrower is in breach of any obligation under a Loan other than in respect of Monthly Payments to the extent it would have a material adverse effect on the Loans and their Related Security, and no steps have been taken by the Seller to enforce any Related Security as a result of any such breach;
- (aa) no Loan is more than one monthly payment in arrears;
- (bb) to the best of the Seller's knowledge, no Borrower had ever filed for bankruptcy, entered into an individual voluntary arrangement or had a county court judgment entered against him on or prior to the date on which the Borrower executed the relevant Mortgage;
- (cc) to the best of the Seller's knowledge, no Borrower has been in arrears with another mortgage lender at any point during the 12 months prior to the date of such Borrower's Initial Advance under its Loan;
- (dd) no Loan had a current LTV greater than 90% as at the Portfolio Cut-Off Date; and
- (ee) the weighted average LTV as at origination of the Loans in the Portfolio was not greater than 85% as at the Cut-Off Date;
- (ff) no Loan had an LTV greater than 100% as at the date of origination of that Loan;
- (gg) no lien, right of set-off, 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;
- (hh) no Loan has been entered into as a consequence of any conduct constituting fraud of the Seller and, to the best of the Seller's knowledge, no Loan has been entered into fraudulently by the relevant Borrower; and
- (ii) the Loans and their Related Security are not subject, either totally or partially, to any lien, assignment, charge or pledge to any third parties.

Mortgages

- (a) subject in certain appropriate cases to the completion of an application for registration which is pending at the Land Registry, the whole of the Current Balance on each Loan is secured by a Mortgage over a residential Property and each Mortgage constitutes a valid and subsisting first charge by way of legal mortgage and, subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales which, where required,

have been made and are pending and in relation to such cases the Seller is not aware of any notice or any other matter that would prevent such registration or recording;

- (b) each Loan and its related Mortgage is substantially in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed;
- (c) each Mortgage has first priority (where a second or subsequent mortgage exists) for the whole of the Current Balance on the Loan and all future interest, fees, costs and expenses payable under or in respect of such Mortgage;
- (d) the Borrower has good and marketable title to the relevant Property (subject to registration of the title at the Land Registry) free from any encumbrance (except the Mortgage and any subsequent ranking mortgage) which would materially adversely affect such title.

The Properties

- (a) each Property is in either England or Wales;
- (b) each Property is either freehold, leasehold or commonhold and if a Mortgaged Property is leasehold, written notice has been given to the landlord of the creation of the relevant Mortgage;
- (c) save for sons or daughters (who are aged 17 years or over) of the Borrower living with the Borrower, every person who, at the date upon which a Mortgage was granted, had attained the age of 17 and who had been notified to the Seller as residing in or about to reside in the relevant Property, is either named as a Borrower or has signed a consent agreement in the form of the pro forma contained in the Standard Documentation which was applicable at the time the Mortgage was executed;

Valuers' and Solicitors' Reports

- (a) not more than 12 months (or a longer period as may be acceptable to a Prudent Mortgage Lender) prior to the granting of each Mortgage, the Seller received a Valuation Report on the relevant Property (or another form of report concerning the valuation of the relevant Property as would be acceptable to a Prudent Mortgage Lender), the contents of which were such as would be acceptable to a Prudent Mortgage Lender;
- (b) prior to the taking of each Mortgage (other than a remortgage), the Seller:
 - (i) instructed its solicitor or licensed conveyancer to carry out an investigation of title to the relevant Property and to undertake other searches, investigations, enquiries and other actions on behalf of the Seller in accordance with the instructions which the Seller issued to the relevant solicitor or licensed conveyancer as are set out, in the case of Loans, in the CML's Lenders' Handbook for England and Wales (or, for Mortgages taken before the CML's Lenders' Handbook for England and Wales was adopted in 1999, the Seller's standard form instructions to solicitors) or other comparable or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations as would be acceptable to a Prudent Mortgage Lender; and
 - (ii) received a certificate of title from the solicitor or licensed conveyancer referred to in paragraph (i) relating to such Property, the contents of which were such as would have been acceptable to a Prudent Mortgage Lender at that time;

Buildings Insurance

at origination, it was a condition of the mortgage that each Property was insured to an amount not less than the full reinstatement cost as determined by the relevant valuer under:

- (a) a buildings insurance policy arranged by the Borrower in accordance with the relevant Mortgage Conditions; or
- (b) in the case of a leasehold property or a commonhold property a buildings insurance policy arranged by the relevant landlord or property management company,

and since origination the Seller has not received notice that any such Property has since become uninsured or, to the extent that the Seller has received such notice, the relevant Property is insured pursuant to the Insurance Policies, or the Seller has arranged separate buildings insurance or such Property is covered by the Seller's block insurance policy in place from time to time;

The Seller's Title

- (a) immediately prior to the purchase of any Loan and the Related Security by the Issuer, and subject to registration at the Land Registry the Seller has good title to, and is the absolute unencumbered legal and beneficial owner of, all property, interests, rights and benefits in relation to the Loans and Related Security agreed to be sold and/or assigned by the Seller to the Issuer pursuant to the Mortgage Sale Agreement free and clear of all Security Interests, claims and equities (including, without limitation, rights of set-off or counterclaim and overriding interests within the meaning of either section 3(xvi) of the Land Registration Act, subject only to the Mortgage Sale Agreement and the Borrower's equity of redemption and so long as the Seller is not in breach of any covenant implied by reason of its selling the relevant Portfolio with full title guarantee (or which would be implied if the relevant Land Registry Transfers in the form set out in the Mortgage Sale Agreement were completed and registered or recorded, as appropriate);
- (b) all steps necessary to perfect the Seller's title to 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;
- (c) the Loan Files relating to each of the Loans and their Related Security are held by, or are under the control of:
 - (i) the Seller; or
 - (ii) the Servicer;
- (d) neither the entry by the Seller into the Mortgage Sale Agreement nor any transfer, assignment or creation of trust contemplated by the Mortgage Sale Agreement affects or will adversely affect any of the Loans and their Related Security.
- (e) there is no restriction on the assignment of the Loans and their Related Security and the Seller may freely assign and enter into trust arrangements in respect of all its rights, title, interests and benefits therein as contemplated in the Mortgage Sale Agreement without breaching any term or condition applying to any of them;
- (f) the Seller has not knowingly waived or acquiesced in any breach of any of its rights in respect of a Loan or its Related Security, other than waivers and acquiescence such as a Prudent Mortgage Lender might make on a case by case basis;

Interest Rates payable under the Loans

Each Loan is either a Variable Rate Loan, Discount Rate Loan, Tracker Rate Loan or Fixed Rate Loan;

Regulation

- (a) in respect of any Loans entered into on or after 31 October 2004, the Seller was authorised by and had permission from the UK Regulator for entering into Regulated Mortgage Contracts as lender at the time that it entered into each such Loan and continues to be so authorised and hold such permission;
- (b) the Seller is authorised by and had permission (and, insofar as applicable, any intermediary is authorised by and had permission) from the UK Regulator for conducting any other regulated activities (as defined in the FSMA) carried on by the Seller (or any such intermediary) in respect of each Loan;
- (c) the Seller has complied with all Regulatory Directions in respect of the Loans, in particular, without limitation, the provisions of MCOB;

- (d) each officer or employee of the Seller in any capacity which involves a controlled function (as defined in the UK Regulator's Rules) or involves the supervision of any person or persons so engaged is and was at all relevant times a validly registered **approved person** in accordance with the UK Regulator's Rules;
- (e) the Seller has created and maintained all records in respect of the Loans in accordance with the UK Regulator's Rules and any other Regulatory Direction;
- (f) to the extent that any of the Loans qualify as **distance contracts** (as defined by Article 2 of the Distance Marketing of Consumer Financial Services Directive) the Seller had complied with the relevant provisions of the Distance Marketing of Consumer Financial Services Directive, as implemented in the United Kingdom;
- (g) all fees and commissions payable to brokers and intermediaries by the Seller were fully disclosed to the relevant Borrowers;

General

- (a) the Seller has, since the making of each Loan, kept or procured the keeping of full and proper accounts, books and records as are necessary to show all material transactions, payments, receipts, proceedings and notices relating to such Loan and all such accounts, books, and records are up to date in the possession the Seller or held to its order;
- (b) neither the Seller, nor as far as the Seller is aware after having made all reasonable enquiries, any of its agents has received written notice of any litigation, claim, dispute or complaint (in each case, subsisting, threatened or pending) in respect of any Borrower, Property, Loan, Related Security or Insurance Policy; and
- (c) 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 Loan and the Related Security to be sold under this Agreement have been obtained or taken.

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

FSA means the Financial Services Authority, which for the period up to 1 April 2013, was the United Kingdom competent authority for the purposes of the Prospectus Directive and relevant implementing measures in the United Kingdom.

Governmental Authority means any entity exercising executive, legislative, fiducial, regulatory or administrative functions of or pertaining to government.

Insurance Policies means the Householders' Freedom of Agency Insurance and the Householders' Contingency Policy and **Insurance Policy** shall be construed accordingly.

Issue Date means 9 June 2014 or such other date as the Issuer and the Joint Lead Managers and the Seller may agree.

Loan Files means all correspondence, documentation and other paperwork held by the Seller in relation to a Loan.

Modified Following means such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

Portfolio Notice means a notice delivered pursuant to the Mortgage Sale Agreement setting out certain data in respect to the Loans in the Portfolio.

Regulated Mortgage Contract in relation FSMA means a credit agreement entered into on or after the Mortgage Regulation Date and (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 (other than timeshare accommodation) in the UK and (c) at least 40% 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.

Regulatory Direction means, in relation to any person, a direction or requirement of any Governmental Authority with whose directions or requirements such person is accustomed to comply.

Security Interest means any mortgage, sub-mortgage, charge, sub-charge, pledge, lien (other than a lien arising in the ordinary course of business or by operation of law), assignation encumbrance or security interest however created or arising.

Standard Documentation means the Standard Documentation, a list of which is set out in Part 2 of the Appendix to the Mortgage Sale Agreement and copies of which have been initialled on behalf of the parties thereto for the purposes of identification, or any update or replacement therefor as the Seller may from time to time introduce acting in accordance with the standards of a Prudent Mortgage Lender.

UK Regulator means:

- (a) in respect of the period before 1 April 2013, the FSA; and
- (b) in respect of the period on or after 1 April 2013:
 - (i) the FCA; or
 - (ii) the PRA and the FCA.

UK Regulator's Rules means the rules made by the appropriate UK Regulator under the FSMA.

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 Loan 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 or, in respect of a Further Advance, Flexible Drawing, Product Switch or Substitution as at the Testing Date (as defined below), the Seller will serve a notice promptly, but in any event no later than five Business Days following the Closing Date or the relevant Testing Date, on the Issuer in relation thereto. If such breach (where capable of remedy) has not been remedied within 30 days of receipt by the Issuer of such notice from the Seller, the Issuer will serve a repurchase notice on the Seller. The Seller will repurchase such Loan and its Related Security from the Issuer within 30 days of such repurchase notice being received (or such other date as the Issuer may direct in the repurchase notice, provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such repurchase notice). Consideration for such repurchase shall be provided by payment in cash and/or the substitution of equivalent Loan(s) (the **Substitute Loans**) such that the aggregate of the Current Balance(s) of the Substitute Loan(s), if any, and the cash payment amount, if any, equals at least the Current Balance(s) of the Loan(s) subject to repurchase.

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

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

Product Switches, Flexible Drawings, Further Advances and Substitution

(a) Further Advances

Under the Mortgage Sale Agreement, the Issuer has agreed that the Seller or the Servicer may make an offer to any Borrower for a Further Advance. If a Borrower requests, or the Seller or the Servicer (on behalf of the Seller) offers, a Further Advance under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering, documenting and funding that Further Advance. Any Further Advance made to a Borrower shall 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 notice shall be given by the Seller to the Issuer in respect of a Further Advance promptly, but in any event no later than the date falling five Business Days following the Testing Date, if it is determined that any of the Further Advance Conditions are not satisfied as at the Testing Date (a **Notice of Non-Satisfaction of Further Advance Conditions**).

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

- (a) the Advance Date falls before the Step-Up Date;
- (b) no Event of Default has occurred and is continuing;
- (c) no Seller Insolvency Event has occurred;
- (d) if the Seller's short-term unsecured, unsubordinated and unguaranteed debt rating has fallen below P-2 by Moody's or below the short-term IDR of F2 by Fitch (or such other lower short-term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (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 5% 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 3% 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 Advance Date, with the representations contained in the Mortgage Sale Agreement required to be given on each Advance Date;
- (h) the Class A Principal Deficiency Sub-Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (i) the original weighted average LTV ratio (calculated as the ratio of X to Y); does not exceed 77.5% where:
 - X is the aggregate sum of (a) multiplied by (b) for each of the Loans in the Portfolio where:
 - (a) is the original LTV ratio calculated by dividing debt previously advanced (including any Further Advances made) by the Original Valuation of a Loan in the Portfolio and,
 - (b) is the Current Balance of such Loan in the portfolio
 - Y is the aggregate Current Balances of all the Loans in the Portfolio;
- (j) 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 90%;

- (k) the outstanding Current Balance of any Loans in the Portfolio (including any Further Advance) with an interest only part does not exceed 30% of the aggregate Current Balance of the Loans in the Portfolio; and
- (l) each Fixed Rate Loan which is the subject of a Further Advance will be included in the calculation of the notional amount in respect of the Interest Rate Swap Transaction in respect of the calculation period for the Interest Rate Swap Transaction which begins in the calendar month immediately following the calendar month in which such Further Advance is made.

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

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

If there are insufficient amounts available to the Issuer to pay the Further Advance Purchase Price on the relevant date, then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on or prior to the last day of the calendar month following the month in which the relevant Advance Date falls. If a Notice of Non-Satisfaction of Further Advance Conditions is served in respect of the Loan subject to such Further Advance, then the Seller will have an obligation to remedy such breach within 30 days after receiving such Notice of Non-Satisfaction of Further Advance Conditions. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 30 day period, the Issuer will serve a repurchase notice on the Seller. The Seller must then repurchase the Loan within 30 days of receipt of such repurchase notice (or such other date as the Issuer may direct in the repurchase notice, provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such repurchase 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) excluding the amount of the Further Advance which has not yet been paid for by the Issuer subject to repurchase.

Neither the Seller nor the Servicer (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.

Mortgage Terms means all the terms and Conditions applicable to a Loan and/or its Related Security including the applicable Mortgage Conditions and Offer Conditions.

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

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

Testing Date means, in respect of a Further Advance, Flexible Drawing, Product Switch or Substitute Loan, the last day of the calendar month in which such Further Advance, Flexible Drawing, Product Switch or Substitute Loan, as applicable, has been made.

Valuation Report means the valuation report or reports for mortgage purposes obtained by the Seller from a valuer in respect of each relevant 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 automation valuation models and drive-by valuations.

(b) Flexible Drawings

Under the Mortgage Sale Agreement, the Issuer has agreed that the Seller or the Servicer may accept an application from a Borrower for a Flexible Drawing. If a Borrower requests, or the Seller or the Servicer (on behalf of the Seller) offers, a Flexible Drawing under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering, documenting and funding that Flexible Drawing. Any Flexible Drawing made to a Borrower shall be purchased by the Issuer on the date that the Flexible Drawing is made by the Seller to the relevant Borrower (the **Drawings Date**). A notice shall be given by the Seller to the Issuer in respect of a Flexible Drawing, promptly, but in any event no later than the date falling five Business Days following the Testing Date if it is determined that any of the Flexible Drawings Conditions are not satisfied as at the Testing Date (a **Notice of Non-Satisfaction of Flexible Drawings Conditions**).

A Notice of Non-Satisfaction of Flexible Drawings 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 **Flexible Drawings Conditions**) are not satisfied:

- (a) the Drawings 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 unsecured, unsubordinated and unguaranteed debt rating has fallen below P-2 by Moody's or the short-term IDR has fallen below F2 by Fitch (or such other lower short-term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (e) the purchase of the Flexible Drawing will not result in the aggregate principal balance outstanding of all Flexible Drawings purchased by the Issuer exceeding 5% 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 3% of the aggregate Current Balance of the Loans comprising the Portfolio;
- (g) each Loan and its Related Security which is the subject of the Flexible Drawing complies, as at the Drawings Date, with the representations contained in the Mortgage Sale Agreement required to be given on each Drawings Date;
- (h) the Class A Principal Deficiency Sub-Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (i) the original weighted average LTV ratio (calculated as the ratio of X to Y) does not exceed 77.5% where:
 - X is the aggregate sum of (a) multiplied by (b) for each of the Loans in the Portfolio where:
 - (a) is the original LTV ratio calculated by dividing debt previously advanced (including any Flexible Drawing made) by the Original Valuation of a Loan in the Portfolio; and
 - (b) is the Current Balance of such Loan in the portfolio;

- Y is the aggregate Current Balances of all the Loans in the Portfolio;
- (j) the current LTV ratio (as measured by the Current Balance of such Loan plus the relevant Flexible Drawing divided by the latest valuation) is less than 90%;
 - (k) the outstanding Current Balance of any Loans in the Portfolio (including any Flexible Drawings) with an interest only part does not exceed 30% of the aggregate Current Balance of the Loans in the Portfolio; and
 - (l) each Fixed Rate Loan which is the subject of a Flexible Drawing will be included in the calculation of the notional amount in respect of the Interest Rate Swap Transaction in respect of the calculation period for the Interest Rate Swap Transaction which begins in the calendar month immediately following the calendar month in which such Flexible Drawing is made.

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

The Seller must, in relation to the Loan which is subject to the Flexible Drawing, give the representations and warranties in respect of Flexible Drawings set out in the Mortgage Sale Agreement as at the Testing Date. If no Notice of Non-Satisfaction of Flexible Drawings Conditions has been given by the Seller to the Issuer, or has been so given and subsequently revoked by the Seller, then the Issuer must pay the Flexible Drawings Purchase Price to the Seller on or prior to the last day of the calendar month following the month in which the relevant Drawings Date falls to the extent that the Issuer has sufficient Principal Receipts. The purchase price for the relevant Flexible Drawing shall be an amount equal to the Current Balance of the Flexible Drawing (the **Flexible Drawings Purchase Price**) and will be paid from Principal Receipts.

If there are insufficient amounts available to the Issuer to pay the Flexible Drawings Purchase Price on the relevant date, then the Seller must repurchase the relevant Loan and its Related Security from the Issuer on or prior to the last day of the calendar month following the month in which the relevant Drawings Date falls. If a Notice of Non-Satisfaction of Flexible Drawings Conditions is served in respect of the Loan subject to such Flexible Drawing, then the Seller will have an obligation to remedy such breach within 30 days after receiving such Notice of Non-Satisfaction of Flexible Drawings Conditions. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 30 day period, the Issuer will serve a repurchase notice on the Seller. The Seller must then repurchase the Loan within 30 days of receipt of such repurchase notice (or such other date as the Issuer may direct in the repurchase notice, provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such repurchase 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) excluding the amount of the Flexible Drawing which has not yet been paid for by the Issuer subject to repurchase.

Neither the Seller nor the Servicer (as applicable) shall be permitted to issue any offer for a Flexible Drawing 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:

Flexible Drawing means any further drawing of monies made by a Borrower under a Flexible Loan other than the Initial Advance (but including any Capitalised Interest).

Flexible Loan means a type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or take a Payment Holiday.

Loan Account means as the context requires, either (i) all Loans secured on the same Property or (ii) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof.

Payment Holiday means a period during which a Borrower may suspend payments under a Loan where the Borrower is permitted under the relevant Mortgage Conditions to do so and will not therefore be in breach of the relevant Mortgage Conditions.

(c) Product Switches

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

- (a) any variation agreed with a Borrower to control or manage arrears on the Loan;
- (b) any variation in the maturity date of a Loan;
- (c) any variation imposed by statute or by regulation or any variation in the frequency with which the interest payable in respect of the Loan is charged;
- (d) any variation to the interest rate as a result of the Borrowers switching to a different rate other than where the Borrower is switching to another product;
- (e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan; or
- (f) any change in the repayment method of the Loan (including from an Interest Only Loan to a Repayment Loan),

each a **Permitted Variation**.

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

If a Borrower requests, or the Seller or the Servicer (on behalf of the Seller) offers, a Product Switch under a Loan, the Seller or the Servicer (on behalf of the Seller) will be solely responsible for offering and documenting that Product Switch. Any Loan which has been subject to a Product Switch will remain in the Portfolio after the date that the Product Switch is made (the **Switch Date**). A notice shall be given by the Seller to the Issuer in respect of such Product Switch promptly, but in any event no later than the date falling five Business Days following the Testing Date, if any it is determined that of the Product Switch Conditions are not satisfied as at the Testing Date (a **Notice of Non-Satisfaction of Product Switch Conditions**).

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 unsecured, unsubordinated and unguaranteed debt rating has fallen below P-2 by Moody's or the short-term IDR has fallen below F2 by Fitch (or such other lower short-term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (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 3% 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 each Switch Date;
- (i) the Class A Principal Deficiency Sub-Ledger does not have a debit balance as at the most recent Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (j) the outstanding Current Balance of any Loans in the Portfolio (including any Product Switch) with an interest only part does not exceed 30% of the aggregate Current Balance of the Loans in the Portfolio; and
- (k) each Loan which is the subject of a Product Switch and as a result is subject to a fixed interest rate will be included in the calculation of the notional amount for the Interest Rate Swap Transaction in respect of the calculation period for the applicable Interest Rate Swap Transaction which begins in the calendar month immediately following the calendar month in which such Product Switch is made.

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

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 Testing Date.

If a Notice of Non-Satisfaction of Product Switch Conditions is served in respect of the Loan subject to such Product Switch, then the Seller will have an obligation to remedy such breach within 30 days after receiving such Notice of Non-Satisfaction of Product Switch Conditions. If such breach is not capable of remedy, or, if capable of remedy, is not remedied within the 30 day period, the Issuer will serve a repurchase notice on the Seller. The Seller must then repurchase the Loan within 30 days of receipt of such repurchase notice (or such other date as the Issuer may direct in the repurchase notice, provided that the date so specified by the Issuer shall not be later than 30 days after receipt by the Seller of such repurchase 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 Loans subject to repurchase.

Where in relation to a proposed Further Advance, Flexible Drawing or Product Switch, the Seller or the Servicer (on behalf of the Seller) proposes making a Further Advance, Flexible Drawing 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, (in the case of the Flexible Drawing) a Notice of Non-Satisfaction of Flexible Drawing 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 or the Flexible Drawing 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 or prior to the last day of the calendar month following the calendar month in which the Advance Date, Drawings 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 Testing Date following the relevant Advance Date, Drawings Date or Switch Date (as applicable). The Seller must pay to the Issuer the consideration for the relevant Loan and its Related Security which is the subject of a Further Advance, Flexible Drawing or a Product Switch (as applicable) on the last day of the calendar month following the calendar month in which such Further Advance, Flexible Drawing or Product Switch is made.

(d) Substitute Loans

The Seller may offer the Issuer (and the Issuer shall accept) a Substitute Loan as consideration for the repurchase of a Loan which was in breach of any representation or warranty or in respect of which an unrevoked Notice of Non-Satisfaction of Further Advance Conditions, unrevoked Notice of Non-Satisfaction of Flexible Drawings 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 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.

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 unsecured, unsubordinated and unguaranteed debt rating has fallen below P-2 by Moody's or the short-term IDR has fallen below F2 by Fitch (or such other lower short-term rating acceptable to the relevant Rating Agency) and remains below such ratings, the Seller has provided to the Issuer and the Trustee a valid solvency certificate signed by an authorised signatory of the Seller;
- (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 or placed in trust, as applicable, being an Excluded Loan; and
- (g) each Substitute Loan, which is subject to a fixed interest rate, will be included in the calculation of the notional amount in respect of the Interest Rate Swap Transaction in respect of the calculation period for the Interest Rate Swap Transaction which begins in the calendar month immediately following the calendar month in which such Substitute Loan is added to the Portfolio.

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

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

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

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

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

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

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

Governing Law

The Mortgage Sale Agreement and any non-contractual obligations arising out or in connection with the Mortgage Sale Agreement 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 £550,000,054 as at the Portfolio 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 Portfolio Cut-Off Date to (but excluding) the Closing Date such Loan is repaid in full or if such Loan does not or would not comply with the representations and warranties given by the Seller in the Mortgage Sale Agreement on the Closing Date. The Portfolio of £550,000,054 as at 31 January 2014 was determined on or prior to such date by the Seller in accordance with the procedures as described in "*Selection of the Portfolio*" above.

Further information in respect of individual loan level data may be obtained on the following website: <http://www.principality.co.uk/>. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

The Issuer makes no representation as to the accuracy of the information sourced from any third party websites (including, without limitation, cash flow models, commentary and other materials). Such third party websites and the contents thereof do not form part of this Prospectus.

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 Portfolio Cut-Off Date. Columns may not add up to the total due to rounding.

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

Total outstanding current balance	£550,000,054
Number of Loans	5,494
Number of Loan Parts	6,379
Average current borrower balance	£100,109
Weighted average original LTV	68.7%
Weighted average current LTV	65.1%
Weighted average current indexed LTV	61.8%
Weighted average current interest rate	3.84%
Weighted average current seasoning (months)	33.2
Weighted average remaining term (years)	18.6

The Portfolio Cut-Off Date is 31 January 2014 (as defined above) and is distinct from the Cut-Off Date which is 31 May 2014.

1. Current Balances as at the Portfolio Cut-Off Date

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

Loan Current Balance

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
<50,000	43,342,176	7.9%	1,410	25.7%
>=50,000 and <100,000	138,504,955	25.2%	1,877	34.2%
>=100,000 and <150,000	143,846,598	26.2%	1,170	21.3%
>=150,000 and <200,000	95,564,830	17.4%	558	10.2%
>=200,000 and <250,000	59,748,593	10.9%	271	4.9%
>=250,000 and <300,000	25,606,718	4.7%	94	1.7%
>=300,000 and <350,000	16,413,319	3.0%	51	0.9%
>=350,000 and <400,000	8,524,622	1.5%	23	0.4%
>=400,000.....	18,448,243	3.4%	40	0.7%
Total	550,000,054	100%	5,494	100%

Min: £8,393
Max: £741,418
Average: £100,109

Loan Original Balance

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
<50,000	23,118,524	4.2%	853	15.5%
>=50,000 and <100,000	128,704,888	23.4%	2,053	37.4%
>=100,000 and <150,000	147,473,617	26.8%	1,333	24.3%
>=150,000 and <200,000	109,203,898	19.9%	694	12.6%
>=200,000 and <250,000	64,400,825	11.7%	310	5.6%
>=250,000 and <300,000	28,021,361	5.1%	112	2.0%
>=300,000 and <350,000	18,724,854	3.4%	63	1.1%
>=350,000 and <400,000	8,401,478	1.5%	26	0.5%
>=400,000.....	21,950,610	4.0%	50	0.9%
Total	550,000,054	100%	5,494	100%

Min: £10,154
Max: £1,000,000
Average: £111,750

2. Loan-to-Value Ratios as at the Portfolio 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 Portfolio 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 (see "The Loans – Lending Criteria – Valuations" for more information). For the avoidance of doubt, there have been no revaluations for the purposes of the issuance of the Notes and the Original Valuation is the valuation quoted as at the date of the origination of the Loan.

Current LTV

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
<50	103,019,261	18.7%	1,919	34.9%
>=50 and <60	54,937,381	10.0%	551	10.0%
>=60 and <70	100,579,380	18.3%	873	15.9%
>=70 and <80	188,912,805	34.3%	1,357	24.7%
>=80 and <85	82,236,794	15.0%	619	11.3%
>=85 and <=90.....	20,314,433	3.7%	175	3.2%
Total	550,000,054	100%	5,494	100%

Min: 1.7%

Max: 90.0%

Weighted average: 65.1%

Current LTV (Indexed)

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
< 50	128,464,343	23.4%	2,154	39.2%
>=50 and <60	77,301,017	14.1%	644	11.7%
>=60 and <70	129,218,666	23.5%	1,008	18.3%
>=70 and <80	134,411,476	24.4%	1,037	18.9%
>=80 and <85	48,902,795	8.9%	387	7.0%
>=85 and <=90	31,701,757	5.8%	264	4.8%
Total	550,000,054	100.0%	5,494	100.0%

Min:1.4%

Max: 90.0%

Weighted Average: 61.8%

Original LTV

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
<50	75,128,377	13.7%	1,365	24.8%
>=50 and <60	48,498,877	8.8%	544	9.9%
>=60 and <70	72,253,952	13.1%	698	12.7%
>=70 and <80	213,791,414	38.9%	1,659	30.2%
>=80 and <85	35,877,197	6.5%	322	5.9%
>=85 and <=90.....	104,450,237	19.0%	906	16.5%
Total	550,000,054	100%	5,494	100%

Min: 3.0%

Max: 90.0%

Weighted Average: 68.7%

3. Repayment Type

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts
Interest Only	98,597,141	17.9%	929	14.6%
Part & Part	24,751,119	4.5%	258	4.0%
Repayment	426,651,793	77.6%	5,192	81.4%
Total	550,000,054	100%	6,379	100%

4. Months in Arrears

The following table shows the months in arrears of Loans in the Provisional Portfolio as at the Portfolio Cut-Off Date.

Months in Arrears

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
0	550,000,054	100.0%	5,494	100.0%
Total	550,000,054	100.0%	5,494	100.0%

5. Geographical Distribution of Properties

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
East Midlands	37,068,587	6.7%	374	6.8%
East of England	44,303,606	8.1%	314	5.7%
Greater London	23,932,344	4.4%	121	2.2%
North East England	14,437,032	2.6%	173	3.1%
North West England	74,410,556	13.5%	785	14.3%
South East England	69,643,854	12.7%	449	8.2%
South West England	57,535,339	10.5%	458	8.3%
Wales	164,125,351	29.8%	2,173	39.6%
West Midlands	35,462,410	6.4%	332	6.0%
Yorkshire and the Humber	29,080,975	5.3%	315	5.7%
Total	550,000,054	100%	5,494	100%

6. Interest Rate Type

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts
Discounted	103,827,516	18.9%	1,110	17.4%
Fixed Rate	330,153,524	60.0%	3,123	49.0%
Variable Rate	87,102,062	15.8%	1,834	28.8%
Tracker	28,916,951	5.3%	312	4.9%
Total	550,000,054	100%	6,379	100%

7. 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 Portfolio Cut-Off Date.

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts
<12	173,924,617	31.6%	1,453	22.8%
>=12 and <24	171,597,796	31.2%	1,535	24.1%
>=24 and <36	71,234,461	13.0%	734	11.5%
>=36 and <48	26,213,659	4.8%	316	5.0%
>=48 and <60	12,011,373	2.2%	181	2.8%
>=60 and <72	14,017,552	2.5%	185	2.9%
>=72 and <84	18,547,720	3.4%	309	4.8%
>=84 and <96	14,056,032	2.6%	299	4.7%
>=96 and <108	9,684,840	1.8%	210	3.3%
>=108 and <120	15,846,437	2.9%	392	6.1%
>=120 and <132	11,241,079	2.0%	358	5.6%
>=132 and <144	6,314,805	1.1%	211	3.3%
>=144 and <156	4,338,321	0.8%	163	2.6%
>=156	971,363	0.2%	33	0.5%
Total	550,000,054	100%	6,379	100%

Min: 6.0

Max: 161.7

Weighted Average: 33.2

8. Remaining Term

The following table shows the remaining term until the maturity of the Loans in the Provisional Portfolio.

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts
< 5	17,852,376	3.2%	536	8.4%
>=5 and <10	51,056,502	9.3%	1,081	16.9%
>=10 and <15	85,747,645	15.6%	1,334	20.9%
>=15 and <20	140,496,120	25.5%	1,406	22.0%
>=20 and <25	185,737,860	33.8%	1,478	23.2%
>=25 and <30	69,109,551	12.6%	544	8.5%
Total	550,000,054	100%	6,379	100%

Min: 0.0

Max: 29.6

Weighted Average: 18.6

9. Loan Purpose

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts
Purchase	273,776,358	49.8%	3,244	50.9%
Re-mortgage	276,223,696	50.2%	3,135	49.1%
Total	550,000,054	100%	6,379	100%

10. Interest Rate

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts
>=2.00% and <2.50%	22,029,008	4.0%	163	2.6%
>=2.50% and <3.00%	101,245,455	18.4%	934	14.6%
>=3.00% and <3.50%	109,767,127	20.0%	1,057	16.6%
>=3.50% and <4.00%	126,405,178	23.0%	1,284	20.1%
>=4.00% and <4.50%	59,786,184	10.9%	593	9.3%
>=4.50% and <5.00%	110,810,929	20.1%	2,108	33.0%
>=5.00% and <5.50%	10,461,051	1.9%	110	1.7%
>=5.50% and <6.00%	8,423,461	1.5%	113	1.8%
>=6.00% and <6.50%	1,071,660	0.2%	17	0.3%
Total	550,000,054	100%	6,379	100%

Min: 2.29%

Max: 6.45%

Weighted Average: 3.84%

11. Property Type

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loans	% of Total Loans
Detached	168,558,568	30.6%	1,256	22.9%
Flat	32,922,837	6.0%	309	5.6%
Maisonette	4,132,487	0.8%	34	0.6%
Semi-Detached.....	231,551,587	42.1%	2,416	44.0%
Terraced.....	89,151,545	16.2%	1,209	22.0%
Other	23,683,030	4.3%	270	4.9%
Total	550,000,054	100%	5,494	100%

12. Fixed Rate Loans

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Reversion Date
>=2.00% and <2.50%	12,700,511	3.8%	71	2.3%	26-Feb-16
>=2.50% and <3.00%	81,651,121	24.7%	701	22.4%	14-Aug-16

>=3.00% and <3.50%	94,180,918	28.5%	853	27.3%	12-Nov-16
>=3.50% and <4.00%	68,462,355	20.7%	644	20.6%	24-Jun-16
>=4.00% and <4.50%	35,087,689	10.6%	390	12.5%	09-Dec-15
>=4.50% and <5.00%	19,672,432	6.0%	237	7.6%	09-Jul-15
>=5.00% and <5.50%	8,986,631	2.7%	98	3.1%	22-Feb-15
>=5.50% and <6.00%	8,340,207	2.5%	112	3.6%	13-Jun-15
>=6.00% and <6.50%	1,071,660	0.3%	17	0.5%	01-Oct-16
Total	330,153,524	100%	3,123	100%	

The following table shows the years in which the Fixed Rate Loans in the Provisional Portfolio revert to Variable Rate Loans. Fixed Rate Loans that do not revert are categorised by their Maturity Date,

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Interest Rate
2014	52,146,016	15.8%	555	17.8%	4.32%
2015	85,709,442	26.0%	804	25.7%	3.59%
2016	86,731,879	26.3%	814	26.1%	3.22%
2017	59,389,799	18.0%	567	18.2%	3.59%
2018	45,834,008	13.9%	379	12.1%	3.44%
2019	288,529	0.1%	3	0.1%	5.28%
2020	53,851	0.0%	1	0.0%	5.59%
>2020	0	0.0%	0	0.0%	-
Total	330,153,524	100%	3,123	100%	

13. Variable Rate Loans

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Reversion Date
>=2.00% and <2.50%	0	0.0%	0	0.0%	-
>=2.50% and <3.00%	0	0.0%	0	0.0%	-
>=3.00% and <3.50%	0	0.0%	0	0.0%	-
>=3.50% and <4.00%	0	0.0%	0	0.0%	-
>=4.00% and <4.50%	0	0.0%	0	0.0%	-
>=4.50% and <5.00%	87,018,808	99.9%	1,833	99.9%	22-May-28
>=5.00% and <5.50%	0	0.0%	0	0.0%	-
>=5.50% and <6.00%	83,254	0.1%	1	0.1%	25-Oct-31
>=6.00% and <6.50%	0	0.0%	0	0.0%	-
Total	87,102,062	100%	1,834	100%	

14. Tracker Loans

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Reversion Date
>=2.00% and <2.50%	9,017,568	31.2%	84	26.9%	25-Jul-15
>=2.50% and <3.00%	6,051,026	20.9%	85	27.2%	13-Mar-15
>=3.00% and <3.50%	3,479,046	12.0%	39	12.5%	12-Jul-14

>=3.50% and <4.00%	4,950,080	17.1%	50	16.0%	22-Jun-14
>=4.00% and <4.50%	3,062,253	10.6%	35	11.2%	01-Aug-14
>=4.50% and <5.00%	882,558	3.1%	7	2.2%	22-Jul-14
>=5.00% and <5.50%	1,474,420	5.1%	12	3.8%	31-Dec-14
>=5.50% and <6.00%	0	0.0%	0	0.0%	-
>=6.00% and <6.50%	0	0.0%	0	0.0%	-
Total	28,916,951	100%	312	100%	

The following table shows the years in which the Tracker Loans in the Provisional Portfolio revert to Variable Rate Loans.

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Interest Rate
2014	18,612,904	64.4%	190	60.9%	3.69%
2015	10,148,888	35.1%	120	38.5%	2.50%
2016	155,159	0.5%	2	0.6%	2.47%
2017	0	0.0%	0	0.0%	-
2018	0	0.0%	0	0.0%	-
2019	0	0.0%	0	0.0%	-
2020	0	0.0%	0	0.0%	-
>2020	0	0.0%	0	0.0%	-
Total	28,916,951	100%	312	100%	

15. Discounted Loans

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

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Reversion Date
>=2.00% and <2.50%	310,929	0.3%	8	0.7%	30-Dec-15
>=2.50% and <3.00%	13,543,308	13.0%	148	13.3%	12-Oct-15
>=3.00% and <3.50%	12,107,163	11.7%	165	14.9%	26-Mar-15
>=3.50% and <4.00%	52,992,742	51.0%	590	53.2%	09-Mar-15
>=4.00% and <4.50%	21,636,242	20.8%	168	15.1%	02-Oct-14
>=4.50% and <5.00%	3,237,131	3.1%	31	2.8%	04-Nov-14
>=5.00% and <5.50%	0	0.0%	0	0.0%	-
>=5.50% and <6.00%	0	0.0%	0	0.0%	-
>=6.00% and <6.50%	0	0.0%	0	0.0%	-
Total	103,827,516	100%	1,110	100%	

The following table shows the years in which the Discounted Loans in the Provisional Portfolio revert to Variable Rate Loans. Discounted Loans that do not revert are categorised by the Maturity Date.

	Aggregate Current Balance (£)	% of Total Balance	Number of Loan Parts	% of Total Loan Parts	WA Interest Rate
2014	55,827,033	53.8%	585	52.7%	4.00%
2015	39,142,013	37.7%	406	36.6%	3.70%
2016	8,147,777	7.8%	68	6.1%	3.22%
2017	27,117	0.0%	3	0.3%	3.99%
2018	20,885	0.0%	3	0.3%	3.99%
2019	39,771	0.0%	5	0.5%	3.99%
2020	0	0.0%	0	0.0%	-

>2020	<u>622,921</u>	<u>0.6%</u>	<u>40</u>	<u>3.6%</u>	<u>3.99%</u>
Total	<u><u>103,827,516</u></u>	<u><u>100%</u></u>	<u><u>1,110</u></u>	<u><u>100%</u></u>	

**HISTORICAL AMORTISATION RATES OF PRINCIPALITY BUILDING SOCIETY PRIME
MORTGAGE LOANS**

Month	Average of Monthly Amortisation Rate (Annualised) (Per Cent.)	Year	Average of Monthly Amortisation Rate (Annualised) Over Year (Per Cent.)
Jan 06	16.2%		
Feb 06	20.2%		
Mar 06	18.8%		
Apr 06	21.7%		
May 06	23.7%		
Jun 06	21.4%		
Jul 06	24.3%		
Aug 06	23.1%		
Sep 06	23.9%		
Oct 06	26.0%		
Nov 06	27.5%		
Dec 06	30.4%	2006	23.1%
Jan 07	19.8%		
Feb 07	25.0%		
Mar 07	22.3%		
Apr 07	24.6%		
May 07	22.5%		
Jun 07	23.1%		
Jul 07	27.2%		
Aug 07	22.4%		
Sep 07	21.5%		
Oct 07	27.5%		
Nov 07	20.1%		
Dec 07	16.5%	2007	22.7%
Jan 08	11.5%		
Feb 08	19.1%		
Mar 08	15.7%		
Apr 08	16.4%		
May 08	14.1%		
Jun 08	17.4%		
Jul 08	21.3%		
Aug 08	13.5%		
Sep 08	12.7%		
Oct 08	14.7%		
Nov 08	13.1%		
Dec 08	15.9%	2008	15.5%
Jan 09	10.2%		
Feb 09	15.6%		
Mar 09	13.2%		
Apr 09	12.6%		
May 09	12.8%		
Jun 09	13.5%		
Jul 09	16.7%		
Aug 09	15.0%		
Sep 09	14.2%		
Oct 09	19.6%		
Nov 09	18.8%		
Dec 09	23.9%	2009	15.5%
Jan 10	15.5%		
Feb 10	19.5%		
Mar 10	17.8%		
Apr 10	17.6%		
May 10	13.6%		
Jun 10	15.1%		
Jul 10	13.9%		
Aug 10	14.7%		

Month	Average of Monthly Amortisation Rate (Annualised) (Per Cent.)	Year	Average of Monthly Amortisation Rate (Annualised) Over Year (Per Cent.)
Sep 10	12.6%		
Oct 10	14.9%		
Nov 10	14.9%		
Dec 10	14.8%	2010	15.4%
Jan 11	11.2%		
Feb 11	14.5%		
Mar 11	13.7%		
Apr 11	13.7%		
May 11	14.0%		
Jun 11	14.2%		
Jul 11	12.4%		
Aug 11	12.7%		
Sep 11	12.1%		
Oct 11	11.9%		
Nov 11	13.7%		
Dec 11	12.3%	2011	13.0%
Jan 12	12.4%		
Feb 12	13.7%		
Mar 12	11.4%		
Apr 12	16.1%		
May 12	13.7%		
June 12	15.1%		
July 12	15.6%		
Aug 12	13.7%		
Sep 12	12.8%		
Oct 12	14.8%		
Nov 12	13.6%		
Dec 12	13.7%	2012	13.9%
Jan 13	14.2%		
Feb 13	14.1%		
Mar 13	10.9%		
Apr 13	19.0%		
May 13	18.7%		
June 13	16.0%		
July 13	16.1%		
Aug 13	15.8%		
Sep 13	13.4%		
Oct 13	20.9%		
Nov 13	14.5%		
Dec 13	12.8%	2013	15.5%

Note: the monthly amortisation rate above has been calculated by the following formula $1 - (1 - D)^{(365 / \text{number of days in the month})}$ where $D = (A - (B - C)) / A$ where A = Seller prime mortgage balance at previous month end. B = Seller prime mortgage balance at relevant month end and C = volume of new Seller prime mortgage originations (including Additional Loan Advances).

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
March 2014	13.04	13.53			

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	Year	House Price to Earnings Ratio
1985.....	4.41	1995.....	4.47	2005.....	8.31
1986.....	4.64	1996.....	4.51	2006.....	8.24
1987.....	4.98	1997.....	4.77	2007.....	8.83
1988.....	5.73	1998.....	5.11	2008.....	8.54
1989.....	6.36	1999.....	5.37	2009.....	7.79
1990.....	5.72	2000.....	6.14	2010.....	8.26
1991.....	5.27	2001.....	6.27	2011.....	8.35
1992.....	4.85	2002.....	7.11	2012.....	8.83
1993.....	4.59	2003.....	7.66	2013.....	9.12
1994.....	4.55	2004.....	8.15		

Source: Council of Mortgage Lenders

HOUSE PRICE INDEX

UK residential property prices are based on data from the Land Registry that incorporates property data for England and Wales (the **Housing Index**).

The UK housing market has been through various economic cycles in the recent past, with large year-to-year increases in the Housing Index occurring from the mid-1990s through to early 2008 and decreases occurring since then until mid-2009, following which the Housing Index has fluctuated.

Month	Land Registry Index	
	Index	% annual change
February 1995	67.7	0.0
March 1995	67.5	0.0
April 1995	67.3	0.0
May 1995	67.4	0.0
June 1995	67.2	0.0
July 1995	67.4	0.0
August 1995	67.4	0.0
September 1995	67.5	0.0
October 1995	67.4	0.0
November 1995	67.5	0.0
December 1995	67.6	0.0
January 1996	67.6	-0.7
February 1996	67.6	-0.1
March 1996	67.8	0.5
April 1996	68.1	1.1
May 1996	68.6	1.8
June 1996	68.9	2.6
July 1996	69.5	3.2
August 1996	70.1	4.0
September 1996	70.7	4.8
October 1996	71.1	5.5
November 1996	71.6	6.0
December 1996	72.2	6.8
January 1997	72.7	7.5
February 1997	73.2	8.3
March 1997	73.6	8.5
April 1997	74.3	9.1
May 1997	75.1	9.6
June 1997	75.8	10.0

	Land Registry Index	
Month	Index	% annual change
July 1997	76.3	9.7
August 1997	77.0	9.9
September 1997	77.7	9.9
October 1997	78.6	10.5
November 1997	79.2	10.7
December 1997	80.0	10.7
January 1998	80.4	10.7
February 1998	81.1	10.9
March 1998	81.7	11.1
April 1998	82.5	11.1
May 1998	83.0	10.5
June 1998	83.4	9.9
July 1998	83.7	9.8
August 1998	84.1	9.2
September 1998	84.5	8.7
October 1998	84.7	7.8
November 1998	85.0	7.3
December 1998	85.4	6.7
January 1999	85.9	6.7
February 1999	86.9	7.1
March 1999	87.8	7.4
April 1999	88.7	7.5
May 1999	89.7	8.0
June 1999	90.7	8.8
July 1999	91.9	9.8
August 1999	93.5	11.2
September 1999	95.1	12.6
October 1999	96.6	14.0
November 1999	97.6	14.8
December 1999	98.9	15.9
January 2000	100.0	16.4
February 2000	101.9	17.3
March 2000	103.5	17.8
April 2000	105.1	18.5
May 2000	105.9	18.1
June 2000	106.9	17.9

Month	Land Registry Index	
	Index	% annual change
July 2000	107.8	17.3
August 2000	108.6	16.2
September 2000	109.4	15.0
October 2000	110.2	14.1
November 2000	110.9	13.6
December 2000	111.7	12.9
January 2001	112.4	12.4
February 2001	113.4	11.3
March 2001	114.4	10.6
April 2001	115.6	10.0
May 2001	116.9	10.4
June 2001	118.0	10.4
July 2001	119.2	10.6
August 2001	120.4	10.8
September 2001	121.4	11.0
October 2001	122.1	10.8
November 2001	123.3	11.3
December 2001	124.7	11.6
January 2002	126.5	12.6
February 2002	128.2	13.1
March 2002	130.3	13.9
April 2002	132.6	14.7
May 2002	135.1	15.6
June 2002	137.7	16.7
July 2002	140.5	17.9
August 2002	143.0	18.9
September 2002	145.7	20.0
October 2002	148.2	21.3
November 2002	150.4	21.9
December 2002	152.8	22.5
January 2003	154.9	22.5
February 2003	156.7	22.2
March 2003	158.1	21.3
April 2003	159.5	20.3
May 2003	160.6	18.9
June 2003	161.6	17.3

	Land Registry Index	
Month	Index	% annual change
July 2003	162.4	15.6
August 2003	164.0	14.7
September 2003	165.7	13.7
October 2003	167.9	13.3
November 2003	170.0	13.1
December 2003	171.8	12.5
January 2004	173.6	12.1
February 2004	175.6	12.1
March 2004	178.0	12.6
April 2004	180.1	12.9
May 2004	182.5	13.4
June 2004	184.5	14.0
July 2004	186.6	14.5
August 2004	188.6	14.6
September 2004	190.3	14.4
October 2004	192.0	13.9
November 2004	193.0	13.1
December 2004	193.9	12.5
January 2005	194.6	11.7
February 2005	195.7	11.1
March 2005	195.7	9.5
April 2005	195.8	8.3
May 2005	195.2	6.7
June 2005	195.8	5.9
July 2005	195.9	4.8
August 2005	196.2	3.8
September 2005	196.7	3.3
October 2005	197.9	3.0
November 2005	198.9	2.9
December 2005	200.6	3.3
January 2006	201.7	3.5
February 2006	203.4	3.8
March 2006	204.5	4.4
April 2006	205.9	5.1
May 2006	206.8	6.0
June 2006	207.5	6.0

	Land Registry Index	
Month	Index	% annual change
July 2006	208.4	6.5
August 2006	209.6	6.9
September 2006	211.4	7.5
October 2006	213.4	7.9
November 2006	215.1	8.3
December 2006	217.5	8.6
January 2007	219.5	9.1
February 2007	222.2	9.5
March 2007	223.7	9.7
April 2007	225.6	9.8
May 2007	226.9	10.0
June 2007	228.8	10.6
July 2007	229.7	10.6
August 2007	231.6	10.9
September 2007	233.4	10.8
October 2007	234.7	10.3
November 2007	234.3	9.2
December 2007	234.6	8.1
January 2008	235.1	7.4
February 2008	236.0	6.5
March 2008	235.4	5.5
April 2008	235.0	4.3
May 2008	233.6	3.1
June 2008	231.7	1.4
July 2008	228.3	-0.4
August 2008	225.2	-2.6
September 2008	221.5	-5.0
October 2008	217.5	-7.3
November 2008	212.8	-9.3
December 2008	209.3	-10.8
January 2009	207.7	-11.8
February 2009	206.2	-12.7
March 2009	204.6	-13.3
April 2009	203.9	-13.4
May 2009	204.6	-12.6
June 2009	206.2	-11.1

Month	Land Registry Index	
	Index	% annual change
July 2009	207.9	-9.1
August 2009	210.2	-6.8
September 2009	213.1	-3.8
October 2009	215.5	-0.8
November 2009	216.2	1.8
December 2009	220.4	5.6
January 2010	223.9	8.1
February 2010	227.5	10.6
March 2010	226.2	10.9
April 2010	225.4	11.0
May 2010	225.6	10.7
June 2010	226.5	10.3
July 2010	227.2	9.8
August 2010	228.0	8.9
September 2010	227.9	7.3
October 2010	227.1	5.6
November 2010	225.6	4.6
December 2010	225.6	2.6
January 2011	226.2	1.3
February 2011	228.0	0.5
March 2011	228.5	1.5
April 2011	226.2	0.7
May 2011	223.1	-0.9
June 2011	221.4	-2.2
July 2011	222.8	-1.9
August 2011	224.5	-1.4
September 2011	224.5	-1.3
October 2011	224.8	-0.8
November 2011	223.6	-0.8
December 2011	223.8	-0.8
January 2012	224.6	-0.7
February 2012	225.5	-1.3
March 2012	227.5	-0.6
April 2012	228.6	1.1
May 2012	231.1	3.9
June 2012	231.3	4.8

Month	Land Registry Index	
	Index	% annual change
July 2012	231.3	4.1
August 2012	230.6	2.9
September 2012	231.1	3.1
October 2012	231.5	3.0
November 2012	231.7	3.8
December 2012	232.3	4.1
January 2013	233.3	4.3
February 2013	235.2	4.8
March 2013	236.3	4.3
April 2013	236.9	3.9
May 2013	236.8	2.6
June 2013	237.0	2.6
July 2013	237.9	3.0
August 2013	239.5	4.1
September 2013	240.8	4.4
October 2013	242.1	5.0
November 2013	242.9	5.2
December 2013	244.1	5.9
January 2014	247.2	6.7
February 2014	249.9	6.9
March 2014	251.4	7.0
April 2014	252.5	7.3

Source: CML Research (Acadametrics)

All percentage numbers appearing in brackets represent a negative percentage movement.

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THE SERVICER

THE SERVICER

Under the Servicing Agreement, Principality will be appointed as the Servicer of the Loans together with their Related Security.

This section describes Principality's servicing procedures based on the current Principality mortgage servicing policies. Principality will service 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 Servicing Agreement. For a description of the Servicer's obligations under the Servicing Agreement, see "*The Servicing Agreement*".

Upon the replacement of Principality by the Back-Up Servicer pursuant to the terms of the Back-Up Servicing Agreement, the Back-Up Servicer will service the Loans and their Related Security in the Portfolio in accordance with Principality's policies applicable from time to time, subject to the terms of the Replacement Servicing Agreement.

SERVICING PROCEDURES

Servicing procedures include:

- managing of Mortgage Accounts in arrears;
- issuing redemption statements, processing lump sum payments and early redemption fees;
- collecting and distributing title deeds and any supporting documents as well as storage of deeds;
- processing transfers of titles, notices of death, forfeitures of leases, sale and exchange of land, account conversions, term amendments, deed amendments, compensation and enforcement notices;
- dealing with all types of transactions posting and refunding fees, setting up direct debits, payment date changes and Payment Holidays;
- dealing with all customer correspondence on other aspects of mortgage loans once the Loan is drawn down, including changes in customer details and changes on the mortgage loan, 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.

Collections

Payments by Borrowers in respect of amounts due under the Loans will be paid to the Seller. Amounts received by the Seller in respect of the Loans from (and including) the Cut-Off 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 into the Transaction Account by the next Business Day after that Daily Loan Amount is identified as received by the Seller or, in respect of the period from and including the Cut-Off Date to and including the Closing Date on the next Business Day after the Closing 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 Servicer 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 Servicer – Servicing 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 Servicer. 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 workplace;
- (b) should such telephone contact prove unsuccessful or details be unavailable, the Borrower is contacted by letter;
- (c) automated arrears letters are issued provided arrears remain outstanding two days after the "profile date" and no diary notes have been set or other automated letters issued within the last 14 days; and
- (d) if no proactive contact or agreement has been achieved after two months, a field agent is instructed to visit the Borrower to attempt resolution.

Arrangement Management

At this stage:

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

Serious Arrears and litigation

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

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

Back-Up Servicer

On the Closing Date, the Issuer will appoint the Back-Up Servicer to perform back-up services pursuant to a back-up servicing agreement between, *inter alios*, the Issuer, the Servicer and the Back-Up Servicer dated on or prior to the Closing Date (the **Back-Up Servicing Agreement**). Within 60 days of the Closing Date (the **Initial Period**), the Back-Up Servicer undertakes to collect (and the Servicer 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 Servicer has agreed to perform certain servicing duties, which include (but are not limited to):

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

- (b) running a data mapping process to update the conversion report, loading the portfolio on to the Back-Up Servicer's system, creating a pool tape extract and reconciling the pool tape extract to the Back-Up Servicer's pool tape; and
- (c) delivering reports to the Issuer confirming the satisfactory load of the Portfolio data onto the Back-Up Servicer's system.

Upon the termination of the appointment of the Servicer under the Servicing Agreement, the Back-Up Servicer will, within 60 days of receiving notice of the same, replace the Servicer on terms substantially similar to those set out in the Servicing Agreement.

THE SERVICING AGREEMENT

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

Introduction

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

On the Closing Date, Principality (in such capacity, the **Servicer**) will be appointed by the Issuer under the Servicing 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 Servicer 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 Servicing Agreement. The Servicer will be required to administer the Loans and their Related Security in the following manner:

- (a) in accordance with the Servicing 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 servicing and enforcement policies as they apply to the Loans from time to time.

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

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

Powers

Subject to the guidelines for servicing set forth above, each Servicer 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 servicing of the Loans and their Related Security or the exercise of such rights, powers and discretions.

Undertakings by the Servicer

The Servicer 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 servicing and enforcement policies as they apply to the Loans from time to time;
- (b) provide the services to be undertaken by it under the Servicing 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 Servicing Agreement;
- (d) maintain all approvals, authorisations, permissions, consents and licenses required for itself in connection with the performance of its duties under the Servicing 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 Servicing 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 Servicing Agreement;
- (f) not knowingly fail to comply with any legal requirements in the performance of its duties under the Servicing Agreement;
- (g) make all payments required to be made by it pursuant to the Servicing 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 Servicer

The Servicer will receive a servicing fee for servicing the Loans. The Issuer will pay the Servicer its servicing fee (inclusive of any applicable VAT) of £1,200 per annum (or such other amount as may be agreed between the Issuer and the Servicer). The servicing fees are payable quarterly in arrear on each Interest Payment Date only to the extent that the Issuer has sufficient funds in accordance with the Pre-Enforcement Revenue Priority of Payments to pay them. Any unpaid balance will be carried forward until the next Interest Payment Date and, if not paid earlier, will be payable in full on the Final Maturity Date or on any earlier date on which an Enforcement Notice is served by the Trustee on the Issuer.

Removal or Resignation of a Servicer

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) the Issuer shall at once, upon written notice to the Servicer, terminate the Servicer's rights and obligations on the date specified in the notice if any of the following events (each a **Servicer Termination Event**) occurs:

- (a) the Servicer defaults in the payment of any amount due under the Servicing 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 Servicer fails to comply with any of its other covenants or obligations under the Servicing 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) a Servicer Insolvency Event occurs in relation to the relevant Servicer. (In this context where the Seller is the Servicer, **Servicer Insolvency Event** has the same meaning as Seller Insolvency

Event (as defined in "*The Portfolio – Sale of the Portfolio under the Mortgage Sale Agreement*") above but any reference to the Seller shall be deemed to be replaced with a reference to the relevant Servicer.

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), a Servicer may voluntarily resign by giving not less than 12 months' notice to the Issuer and the Trustee. The substitute servicer is required to have experience of servicing mortgage loans in the United Kingdom and to enter into a servicing agreement with the Issuer and the Trustee substantially on the same terms as the relevant provisions of the Servicing Agreement.

If the appointment of the Servicer is terminated, the Servicer 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 servicer is appointed following the occurrence of a Servicer Termination Event, or the voluntary resignation by the Servicer, the Issuer's costs and expenses associated with the transfer of servicing to the substitute servicer (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 servicing fee payable to a substitute servicer will be agreed by the Issuer and the substitute servicer prior to its appointment.

Right of Delegation by a Servicer

The Servicer may subcontract or delegate the performance of its duties under the Servicing 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 monies belonging to the Issuer which are to be paid into the Transaction Account, the subcontractor or delegate has executed a declaration that any such monies are held on trust for the Issuer and will be paid forthwith into the Transaction Account in accordance with the terms of the Servicing 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 Servicer.

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

Liability of the Servicer

The Servicer 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 Servicer in carrying out its functions as servicer under the Servicing Agreement or any other

Transaction Document to which it is party or as a result of a breach by the Servicer of the terms of the Servicing Agreement or the other Transaction Documents to which it is party (in such capacity).

Obligation of the Servicer to appoint a replacement back-up servicer

On the occurrence of an Insolvency Event in respect of the Back-Up Servicer and if the Back-Up Servicer's appointment has been terminated and no new back-up servicer has been appointed, the Issuer (with the assistance of the Back-Up Servicer Facilitator) will require the Servicer to use its best efforts to appoint a back-up servicer acceptable to the Trustee on terms substantially the same as those set out in the Servicing Agreement.

Governing law

The Servicing Agreement and any non-contractual obligations arising out of or in connection with the Servicing Agreement are governed by English law.

INTEREST RATE SWAP PROVIDER

Barclays Bank PLC (Bank) is a public limited company registered in England and Wales under number 1026167. The liability of the members of Barclays Bank PLC is limited. It has its registered head office at 1 Churchill Place, London, E14 5HP, United Kingdom (telephone number +44 (0)20 7116 1000). Barclays Bank PLC was incorporated on 7 August 1925 under the Colonial Bank Act 1925 and on 4 October 1971 was registered as a company limited by shares under the Companies Acts 1948 to 1967. Pursuant to The Barclays Bank Act 1984, on 1 January 1985, Barclays Bank was re-registered as a public limited company and its name was changed from 'Barclays Bank International Limited' to 'Barclays Bank PLC'.

Barclays Bank PLC (together with its subsidiary undertakings (Bank Group)) is a major global financial services provider engaged in retail and commercial banking, credit cards, investment banking, wealth management and investment management services. The whole of the issued ordinary share capital of Barclays Bank PLC is beneficially owned by Barclays PLC. Barclays PLC (together with its subsidiary undertakings (Group)) is the ultimate holding company of the Group.

The short term unsecured obligations of Barclays Bank PLC are rated A-1 by Standard & Poor's Credit Market Services Europe Limited, P-1 by Moody's Investors Service Ltd. and F1 by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated A by Standard & Poor's Credit Market Services Europe Limited, A2 by Moody's Investors Service Ltd. and A by Fitch Ratings Limited.

Based on the Bank Group's audited financial information for the year ended 31 December 2013, the Bank Group had total assets of £1,312,840m (2012: £1,488,761m), total net loans and advances¹ of £468,664m (2012: £464,777m), total deposits² of £482,770m (2012: £ 462,512m), and total shareholders' equity of £63,220m (2012: £59,923m) (including non-controlling interests of £2,211m (2012: £2,856m)). The profit before tax from continuing operations of the Bank Group for the year ended 31 December 2013 was £2,855m (2012: £650m) after credit impairment charges and other provisions of £3,071m (2012: £3,340m). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Bank for the year ended 31 December 2013.

¹ Total net loans and advances include balances relating to both bank and customer accounts.

² Total deposits include deposits from bank and customer accounts.

BACK-UP SERVICER

Homeloan Management Limited (**HML**) is a private limited company registered in England and Wales under number 2214839. HML (a wholly-owned subsidiary of Skipton Building Society, which is itself regulated by the FCA) has been appointed as the Back-Up Servicer pursuant to the Back-Up Servicing Agreement and pursuant to which HML is responsible for the provision of certain mortgage settlement and related administration services.

HML is the largest third party residential mortgage servicer in the United Kingdom. HML is currently servicing over £36 billion of mortgage assets for over 30 leading financial institutions.

The registered office and principal place of business of HML are The Bailey, Skipton, North Yorkshire BD23 1DN and Gateway House, Gargrave Road, Skipton, North Yorkshire BD23 2HL respectively. HML has a residential primary servicer rating of RPS1- by Fitch Ratings Limited and S&P's Primary Servicer rating of Above Average with a Positive Outlook.

BACK-UP CASH MANAGER

Virtus Group LP (**Virtus**) is a limited partnership incorporated under the laws of Texas and having its operating office at 25 Canada Square, Level 33, London E14 5LQ.

Virtus provides fixed-income collateral administration services and data on structured and non-structured transactions across a broad spectrum of investment vehicles.

Established in 2005 and now with offices in Houston, Austin, London, New York and Shanghai, Virtus is one of the industry's leading Collateral Administrators. Virtus administers total assets under administration over US\$150bn billion across 200 portfolios and 75 managers.

ACCOUNT BANK AND SWAP COLLATERAL ACCOUNT BANK

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, Asia, North and Latin America, and the Middle East and North Africa. Its total assets at 31 March 2014 were U.S. \$2,758 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.

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 the Principal Deficiency Ledger (firstly to the Class B Principal Deficiency Sub-Ledger and secondly to the Class A Principal Deficiency Sub-Ledger).
- the Transaction Account earns interest at a specified 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. Repayment of the Subordinated Loan is subordinated to payments on the Notes.
- the Issuer will enter into the Interest Rate Swap Agreement to hedge against the possible variance between the 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 Available 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 of Notes) will be deferred until the next 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 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 Servicer will determine and notify the Cash Manager of the amount of Losses on the Portfolio which are allocable to the Notes.

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

Losses or debits recorded on the Class A Principal Deficiency Sub-Ledger shall be recorded in respect of the Class 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 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 Class A 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 long-term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank are downgraded below a rating of A3 by Moody's or the long-term IDR of the Account Bank is downgraded below a rating of A by Fitch or (ii) the short-term IDR of the Account Bank is downgraded below F1 by Fitch; or (in each case) such other short-term or long-term rating which is otherwise acceptable to the relevant Rating Agency), the Issuer will be required (within 30 days) to transfer (at its own cost) the Transaction Account to an appropriately rated bank or financial institution on substantially similar terms to those set out in the Account Bank Agreement, in order to maintain the ratings of the Notes at their then current rating.

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 the terms upon which it is proposed the replacement bank or financial institution will be appointed 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 or other terms may differ materially from those on which the previously appointed bank or financial institution agreed to act).

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 interest on any cleared credit balances on the Transaction Account as specified in a separate fee letter between the Issuer and the Account Bank. The Account Bank shall be entitled to change the rate of interest accruing on the Transaction Account from time to time provided that notice is given in respect of such change in accordance with the Account Bank Agreement. 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 fund the General Reserve Fund on the Closing Date (the **Advance**). The amount of the Subordinated Loan on the Closing Date will be £14,054,400.

The Subordinated Loan will bear interest until repaid at a rate of LIBOR for three month Sterling deposits plus 0.5% 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 Advance 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, and on such other date on which the Class A Notes are redeemed in full from amounts credited to the General Reserve Fund.

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.

Interest Rate Swap Agreement

The interest rate on the Loans in the Portfolio is payable by reference, or linked, to the Standard Variable Rate, the BoE Base Rate and certain fixed rates. However, the interest rate payable by the Issuer with respect to the Notes is an amount calculated by reference to a three month Sterling LIBOR (or interpolated for 3 and 6 month Sterling LIBOR in respect of the first Interest Payment Date).

To hedge against the possible variance between:

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

the Issuer will, on or about the Closing Date, enter into an Interest Rate Swap Agreement with the Interest Rate Swap Provider. It is not intended that variances between the interest rate on Loans in the Portfolio payable by reference to the Standard Variable Rate or the BoE Base Rate will be hedged under the Interest Rate Swap Agreement, or any other swap agreement.

Cashflows under the Interest Rate Swap Transaction

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

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

- (a) the aggregate of the amounts produced by applying, for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, three month Sterling LIBOR (or interpolated for 3 and 6 month Sterling LIBOR in respect of the first Interest Payment Date) as determined on the Interest Determination Date for the relevant Interest Period to the Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Interest Rate Swap Transaction and in each case for the relevant monthly calculation period (the **Fixed Interest Period Swap Provider Amount**); and
- (b) the aggregate of the amounts (the **Fixed Interest Period Issuer Amount**) produced by applying, for each of the monthly calculation periods (or in the case of the calculation period starting on the Closing Date, the relevant portion of such monthly calculation period) in the relevant Interest Period which ends on the last day of such Interest Period, a fixed rate of interest (as specified in the Interest Rate Swap Transaction) to the Notional Amount, such amount to be calculated on the basis of the day count fraction specified in the Interest Rate Swap Transaction and in each case for the relevant monthly calculation period.

Payment of the Fixed Interest Period Swap Provider Amount and the Fixed Interest Period Issuer Amount will be made in respect of each Interest Period.

The notional amount of the Interest Rate Swap Transaction (the **Notional Amount**) in respect of each calculation period thereunder will be equal to the aggregate Current Balance, calculated at the end of the calendar month ending during such calculation period, of the Fixed Rate Loans in the Portfolio.

The Notional Amount for the initial calculation period will be equal to the aggregate Current Balance of the Fixed Rate Loans in the Portfolio on or around the Closing Date.

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

If a payment is to be made by the Interest Rate Swap Provider (other than payments to be credited to the relevant Swap Collateral Account), that payment will be included in the Available Revenue Receipts and

will be applied on the relevant Interest Payment Date according to the relevant Priority of Payments. If a payment is to be made by the Issuer, it will be made according to the relevant Priority of Payments.

Estimations and Reconciliations

Where no Servicer Report or other relevant information on the basis of which the Notional Amount of the Interest Rate Swap Transaction would ordinarily be determined has been received, in respect of any monthly calculation period immediately preceding an Interest Payment Date, the applicable Notional Amount under the Interest Rate Swap Transaction shall be estimated by reference to the change in the Notional Amount of the Interest 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) or other relevant available information.

If a Servicer Report or such other relevant information is delivered in respect of the monthly calculation periods immediately preceding any subsequent Collection Period, then (i) the applicable Notional Amount under the Interest Rate Swap Transaction will be calculated on the basis of the information in such Servicer 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 Interest Rate Swap Provider in respect of the Interest Rate Swap Transaction, in order to account for any overpayment(s) or underpayment(s) made in respect of such Interest Rate Swap Transaction during the relevant period of estimations.

Termination of the Interest Rate Swap Agreement

The Interest Rate 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 Interest Rate 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 Interest Rate Swap Agreement by the Interest Rate 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 Interest Rate Swap Agreement;
- (f) if the Interest Rate Swap Provider is downgraded and fails to comply with the requirements of the downgrade provisions contained in the Interest Rate Swap Agreement and described below in "*Key Structural Features – Ratings Downgrade of the Interest Rate 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 9.3 (*Optional Redemption in whole*) and Condition 9.4 (*Optional Redemption in whole for taxation reasons*) of the Notes; and
- (i) with respect to the Interest Rate Swap Agreement, if any amendment is made to any of the Transaction Documents without the prior written consent of the Interest Rate Swap Provider such that (a) the Interest Rate Swap Provider would have to pay more, or receive less if it were to replace itself as the Interest Rate Swap Provider than would otherwise be the case prior to the amendment, or (b) the Issuer's obligations to the Interest Rate Swap Provider under the Interest Rate Swap Agreement are further contractually subordinated to the Issuer's obligations to any other Secured Creditor (such consent to be given at the Interest Rate Swap Provider's sole discretion).

Upon the occurrence of a Swap Early Termination Event either the Issuer or the Interest Rate 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 otherwise determined using commercially reasonable procedures to produce a commercially reasonable result. Any termination payment due from the Issuer to the Interest Rate Swap Provider will be made first out of amounts standing to the credit of the relevant Swap Collateral Account in accordance with the relevant Swap Collateral Account Priority of Payments and then, to the extent that there are insufficient funds standing to the credit of the relevant Swap Collateral Account for this purpose in accordance with the Pre-Enforcement Revenue Priority of Payments or the Post-Enforcement Priority of Payments, as applicable. Any such termination payment could be substantial.

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

Ratings Downgrade of Interest Rate Swap Provider

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

Taxation

The Issuer is not obliged under the Interest Rate Swap Agreement to gross up payments made by it if a withholding or deduction for or on account of tax is imposed on payments made under the relevant Interest Rate Swap Agreement.

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

The Issuer shall pay an amount equal to any Swap Tax Credits in relation to the Interest Rate Swap Agreement directly to the Interest Rate Swap Provider and not in accordance with any Priority of Payments.

Governing Law

The Interest Rate Swap Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

Replacement of the Interest Rate Swap Agreement

Replacement upon early termination

In the event that the Interest Rate Swap Agreement is terminated prior to its scheduled termination date, and prior to the service of an Enforcement Notice or the redemption in full of all outstanding Notes, the Issuer shall use its reasonable efforts to enter into a replacement swap agreement. There can be no assurance that the Issuer will be able to enter into a replacement swap agreement or, if one is entered into, as to the terms of the replacement swap agreement or the credit rating of the replacement swap provider.

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

Swap Credit Support Annex

On or around the Closing Date, the Interest Rate Swap Provider will enter into a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) with the Issuer (each a **Swap Credit Support Annex**) in support of the obligations of the Interest Rate Swap Provider under the Interest Rate Swap Agreement. Pursuant to the terms of the Swap Credit Support Annex, if at any time the Interest Rate Swap Provider is required to provide collateral in respect of any of its obligations under the Interest Rate 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 Interest Rate Swap Agreement, the Interest Rate Swap Provider will make transfers of collateral to the Issuer in respect of its obligations under the Interest Rate 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 Interest Rate Swap Provider is required to transfer collateral to the Issuer in respect of its obligations under the Interest Rate 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 a separate Swap Collateral Account. In addition, upon any early termination of the Interest Rate Swap Agreement or novation of the Interest Rate Swap Provider's obligations under the Interest Rate Swap Agreement to a replacement Interest Rate Swap Provider, (i) any Replacement Swap Premium received by the Issuer from a replacement Interest Rate Swap Provider and/or (ii) any termination payment received by the Issuer from the outgoing Interest Rate Swap Provider will be credited to the relevant Swap Collateral Account.

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

- (a) prior to the designation of an Early Termination Date in respect of the Interest Rate Swap Agreement, solely in or towards payment of any Return Amounts, Interest Amounts and Distributions (each as defined in the relevant Swap Credit Support Annex), on any day, directly to the Interest Rate Swap Provider in accordance with the terms of the relevant Swap Credit Support Annex;
- (b) following (i) the designation of an Early Termination Date in respect of the Interest Rate Swap Agreement where (A) such Early Termination Date has been designated following an Event of Default in respect of which the Interest Rate Swap Provider is the Defaulting Party or an Additional Termination Event (as defined in the Interest Rate Swap Agreement) resulting from a ratings downgrade of the Interest Rate Swap Provider and (B) the Issuer enters into a replacement swap agreement in respect of such Interest Rate Swap Agreement on or around the Early Termination Date of such Interest Rate Swap Agreement or (ii) any novation of a Interest Rate Swap Provider's obligations to a replacement Interest Rate 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:
 - (i) *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 Interest Rate Swap Agreement being terminated or novated;

- (ii) *second*, in or towards payment of any termination payment due to the outgoing Interest Rate Swap Provider; and
 - (iii) *third*, the surplus (if any) (a **Swap Collateral Account Surplus**) on such day to be transferred to the Transaction Account;
- (c) following (i) the designation of an Early Termination Date in respect of the Interest Rate Swap Agreement where (A) such Early Termination Date has been designated otherwise than as a result of one of the events specified at items (b)(i)(A) above and (B) the Issuer enters into a replacement swap agreement on or around the Early Termination Date or (ii) any novation of the Interest Rate Swap Provider's obligations to a replacement Interest Rate 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:
- (i) *first*, in or towards payment of any termination payment due to the outgoing Interest Rate Swap Provider;
 - (ii) *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 Interest Rate Swap Agreement being terminated or novated; and
 - (iii) *third*, the surplus (if any) (a **Swap Collateral Account Surplus**) on such day to be transferred to the Transaction Account;
- (d) following the designation of an Early Termination Date in respect of the Interest Rate Swap Agreement for any reason where the Issuer does not enter into a replacement swap agreement on or around the Early Termination Date on any day, in or towards payment of any termination payment due to the outgoing Interest Rate Swap Provider;
- (e) following payments of amounts due pursuant to (d) above, if amounts remain standing to the credit of a Swap Collateral Account, such amounts may be applied only in accordance with the following provisions:
- (i) *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 Interest Rate Swap Agreement to which such Swap Collateral Account relates; and
 - (ii) *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 Interest Rate Swap Agreement to which such Swap Collateral Account relates on or prior to the earlier of:

- (A) 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
- (B) the day on which an Enforcement Notice is given pursuant to Condition 13,

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

The Cash Manager may invest amounts standing to the credit of the Swap Collateral Account (Cash) Agreement in certain sterling, euro or US dollar demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper and money market fund investments), provided that in all cases such investments satisfy the conditions set out in the Interest Rate Swap Agreement.

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

CASHFLOWS AND CASH MANAGEMENT

APPLICATION OF REVENUE RECEIPTS PRIOR TO SERVICE OF AN ENFORCEMENT NOTICE

Definition of Revenue Receipts

Revenue Receipts means (i) payments of interest (excluding Accrued Interest and Arrears of Interest which have been capitalised as at the relevant Cut-Off Date) and other fees due from time to time under the Loans and other amounts received by the Issuer in respect of the Loans other than the Principal Receipts, (ii) recoveries of interest from defaulting Borrowers under Loans being enforced and (iii) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed.

Accrued Interest means in respect of a Loan as at any date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Day immediately preceding the relevant date 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 or Accrued Interest) on that Loan which is currently due and payable and unpaid on that date.

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

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

Definition of Available Revenue Receipts

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

- (a) Revenue Receipts received during the immediately preceding Collection Period or, if the immediately preceding Collection Period is a Determination Period, Calculated Revenue Receipts (excluding in each case an amount to be applied as Available Principal Receipts in accordance with Condition 8.12(c)(i) on the relevant Interest Payment Date);
- (b) interest payable to the Issuer on the Transaction Account and income from any Authorised Investments in each case received in relation to the immediately preceding Collection Period;
- (c) amounts received by the Issuer under the Interest Rate 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) following the date on which the General Reserve Required Amount is reduced to zero and the Subordinated Loan has been repaid in full, any amount standing to the credit of the General Reserve Fund;
- (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (e) above;
- (g) any amount available pursuant to paragraph (c) of the Pre-Enforcement Principal Priority of Payments on such Interest Payment Date;

- (h) any amount available pursuant to paragraph (n) of the Pre-Enforcement Revenue Priority of Payments on the immediately preceding Interest Payment Date;
- (i) any amount applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii); and
- (j) any amounts standing to the credit of the General Reserve Fund equal to the General Reserve Fund Excess,

less:

- (k) amounts applied during such Collection Period in making payment of certain monies which properly belong to third parties such as (but not limited to):
 - (i) payments of certain insurance premiums;
 - (ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account;
 - (iii) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller;
 - (iv) payments by the Borrower of any Early Repayment Charges; and
 - (v) the standard bank charges payable to the Account Bank,

items within paragraphs (i), (ii), (iii), (iv) and (v)) 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.

Cashback means, in relation to any Loan, the agreement by the Seller to pay an amount to the relevant Borrower upon completion of the relevant Loan.

Early Repayment Charge means any charge or fee which the Mortgage Conditions applicable to a Loan require the relevant Borrower to pay in the event that all or part of that Loan is repaid before a certain date, including without limitation repayment of any Cashback.

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

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

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

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

General Reserve Fund and General Reserve Ledger

The General Reserve Required Amount will be an amount equal to £14,054,400 on the Closing Date (being an amount at least equal to 2.70 per cent. of the Current Balance of the Portfolio as at the Cut-Off Date) (the **Initial General Reserve Required Amount**) and thereafter shall on each Interest Payment Date be an amount equal to 2.70 per cent. of the Current Balance of the Portfolio as at the Cut-Off Date, provided that if on such date the General Reserve Amortisation Conditions (as defined below) are met, the General Reserve Required Amount shall be an amount equal to 3.10 per cent. of the Principal Amount Outstanding of the Class A Notes on such Interest Payment Date (taking into account any redemptions of the Class A Notes on such Interest Payment Date), subject to a maximum of the Initial General Reserve

Required Amount and a minimum of 1.75 per cent. of the Current Balance of the Portfolio as at the Cut-Off Date.

The **General Reserve Amortisation Conditions** means each of the following conditions:

- (a) no Event of Default has occurred and is continuing;
- (b) the Class A Principal Deficiency Ledger will not have a debit balance on that Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (c) the Current Balance of the Loans comprising part of the Portfolio in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 3 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio as at such relevant date; and
- (d) cumulative Losses on the Portfolio as at such relevant date represent less than 1 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio as at the Cut-Off 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.

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.

If the Issuer is required to pay the Back-Up Servicer Invocation Fee to the Back-Up Servicer, the amount standing to the credit of the General Reserve Fund equal to the Back-Up Servicer Invocation Fee may be withdrawn from the General Reserve Fund and used by the Issuer to pay the Back-Up Servicer Invocation Fee to the Back-Up Servicer. From the date of such withdrawal the Issuer shall not be required to include the Back-Up Servicer Invocation Fee as part of the General Reserve Required Amount.

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

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

On each Interest Payment Date (or in respect of items (a) and (b) below, on any date) prior to the service of an Enforcement Notice by the Trustee on the Issuer, the Cash Manager (on behalf of the Issuer) shall apply or provide for the Available Revenue Receipts together with (in the case of any Income Deficit) any amount standing to the credit of the General Reserve Fund and (in the case of any Remaining Income Deficit) any amounts referred to in paragraph (e) below of the definition of Available Principal Receipts to the extent required to cover any Remaining Income Deficits (after having firstly applied any Principal Receipts (if any)) 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, indemnity payments 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), 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 by the Issuer as profit under item (h) 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 Servicer, and any costs, charges, liabilities and expenses then due and payable to the Servicer, or any such amount to become due and payable to the Servicer in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts due and payable to the Back-Up Servicer, and any costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer, or any such amount to become due and payable to the Back-Up Servicer in the immediately succeeding Interest Period under the provisions of the Back-Up Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (iii) any amounts due and payable to the Back-Up Servicer Facilitator, and any costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer Facilitator, or any such amount to become due and payable to the Back-Up Servicer Facilitator in the immediately succeeding Interest Period under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (iv) 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;
 - (v) 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; and
 - (vi) any amounts then due and payable to the Account Bank or to a bank at which a Swap Collateral Account or other account in the name of the Issuer is held and any costs, charges, liabilities and expenses then due and payable to the Account Bank or to such bank at which a Swap Collateral Account or other account in the name of the Issuer is held, any such amount to become due and payable to the Account Bank or such bank at

which a Swap Collateral Account or other account in the name of the Issuer is held, as applicable, in the immediately succeeding Interest Period under the provisions of the Account Bank Agreement or agreement governing the operation of a Swap Collateral Account or other account in the name of the Issuer, together with (if payable) VAT thereon as provided therein;

- (d) *fourth*, to pay according to the amount thereof and in accordance with the terms of the Interest Rate Swap Agreement amounts due to the Interest Rate Swap Provider in respect of the Interest Rate 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 and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (each as defined in the relevant Swap Credit Support Annex));
- (e) *fifth*, in or towards payment *pro rata* and *pari passu* 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 retain the Issuer Profit Amount;
- (i) *ninth*, to credit the Class B Principal Deficiency Sub-Ledger in an amount sufficient to eliminate any debit thereon;
- (j) *tenth*, to pay according to the amount thereof and in accordance with the terms of the Interest Rate Swap Agreement, to the Interest Rate Swap Provider any Swap Subordinated Amount;
- (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;
- (n) *fourteenth*, (so long as any Class A Notes will remain outstanding following such Interest Payment Date) if such Interest Payment Date falls immediately after a Determination Period, then the excess (if any) to be retained in the Transaction Account to be applied as Available Revenue Receipts on the next following Interest Payment Date; and
- (o) *fifteenth*, 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 (including payments of Capitalised Interest and Capitalised Expenses and Capitalised Arrears), (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property but excluding any recoveries of principal from defaulting Borrowers under loans in respect of which enforcement procedures have been completed), (c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio and (d) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement

(excluding, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date).

Capitalised Arrears means for any Loan at any date, amounts (other than amounts in respect of interest) 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 in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the Mortgage Conditions.

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 (or, if the immediately preceding Collection Period is a Determination Period, Calculated Principal Receipts (excluding in each case an amount to be applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii) on the relevant Interest Payment Date);
 - (b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (i) of the Pre-Enforcement Revenue Priority of Payments on such Interest Payment Date;
 - (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;
 - (d) any amount to be applied as Available Principal Receipts in accordance with Condition 8.12(c)(i),
- less:
- (e) 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
 - (f) the amount of Principal Receipts to the extent comprised in paragraph (a) above used by the Issuer during the immediately preceding Collection Period to purchase Further Advances and/or Flexible Drawings.

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*, the excess (if any) to be applied as Available Revenue Receipts.

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

Following the service of an Enforcement Notice by the Trustee on the Issuer, the Trustee (or the Cash Manager on its behalf or a Receiver) will apply amounts (other than (i) amounts standing to the credit of the Swap Collateral Accounts, except for any Swap Collateral Account Surplus, and (ii) any amount received by the Issuer in respect of Swap Tax Credits received or recovered following the service of an Enforcement Notice on the Issuer (including, for the avoidance of doubt, on enforcement of the Security)

in the following order of priority (the **Post-Enforcement Priority of Payments** and, together with the Pre-Enforcement Revenue Priority of Payments and the Pre-Enforcement Principal Priority of Payments, the **Priority of Payments**):

- (a) *first*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts thereof of:
 - (i) any fees, costs, charges, liabilities, expenses, indemnity payments 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, indemnity payments 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 Servicer, and any costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (ii) any amounts due and payable to the Back-Up Servicer, and any costs, charges, liabilities and expenses then due and payable to the Servicer under the provisions of the Back-Up Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (iii) any amounts due and payable to the Back-Up Servicer Facilitator, and any costs, charges, liabilities and expenses then due and payable to the Back-Up Servicer Facilitator under the provisions of the Servicing Agreement, together with (if payable) VAT thereon as provided therein;
 - (iv) 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;
 - (v) 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; and
 - (vi) any amounts then due and payable to the Account Bank or a bank at which a Swap Collateral Account or other account in the name of the Issuer is held and any costs, charges, liabilities and expenses then due and payable to the Account Bank or such bank at which a Swap Collateral Account or other account in the name of the Issuer is held, as applicable, under the provisions of the Account Bank Agreement or other agreement

governing the operation of such Swap Collateral Account or other account in the name of the Issuer, together with (if payable) VAT thereon as provided therein;

- (d) *fourth*, to pay according to the amount thereof and in accordance with the terms of the relevant Interest Rate Swap Agreement amounts due and payable to the Interest Rate Swap Provider in respect of the Interest Rate Swap Agreement (in each case, including any termination payment due and payable by the Issuer to the extent not satisfied out of amounts standing to the credit of the relevant Swap Collateral Account and applied in accordance with the relevant Swap Collateral Account Priority of Payments, but excluding any Swap Subordinated Amounts and any Return Amounts, Interest Amounts and Distributions payable under a Swap Credit Support Annex (as defined in the relevant Swap Credit Support Annex));
- (e) *fifth*, to pay interest due and payable on the Class A Notes;
- (f) *sixth*, to pay principal due and payable on the Class A Notes;
- (g) *seventh*, to pay 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 according to the amount thereof and in accordance with the terms of the Interest Rate Swap Agreement, to the Interest Rate 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 pay to the Issuer, the Issuer Profit Amount;
- (l) *twelfth*, to pay any amounts required by the Issuer in order to pay or discharge any liability of the Issuer to corporation tax (which cannot be made out of amounts retained by the Issuer as profit including amounts under item (k) above); and
- (m) *thirteenth*, to pay Deferred Consideration due and payable under the Mortgage Sale Agreement to the Seller.

Compensation of the Cash Manager

The Cash Manager will receive a cash management Fee for servicing the Loans. The Issuer will pay the Cash Manager its cash management fee (inclusive of any applicable VAT) of £1,200 per annum (or such other amount as may be agreed between the Issuer and the Cash Manager). The cash management fees are payable quarterly in arrear on each Interest Payment Date only to the extent that the Issuer has sufficient funds in accordance with the Pre-Enforcement Revenue Priority of Payments to pay them. Any unpaid balance will be carried forward until the next Interest Payment Date and, if not paid earlier, will be payable in full on the Final Maturity Date or on any earlier date on which an Enforcement Notice is served by the Trustee on the Issuer.

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.principality.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.

Removal or Resignation of the Cash Manager

If any of the following events (each a **Cash Manager Termination Event**) shall occur:

- (a) Non-payment: default is made by the Cash Manager in the payment, on the due date, of any payment due and payable by it under the Cash Management Agreement and such default (where

capable of remedy) continues unremedied for a period of ten Business Days after the earlier of the Cash Manager becoming aware of such default and receipt by the Cash Manager of written notice from the Issuer or, following service of an Enforcement Notice, the Trustee, as the case may be, requiring the same to be remedied; or

- (b) Breach of other obligations: default is made by the Cash Manager in the performance or observance of any of its other covenants and obligations under the Cash Management Agreement, which in the opinion of the Trustee is materially prejudicial to the interests of the Noteholders and such default continues unremedied for a period of 20 Business Days after the earlier of the Cash Manager becoming aware of such default (where capable of remedy) and receipt by the Cash Manager of written notice from the Issuer or the Trustee (following the service of an Enforcement Notice), as applicable, requiring the same to be remedied (where capable of remedy); or
- (c) Unlawfulness: it is or will become unlawful for the Cash Manager to perform or comply with any of its obligations under the Cash Management Agreement; or
- (d) Insolvency Event: an Insolvency Event occurs in relation to the Cash Manager,

then the Issuer and/or the Trustee may upon becoming aware of such default and while such default continues, deliver a notice (a **Cash Manager Termination Notice**) within seven Business Days of such Cash Manager Termination Event to the Cash Manager (with a copy to the Issuer or the Trustee, as applicable, and a copy to the Back-Up Cash Manager) to terminate its appointment as Cash Manager under the Cash Management Agreement with effect from the date specified in such Cash Manager Termination Notice (the **Cash Manager Termination Date**) (which shall be no earlier than 14 Business Days from the date of receipt of the Cash Manager Termination Notice by the Back-Up Cash Manager), provided that if the Cash Manager fails, in respect of an Interest Payment Date, to deliver a notice to the Principal Paying Agent, the Back-Up Cash Manager, the Issuer and the Corporate Services Provider setting out principal and interest to be paid on such Interest Payment Date in accordance with the terms of the Agency Agreement, the Back-Up Cash Manager shall within 2 Business Days of the occurrence of such failure perform the services of the Cash Manager in accordance with the Back-Up Cash Management Agreement but provided further that if the Cash Manager remedies such breach within the next following 5 Business Days, such breach shall not constitute a Cash Manager Termination Event and the Cash Manager shall continue as Cash Manager under the Cash Management Agreement (provided that the Back-Up Cash Manager shall, prior to the Cash Manager continuing its role as Cash Manager under the Cash Management Agreement, ensure that payments are made by the Issuer in accordance with the Priorities of Payment on (or within the grace period for) the Interest Payment Date in relation to which the Cash Manager failed to deliver a notice setting out the amount of principal or interest payable in respect of each Class of Notes in accordance with the terms of the Cash Management Agreement). A failure by the Cash Manager to provide such notice setting out the amount of principal or interest payable in respect of each Class of Notes on the relevant Interest Payment Date in accordance with the terms of the Cash Management Agreement would be considered to be remedied if (a) the Cash Manager provided an equivalent notice to the Principal Paying Agent, the Back-Up Cash Manager, the Issuer and the Corporate Services Provider within the 5 Business Days period following the Interest Payment Date or (b) can within such period confirm in writing to the parties to which the notice is required to be sent that it would be in a position to provide such a notice on the next following Interest Payment Date.

Back-Up Cash Manager

On the Closing Date, the Issuer and the Cash Manager will appoint the Back-Up Cash Manager to perform certain back-up cash management services pursuant to a back-up cash management agreement between, *inter alios*, the Cash Manager, the Issuer 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 on terms similar to those set out in the Cash Management Agreement (see further “*Removal or Resignation of the Cash Manager*” above).

If the Back-Up Cash Manager were appointed in replacement of the Cash Manager to carry out the cash management services, all investor reports would be published on the Back-Up Cash Manager's website at www.virtusllc.com. For the avoidance of doubt, the website and the contents thereof do not form part of this Prospectus.

CERTAIN OTHER TRANSACTION DOCUMENTS

DEED OF CHARGE

On the Closing Date, the Issuer will enter into the Deed of Charge with, *inter alios*, the Trustee.

Security

Under the terms of the Deed of Charge, the Issuer will provide the Trustee with the benefit of, *inter alia*, the following security (the **Security**) as trustee for itself and for the benefit of the other Secured Creditors (including the Noteholders):

- (a) a charge by way of first fixed charge (subject to the subsisting rights of redemption of the relevant Borrowers) of the Benefit of the Issuer in the Loans and their Related Security comprised in the Portfolio;
- (b) a charge by way of first fixed charge, without prejudice to paragraph (a) above and to the extent that no charge created by paragraph (a) above is (if the Trustee were so to require) capable of registration at the Land Registry as a sub-charge, in exercise of the power conferred by section 23(2)(b) of the Land Registration Act 2002, of all 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 including without limitation those registered against the title numbers set out in the relevant annexures to the Mortgage Sale Agreement;
- (c) a charge by way of first fixed charge of the Benefit of each Authorised Investment;
- (d) a charge by way of first fixed charge of the Benefit of each Issuer Account, each Swap Collateral Account and any bank or other accounts in which the Issuer may at any time have or acquire any Benefit and (to the extent of its interest) all balances now or in the future standing to the credit of or accrued or accruing on such accounts;
- (e) an assignment by way of security of the Benefit under each relevant Transaction Document except that the assignment by way of security of the Benefit of the Issuer under the Interest Rate Swap Agreement shall be subject to any rights of set-off or netting provided for thereunder; and
- (f) a first floating charge over the whole of the Issuer's undertaking and all its property, assets, rights and revenues, whatsoever and wheresoever present and future including its uncalled capital (including assets expected to subject to a fixed charge or assignment by way of security or absolute assignment as described above),

where **Benefit** means in respect of any asset, agreement, property or right (each a **Right** for the purpose of this definition) held, assigned, conveyed, transferred, charged, sold or disposed of by any person shall be construed so as to include:

- (i) all right, title, interest and benefit, present and future, actual and contingent (and interests arising in respect thereof) of such person in, to, under and in respect of such Right and all Ancillary Rights in respect of such Right;
- (ii) all monies and proceeds payable or to become payable under, in respect of, or pursuant to such Right or its Ancillary Rights and the right to receive payment of such monies and proceeds and all payments made including, in respect of any bank account, all sums of money which may at any time be credited to such bank account together with all interest accruing from time to time on such money and the debts represented by such bank account;
- (iii) the benefit of all covenants, undertakings, representations, warranties and indemnities in favour of such person contained in or relating to such Right or its Ancillary Rights;
- (iv) the benefit of all powers of and remedies for enforcing or protecting such person's right, title, interest and benefit in, to, under and in respect of such Right or its Ancillary Rights, including the right to demand, sue for, recover, receive and give receipts for proceeds of and amounts due under or in respect of or relating to such Right or its Ancillary Rights; and

- (v) all items expressed to be held on trust for such person under or comprised in any such Right or its Ancillary Rights, all rights to deliver notices and/or take such steps as are required to cause payment to become due and payable in respect of such Right and its Ancillary Rights, all rights of action in respect of any breach of or in connection with any such Right and its Ancillary Rights and all rights to receive damages or obtain other relief in respect of such breach.

The floating charge created by the Deed of Charge shall be postponed to any valid fixed charges which remain outstanding under or pursuant to the Deed of Charge from time to time and any rights of the Issuer to deal with the assets subject to the floating charge shall be expressly subject to any restrictions placed on dealing with those assets contained in any fixed charge over the same.

The floating charge created by the Deed of Charge may "crystallise" and become a fixed charge over the relevant class of assets owned by the Issuer at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Deed of Charge.

Payments prior to Enforcement

Prior to the Trustee serving a notice in, or substantially in, the form of the document so named set out in the Deed of Charge (a **Security Protection Notice**) or an Enforcement Notice on the Issuer pursuant to clause 13 (*Security Protection Notice*) of the Deed of Charge and Condition 13 (*Events of Default*) of the Notes respectively:

- (a) payments becoming due to the Issuer under any of the Transaction Documents, together with all other monies payable to the Issuer pursuant to any other documents or arrangements to which it is a party, may be made to the Issuer in accordance with the provisions of the relevant Transaction Documents or (as the case may be) the documents or arrangements concerned;
- (b) the Issuer may, subject to paragraph (a), exercise its rights, powers and discretions and perform its obligations in relation to the Charged Property and under the Transaction Documents in accordance with the provisions of the Transaction Documents or (as the case may be) such other documents or arrangements; and
- (c) monies standing to the credit of the **Charged Accounts** (being the Issuer Accounts, 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) from time to time may be withdrawn therefrom by the Issuer but only in accordance with the provisions of the Cash Management Agreement, Account Bank Agreement, Swap Collateral Account Agreements and Interest Rate Swap Agreement.

where **Encumbrance** means:

- (a) a mortgage, charge, pledge, lien or other encumbrance securing any obligation of any person;
- (b) any arrangement under which money or claims to money, or the benefit of, a bank or other account may be applied, set-off or made subject to a combination of accounts so as to effect discharge of any sum owed or payable to any person; or
- (c) any other type of preferential arrangement (including any title transfer and retention arrangement) having a similar effect.

Post-Enforcement Priority of Payments

After the Trustee has served an Enforcement Notice (which has not been withdrawn) on the Issuer pursuant to Condition 13 (*Events of Default*) of the Notes, declaring the Notes to be immediately due and payable, the Trustee shall apply the monies available in accordance with clause 17 (*Post-Enforcement Priority of Payments*) of the Deed of Charge.

The whole of the Security shall become enforceable:

- (a) upon the delivery of an Enforcement Notice on the Issuer pursuant to Condition 13 (Events of Default) of the Notes, except where the Enforcement Notice has been delivered as a result of an Issuer Insolvency Event occurring solely due to the Issuer obtaining or taking steps to obtain a moratorium pursuant to section 1A of the Insolvency Act 1986; and
- (b) if any person who is entitled to do so presents a petition or an application for the appointment of an administrator of the Issuer, gives notice of intention to appoint an administrator of the Issuer or files such notice with the court the occurrence of which shall have been notified in writing to the Trustee.

Governing Law

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

TRUST DEED

On or about the Closing Date, the Issuer and the Trustee will enter into the Trust Deed pursuant to which the Issuer and the Trustee will agree that the Notes are subject to the provisions in the Trust Documents. The Conditions and the forms of the Notes are constituted by, and set out in, the Trust Deed.

The Trustee will agree to hold the benefit of, among other things, the Issuer's covenant to pay amounts due in respect of the Notes on trust for the Noteholders.

In accordance with the terms of the Trust Deed, the Issuer will pay a fee to the Trustee for its services under the Trust Deed at the rate agreed between the Issuer and the Trustee. The Issuer shall also pay or discharge all costs, charges and expenses incurred by the Trustee and the receiver incurred in relation to the performance of its obligations under and in relation to the Trust Documents and the other Transaction Documents.

Retirement of Note Trustee

Any Trustee for the time being of the Trust Documents may retire at any time upon giving not less than three calendar months notice in writing to the Issuer without assigning any reason therefor and without being responsible for any Liabilities occasioned by such retirement. The retirement of any Trustee shall not become effective unless there remains a trustee hereof (being a corporation entitled by the rules made under the Public Trustee Act 1906 to act as a custodian trustee or entitled pursuant to any other legislation applicable to a trustee in any jurisdiction other than England and Wales to act as trustee and carry on trust business under the laws of the country of its incorporation, a **Trust Corporation**) in office after such retirement. The Issuer covenants that, in the event of the sole trustee or the only trustee hereof which is a Trust Corporation giving notice under clause 30 (*Retirement of Trustee*) of the Trust Deed, it shall use all reasonable endeavours to procure a new trustee, being a Trust Corporation, to be appointed. If the Issuer has not appointed a new trustee prior to the expiry of the notice period given by the Trustee, the Trustee shall be entitled to nominate a replacement, being a Trust Corporation.

Governing Law

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

ACCOUNT BANK AGREEMENT

Pursuant to the terms of the Account Bank Agreement entered into on the Closing Date between, among others, the Issuer, the Account Bank, the Cash Manager and the Trustee, the Issuer will maintain with the Account Bank a bank account (the **Transaction Account**) providing a rate of interest from time to time as specified in a separate fee letter between the Issuer and the Account Bank on any cleared credit balances thereof, which will be operated in accordance with the Cash Management Agreement and the Deed of Charge.

The Seller undertakes, to the Issuer and the Trustee, to credit the Transaction Account an amount equal to its Daily Loan Amount on the next Business Day after that Daily Loan Amount is credited to the account in the name of the Seller held with the Collection Account Bank into which collections arising from

Mortgage Loans (including the Loans) are credited from time to time (the **Collection Account**) or in respect of amounts received from and including the Cut-Off Date to (and excluding) the Closing Date on the next Business Day after the Closing Date.

If at any time the long-term unsecured, unsubordinated and unguaranteed debt obligations of the Account Bank (A) cease to have a rating of at least A3 from Moody's and the long-term IDR is downgraded below a rating of A by Fitch or (B) the short-term IDR is downgraded below a rating of F1 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 Agreement shall be terminated by the Issuer, (so long as the Seller is the Cash Manager) the Cash Manager or (following the date on which the Seller ceases to be the Cash Manager) the Corporate Services Provider on its behalf in accordance with the Account Bank Agreement.

The Account Bank Agreement may be terminated in other circumstances by the Cash Manager, the Account Bank, the Issuer (in certain cases only with the consent of the Trustee) or (following the delivery of an Enforcement Notice) the Trustee. The Account Bank may also terminate the Account Bank Agreement in accordance with the provisions set out in the Account Bank Agreement.

The Account Bank Agreement and any non-contractual obligations arising out of or in connection with it will be governed by English law.

COLLECTION ACCOUNT DECLARATION OF TRUST

The Seller has declared a trust over its principle collection account in favour of, among others, (i) itself, (ii) the Issuer and (iii) certain future issuers and beneficiaries who may accede to the terms of the Collection Account Declaration of Trust. The Collection Account Declaration of Trust and any non-contractual obligations arising out of or in connection with it will be governed by English law.

SWAP COLLATERAL ACCOUNT AGREEMENTS

Pursuant to the terms of the Swap Collateral Account (Cash) Agreement and Swap Collateral Account (Securities) Agreement entered into on the Closing Date between, among others, the Issuer, the Trustee and the Swap Collateral Account Bank, the Issuer will open one or more Swap Collateral Accounts with the Swap Collateral Account Bank.

The Issuer will deposit any collateral which is required to be paid to the Issuer by an Interest Rate Swap Provider in accordance with the terms of an Interest Rate Swap Agreement in the relevant Swap Collateral Account.

The Swap Collateral Account Agreements and any non-contractual obligations arising out of each of them are governed by English law.

AGENCY AGREEMENT

Pursuant to the Agency Agreement entered into on or before the Issue Date between the Issuer, the Trustee, the Registrar, the Principal Paying Agent and the Agent Bank, provision has been made for, among other things, payment of principal and interest in respect of the Bonds and the maintenance of a register of the holders of the Bonds. The Agency Agreement and any non-contractual obligations arising out of it are governed by English law.

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 for the Common Depositary. The Issuer will procure the Registrar to maintain a register in which it will register the nominee for the Common Depositary, as applicable, 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 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 (the **Participants**) or persons that hold interests in the Book-Entry Interests through Participants (the **Indirect Participants**), including, as applicable, banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with Euroclear or Clearstream, Luxembourg, either directly or indirectly. Indirect Participants shall also include persons that hold beneficial interests through such Indirect Participants. Book-Entry Interests will not be held in definitive form. Instead, Euroclear and Clearstream, Luxembourg, as applicable, will credit the Participants' accounts with the respective Book-Entry Interests beneficially owned by such Participants on each of their respective book-entry registration and transfer systems. The accounts initially credited will be designated by the 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 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 HSBC Bank plc as the Principal Paying Agent on behalf of the Common Depositary or its nominee as the registered holder thereof. Each holder of Book-Entry Interests must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of any amounts paid by or on behalf of the Issuer to the Common Depositary or its nominees in respect of those Book-Entry Interests. All such payments will be distributed without deduction or withholding for or on account of any taxes, duties, assessments or other governmental charges of whatever nature except as may be required by law. If any such deduction or withholding is required to be made, then neither the Issuer, the Paying Agents nor any other person will be obliged to pay additional amounts in respect thereof.

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

Information Regarding Euroclear and Clearstream, Luxembourg

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

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their account holders and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders, thereby eliminating the need for any physical movement 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 relationships with either Euroclear or Clearstream, Luxembourg are governed by the respective rules and operating procedures of Euroclear or Clearstream, Luxembourg and any applicable laws. Both Euroclear and Clearstream, Luxembourg act under such rules and operating procedures only on behalf of their respective account holders, and have no record of or relationship with persons holding through their respective account holders.

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

Redemption

In the event that any Global Note (or portion thereof) is redeemed, the Principal Paying Agent will deliver all amounts received by it in respect of the redemption of such Global Note to the nominee of the Common Depositary and, upon final payment, will surrender such Global Note (or portion thereof) to or to the order of the Principal Paying Agent for cancellation. Appropriate entries will be made in the Register. The redemption price payable in connection with the redemption of Book-Entry Interests will be equal to the amount received by the Principal Paying Agent in connection with the redemption of the Global Note (or portion thereof) relating thereto. For any redemptions of the Global Note in part, selection of the relevant Book-Entry Interest relating thereto to be redeemed will be made by Euroclear or Clearstream, Luxembourg, as the case may be, 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, who 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: (i) 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 (ii) 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 ten 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: (i) such information as is contained in such notice; (ii) 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 (iii) 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 the clearing systems for communication by them to the holders of the relevant Class of A 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 of the Irish Stock Exchange) any notice shall also be published in accordance with the relevant guidelines of the Irish Stock Exchange by a notification in writing to the Company Announcements Office 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 £475,000,000 Class A Mortgage Backed Floating Rate Notes due October 2046 (the **Class A Notes**) and the £45,548,000 Class B Mortgage Backed Floating Rate Notes due October 2046 (the **Class B Notes** and, together with the Class A Notes, the **Notes**) will be issued by Friary No.2 plc (registered number 9000695) (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 (other than the Subscription Agreement) and the Memorandum and Articles of Association of each of the Issuer and Holdings are available for inspection by Noteholders during normal business hours at the principal office for the time being of the Trustee, being at the date hereof 8 Canada Square, London E14 5HQ and at the Specified Offices of each of the Paying Agents, the initial Specified Offices of which are set out below.

2. Definitions

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

Account Bank means HSBC Bank plc 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, the Back-Up Cash Manager, the Corporate Services Provider and the Trustee;

Account Bank Rating means (i) a long-term unsecured, unsubordinated and unguaranteed debt rating of A3 by Moody's and a long term IDR of A by Fitch and (ii) a short-term IDR of F1 by Fitch, or such other short-term or long-term rating as may from time to time be specified in the most recently published Rating Agency criteria as being required to maintain the then current rating of the Class A Notes;

Accrued Interest means in respect of a Loan as at any date the aggregate of all interest accrued but not yet due and payable on the Loan from (and including) the Monthly Payment Date immediately preceding the relevant date to (but excluding) the relevant date;

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

Agent Bank means HSBC Bank plc in its capacity as agent bank pursuant to the Agency Agreement (or any successor duly appointed);

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

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

Authorised Investments means:

- (a) Sterling gilt-edged securities and/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 at least two days before the next Interest Payment Date and:
 - (i) (A) 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) and provided further that:
 - (B) no United Kingdom stamp duty, stamp duty reserve tax or any other transfer tax is chargeable on any agreement to transfer, or transfer of, debt securities under the Reverse Repo;
 - (C) the Issuer is entitled to receive payments on the debt securities which are the subject of the Reverse Repo without any withholding or deduction for or on account of any Tax;
 - (D) the Issuer is not required to withhold or deduct for or on account of any Tax from any payment the Issuer makes or is deemed to make under the terms of the Reverse Repo; and
 - (E) the counterparty to the Reverse Repo will not be required to withhold or deduct for or on account of any Tax from any payment the counterparty makes or is deemed to make to the Issuer under the terms of the Reverse Repo; 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 one 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;

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

Available Principal Receipts means for any Interest Payment Date:

- (a) all Principal Receipts received by the Issuer during the immediately preceding Collection Period or, if the immediately preceding Collection Period is a Determination Period, Calculated Principal Receipts (excluding in each case an amount to be applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii) on the relevant Interest Payment Date);
- (b) the amounts (if any) to be credited to the Principal Deficiency Ledger pursuant to items (f) and (i) 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;
- (d) any amount applied as Available Principal Receipts in accordance with Condition 8.12(c)(i),

less:

- (e) 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
- (f) the amount of Principal Receipts to the extent comprised in paragraph (a) above used by the Issuer during the immediately preceding Collection Period to purchase Further Advances and/or Flexible Drawings;

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 or, if the immediately preceding Collection Period is a Determination Period, Calculated Revenue Receipts (excluding in each case an amount to be applied as Available Principal Receipts in accordance with Condition 8.12(c)(i) on the relevant Interest Payment Date);
- (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 Interest Rate 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) following the date on which the General Reserve Required Amount is reduced to zero and the Subordinated Loan has been repaid in full, any amount standing to the credit of the General Reserve Fund;
- (f) other net income of the Issuer received during the immediately preceding Collection Period, excluding any interest, distributions or redemption or sale proceeds received in respect of amounts or securities standing to the credit of the Swap Collateral Accounts and without double-counting the amounts described in paragraphs (a) to (e) above;
- (g) any amounts available pursuant to paragraph (c) of the Pre-Enforcement Principal Priority of Payments on such Interest Payment Date;
- (h) any amounts deemed available pursuant to paragraph (n) of the Pre-Enforcement Revenue Priority of Payments on the immediately preceding Interest Payment Date;
- (i) any amount applied as Available Revenue Receipts in accordance with Condition 8.12(c)(ii); and
- (j) any amounts standing to the credit of the General Reserve Fund equal to the General Reserve Fund Excess,

less:

- (k) any amounts applied during such Collection Period in making payment of certain moneys which properly belong to third parties such as (but not limited to):
 - (i) payments of certain insurance premiums;
 - (ii) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup such amount itself from its customer's account;
 - (iii) any amount received from a Borrower for the express purpose of payment being made to a third party for the provision of a service to that Borrower or the Seller; or
 - (iv) payments by the Borrower of any Early Repayment Charges; and
 - (v) the standard bank charges payable to the Account Bank,

(items within paragraphs (i) to (v) 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;

Back-Up Cash Management Agreement means the back-up cash management agreement entered into on or about the Closing Date between the Back-Up Cash Manager, the Issuer, the Trustee, the Seller, the Servicer and the Cash Manager.

Back-Up Cash Manager means Virtus Group LP (or any successor duly appointed);

Back-Up Servicer means Homeloan Management Limited (or any successor duly appointed);

Back-Up Servicer Facilitator means Structured Finance Management Limited (or any successor duly appointed);

Back-Up Servicing Agreement means the back-up servicing agreement entered into on or about the Closing Date between, *inter alios*, the Back-Up Servicer, the Issuer, the Trustee, the Seller and the Servicer.

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 by such person and in relation to the Trustee means a wilful default, fraud, gross negligence or breach of trust by the Trustee;

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

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

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

Capitalised Arrears means for any Loan at any date, amounts (other than amounts in respect of interest) 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 in relation to a Loan, the amount of any expense, charge, fee, premium or payment (excluding any Arrears of Interest) capitalised and added to the Capital Balance of that Loan in accordance with the Mortgage Conditions;

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 or such other cash management agreement as may be entered into between, *inter alios*, a replacement cash manager, the Issuer, the Trustee and the Seller (including the Replacement Cash Management Agreement);

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

Cashback means, in relation to any Loan, the agreement by the Seller to pay an amount to the relevant Borrower upon completion of the relevant Loan;

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

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

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

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

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

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

Closing Date means 9 June 2014, or such other date as the Issuer and the Joint Lead Managers and the Seller may agree;

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) the Cut-Off Date) 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);

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 2 to the Trust Deed as any of the same may from time to time be modified in accordance with the Trust Deed and any reference to a particular numbered Condition shall be construed in relation to the Notes accordingly;

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

Corporate Services Provider means Structured Finance Management Limited (registered number 3853947) a company incorporated under the laws of England and Wales, whose principal office is at 35 Great St. Helens, London EC3A 6AP (or any successor duly appointed);

Cut-Off Date means 31 May 2014;

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

Deed of Charge means the deed of charge so named (and any accession undertaking or documents entered into pursuant to the Deed of Charge) entered into on or about the Closing Date between, *inter alios*, 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 (n) inclusive of the Pre-Enforcement Revenue Priority of Payments on each Interest Payment Date; or
- (b) 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);

Determination Period has the meaning given to such term in Condition 8.12(a);

Early Repayment Charge means, any charge or fee which the Mortgage Conditions applicable to a Loan require the relevant Borrower to pay in the event that all or part of that Loan is repaid before a certain date, including without limitation repayment of any Cashback;

Electronic Consent means consent given by way of electronic consents communicated through the electronic communications system of the relevant clearing system(s) to the Principal Paying Agent or another specified agent and/or the Trustee in accordance with the operating rules and procedures of the relevant clearing system(s);

EMIR means the the European Regulation 648/2012, known as the European Market Infrastructure Regulation;

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;

euro or € means the lawful currency of member states of the European Economic and Monetary Union that adopt the single currency introduced in accordance with the Treaty;

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

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

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

Extraordinary Resolution means (i) 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, (ii) a Written Resolution or (iii) consent given by way of Electronic Consent by or on behalf of the Noteholders of not less than three fourths in aggregate Principal Amount Outstanding of the Notes then outstanding;

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 October 2046;

First Interest Payment Date means the Interest Payment Date falling in October 2014;

Fitch means Fitch Ratings Ltd;

Flexible Drawing means any further drawing of moneys made by a Borrower under a Flexible Loan other than the Initial Advance (but including any Capitalised Interest);

Flexible Loan means a type of Loan product that typically incorporates features that give the Borrower options (which may be subject to certain conditions) to, among other things, make further drawings on the Loan Account and/or to overpay or underpay interest and principal in a given month and/or take a Payment Holiday;

FSMA means the Financial Services and Markets Act 2000 (as amended);

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 Amortisation Conditions means each of the following conditions:

- (a) no Event of Default has occurred and is continuing;
- (b) the Class A Principal Deficiency Ledger will not have a debit balance on that Interest Payment Date after applying all Available Revenue Receipts on that Interest Payment Date;
- (c) the Current Balance of the Loans comprising part of the Portfolio in respect of which the aggregate amount in arrears is more than three times the Monthly Payment then due, is less than 3 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio as at such relevant date; and
- (d) cumulative Losses on the Portfolio as at such relevant date represent less than 1 per cent. of the aggregate Current Balance of the Loans comprising the Portfolio as at the Cut-Off Date;

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 Required Amount means an amount equal to £14,054,400 on the Closing Date (being an amount at least equal to 2.70 per cent. of the Current Balance of the Portfolio as at

Cut-Off Date) (the **Initial General Reserve Required Amount**) and thereafter shall on each Interest Payment Date be an amount equal to 2.70 per cent. of the Current Balance of the Portfolio as at the Cut-Off Date, provided that if on such date the General Reserve Amortisation Conditions are met, the General Reserve Required Amount shall be an amount equal to 3.10 per cent. of the Principal Amount Outstanding of the Class A Notes on such Interest Payment Date (taking into account any redemptions of the Class A Notes on such Interest Payment Date), subject to a maximum of the Initial General Reserve Required Amount and a minimum of 1.75 per cent. of the Current Balance of the Portfolio as at the Cut-Off Date;

General Reserve Fund Excess means, on any Interest Payment Date, the amount by which the funds standing to the creditor of the General Reserve Fund (after deducting any amounts to be applied to eliminate any Income Deficit) exceed the General Reserve Required Amount;

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

Holdings means Friary No.2 Mortgages Holdings Limited (registered number 9000679), 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;

IDR or Issuer Default Rating means the issuer default rating assigned to an entity by any of the Rating Agencies as a benchmark measure of probability of default.

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

Initial Advance means, in relation to a Loan, the original principal amount together with the amount of any retention advanced to the relevant Borrower after completion of the Mortgage, and it may include fees (if capitalised);

Initial Consideration means the amount which is paid by the Issuer to the Seller on the Closing Date in partial consideration of the Seller's sale to the Issuer of the Loans and their Related Security comprising the Portfolio in an amount equal to the Current Balance of the Loans on the Cut-Off Date;

Initial General Reserve Required Amount has the meaning given to it in the definition of the term General Reserve Required Amount

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 Servicer Reports divided by (ii) the aggregate of all Revenue Receipts and all Principal Receipts calculated in such Servicer Reports;

Interest Payment Date means the 21st day of January, April, July and October 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;

Interest Rate Swap Agreement means the swap agreement between the Issuer and the Interest Rate Swap Provider thereunder dated on or about the Closing Date, consisting of an ISDA Master Agreement together with a Schedule thereto, a credit support annex and one confirmation documenting the Interest 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;

Interest Rate Swap Provider means Barclays Bank PLC or any successor or replacement interest rate swap provider or providers from time to time under the Interest Rate Swap Agreement;

Interest Rate Swap Transaction means the interest rate swap transaction entered into under the Interest Rate Swap Agreement;

Issuer means Friary No. 2 plc (registered number 9000695), a public limited company incorporated under the laws of England and Wales, whose registered office is at 35 St. Helen's, London EC3A 6AP;

Issuer Covenants means the covenants of the Issuer set out in Schedule 5 to the Incorporated Terms Memorandum;

Issuer Insolvency Event in respect of the Issuer means:

- (a) such company is unable or admits its inability to pay its debts as they fall due (after taking into account any grace period or permitted deferral), or suspends making payments on any of its debts; or
- (b) a moratorium is declared in respect of any indebtedness of such company; or
- (c) the commencement of negotiations with one or more creditors of such company with a view to rescheduling any indebtedness of such company other than in connection with any refinancing in the ordinary course of business; or
- (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 such company or in relation to the whole or any part of the undertaking or assets of such company 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 such company; or

- (iii) the making of an arrangement, composition, or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such company, a reorganisation of such company, a conveyance to or assignment for the creditors of such company generally or the making of an application to a court of competent jurisdiction for protection from the creditors of such company generally other than in connection with any refinancing in the ordinary course of business; or
- (iv) any distress, execution, attachment or other process being levied or enforced or imposed upon or against the whole or any part of the undertaking or assets of such company (excluding 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) to (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 £1,249 on each Interest Payment Date to be credited to the Transaction Account and to be retained by the Issuer as profit in respect of the business of the Issuer;

Joint Lead Managers means Barclays Bank PLC and HSBC Bank plc;

Liabilities means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, actions, proceedings or other liabilities whatsoever including properly incurred legal fees and any Taxes and penalties incurred by that person;

LIBOR means the London Interbank Offered Rate;

Loan Account means as the context requires, either (a) all Loans secured on the same Property or (b) an account maintained by the Servicer in respect of a particular Loan (whether by way of principal, interest or otherwise) and all amounts received in respect thereof;

Loans means the residential loans in the Portfolio sold or to be sold (as applicable) to the Issuer by the Seller on the Closing Date pursuant to the Mortgage Sale Agreement and the residential loans which are Substitute Loans sold or to be sold (as applicable) to the Issuer by the Seller on any Substitution Date, pursuant to the Mortgage Sale Agreement including, where the context so requires, any Further Advance or Flexible Drawings 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 and/or Flexible Drawing sold or to be sold (as applicable) to the Issuer by the Seller after the Closing Date and any residential loan which is the subject of a Product Switch but excluding (for the avoidance of doubt) each residential loan and its related security redeemed or repurchased by the Seller pursuant to the Mortgage Sale Agreement or otherwise sold by the Issuer in accordance with the terms of the Transaction Documents and no longer beneficially owned by it;

Losses means any losses arising in relation to a Loan in the Portfolio which would cause a shortfall in the amount available to pay principal on the Notes;

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

Mortgage Conditions means the terms and conditions applicable to a Loan and/or Mortgage as contained in the Seller's "Mortgage Conditions" booklet applicable from time to time;

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

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;

Notices Condition means Condition 22 (*Notices*);

Notices Details means, in relation to any Agent, the provisions set out in Schedule 7 (*Notice Details*) to 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 14 (*Waiver*), Clause 15 (*Modifications*), Clause 18 (*Proceedings and Actions by the Trustee*), Clause 26 (*Appointment of Trustees*) and Clause 27 (*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 vested by operation of law, which the Trustee is required to exercise in or by reference to the interests of the Noteholders or any of them,

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

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

Payment Holiday means a period during which a Borrower may suspend payments under a Loan where the Borrower is permitted under the relevant Mortgage Conditions to do so and will not therefore be in breach of the relevant Mortgage Conditions;

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 Transaction Account, set out in Clause 15 (*Post-Enforcement Priority of Payments*) of the Deed of Charge;

Potential Event of Default means any event which may become (with the passage of time, the giving of notice, the making of any determination or any combination thereof) an Event of Default;

Pre-Enforcement Principal Priority of Payments means the provision relating to the order of priority of payments from the Principal Ledger set out in Schedule 2 to 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 to the Cash Management Agreement;

Principal Amount Outstanding means, on any day:

- (a) in relation to a Note, the principal amount outstanding of that Note as at the Closing Date, less the aggregate of any principal payments in respect of that Note which have become due and payable (and been paid) on or prior to that day;
- (b) in relation to a class, 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 to pay any Further Advance Purchase Price and/or Flexible Drawings Purchase Price and in accordance with the Pre-Enforcement Principal Priority of Payments or the Post-Enforcement Priority of Payments (as applicable);

Principal Paying Agent means HSBC Bank plc 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 (including payments of Capitalised Interest and Capitalised Expenses and Capitalised Arrears), (b) recoveries of principal from defaulting Borrowers under Loans being enforced (including the proceeds of sale of the relevant Property but excluding any recoveries of principal from defaulting Borrowers under loans in respect of which enforcement procedures have been completed), (c) any payment pursuant to any insurance policy in respect of a Mortgaged Property in connection with a Loan in the Portfolio and (d) the proceeds of the repurchase of any Loan by the Seller from the Issuer pursuant to the Mortgage Sale Agreement (excluding, for the avoidance of doubt, amounts attributable to Accrued Interest and Arrears of Interest thereon as at the relevant repurchase date);

Priority of Payments means the Pre-Enforcement Revenue Priority of Payments, the Pre-Enforcement Principal Priority of Payments and the Post-Enforcement Priority of Payments;

Product Switch means a change or variation in the financial terms and conditions applicable to a Borrower's Loan other than:

- (a) any variation agreed with a Borrower to control or manage arrears on the Loan;
- (b) any variation in the maturity date of a Loan;
- (c) any variation imposed by statute or by regulation or any variation in the frequency with which the interest payable in respect of the Loan is charged;
- (d) any variation to the interest rate as a result of the Borrowers switching to a different rate;
- (e) any change to a Borrower under the Loan or the addition of a new Borrower under a Loan; or
- (f) any change in the repayment method of the Loan;

Property means a freehold or leasehold property which is subject to a Mortgage;

Provisions for Meetings of Noteholders means the provisions contained in Schedule 3 to the Trust Deed;

Rating Agencies means Moody's and Fitch and **Rating Agency** means any of them;

Receiver means any receiver, manager, receiver or manager or administrative receiver appointed by the Trustee in accordance with Clause 18.2 (*Appointment of Receiver*) of the Deed of Charge;

Reconciliation Amount means in respect of any Collection Period which is a Determination Period, (i) the actual Principal Receipts as determined in accordance with the available Servicer Reports, less (ii) the Calculated Principal Receipts in respect of such Collection Period, plus (iii) any Reconciliation Amount not applied in respect of previous Collection Periods;

Reference Banks means the principal London office of four major banks in the London interbank market, selected by the Agent Bank at the relevant time;

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

- (a) the Rounded Arithmetic Mean of the offered quotations as at or about 11:00 a.m. (London time) on that date of the Reference Banks to major banks for Sterling deposits for the Relevant Period in the London interbank market in the Representative Amount determined by the Agent Bank after request of each of the Reference Banks;
- (b) if, on such date, two or three only of the Reference Banks provide such quotations, the rate determined in accordance with paragraph (a) above on the basis of the quotations of those Reference Banks providing such quotations; or
- (c) if, on such date, one only or none of the Reference Banks provides such a quotation, the Sterling Reserve Reference Rate;

Register means the register on which the names and addresses of the holders of the Notes and the particulars of the Notes shall be entered and kept by the Issuer at the Specified Office of the Registrar;

Registrar means the party responsible for the registration of the Notes, which at the Closing Date is HSBC Bank plc 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; and
- (b) each right of action of the Seller against any person (including, without limitation, any solicitor, licensed 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 annum up to and excluding the relevant Step-Up Date and thereafter 1.14% per annum; and
- (b) for the Class B Notes, 0.00% per annum;

Relevant Period means, in relation to the first Interest Determination Date, the linear interpolation of between three months and six months and, in relation to each subsequent Interest Determination Date, the length in months of the related Interest Period;

Relevant Screen means a page of the Reuters service or of the Bloomberg service, or of any other medium for the electronic display of data as may be previously approved in writing by the Trustee and as has been notified to the Noteholders in accordance with the Notices Condition;

Remaining Income Deficit means for each Calculation Date, the extent, if any, by which Available Revenue Receipts are insufficient to pay or provide for payment of items (a) to (e) of the Pre-Enforcement Revenue Priority of Payments after application by the Cash Manager (on behalf of the Issuer) of amounts standing to the credit of the General Reserve Fund;

Replacement Cash Management Agreement means the replacement cash management agreement scheduled to the Back-Up Cash Management Agreement and entered into in accordance with the Back-Up Cash Management Agreement between the Back-Up Cash Manager (as Cash Manager), the Issuer, the Trustee, the Seller and the Servicer.

Replacement Servicing Agreement means the replacement servicing agreement scheduled to the Back-Up Servicing Agreement and entered into in accordance with the Back-Up Servicing Agreement between, *inter alios*, the Issuer, the Back-Up Servicer (as Servicer), the Seller, the Back-Up Servicer Facilitator and the Trustee.

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%;
 - (ii) greater than one year and less than or equal to two years, 98%;
 - (iii) greater than two years and less than or equal to three years, 97%;
 - (iv) greater than three years and less than or equal to five years, 96%;
 - (v) greater than five years and less than or equal to seven years, 95%;
 - (vi) greater than seven years and less than or equal to ten years, 94%; and
 - (vii) greater than ten years, 90%; and
- (b) in relation to floating rate Sterling denominated UK Government securities, 99%;

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

Reserved Matter means any proposal:

- (a) to change any date fixed for payment of principal or interest in respect of the Notes of any class, to modify the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of, or date fixed for, any payment in respect of the Notes of any class;
- (b) (except in accordance with Condition 21 (*Substitution of Issuer*) and Clause 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; 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 and other fees due from time to time under the Loans and other amounts received by the Issuer in respect of the Loans other than the Principal Receipts, (b) recoveries of interest from defaulting Borrowers under Loans being enforced and (c) recoveries of interest and/or principal from defaulting Borrowers under Loans in respect of which enforcement procedures have been completed;

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%, 0.00005% being rounded upwards);

Screen means Reuters Screen LIBOR01; or

- (a) such other page as may replace Reuters Screen LIBOR01 on that service for the purpose of displaying such information; or
- (b) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Trustee) as may replace such screen;

Secured Amounts means the aggregate of all moneys and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each, some or any of the Secured Creditors under the Notes or the Transaction Documents;

Secured Creditors means the Trustee in its own capacity, any Receiver or any Appointee appointed by the Trustee, each in its own capacity, the Agent Bank, the Registrar, the Paying Agents, the Corporate Services Provider, the Servicer, any Back-Up Servicer, the Cash Manager or any Back-Up Cash Manager, the Account Bank, any bank at which a Swap Collateral Account or other account in the name of the Issuer is held, the Back-Up Servicer Facilitator, the Interest Rate Swap Provider, the Noteholders, the Subordinated Loan Provider and the Seller (in respect of any Deferred Consideration);

Securitisation Regulations means the Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)

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 Principality Building Society acting in its capacity as seller of the Loans and their Related Security to the Issuer pursuant to the Mortgage Sale Agreement;

Seller Security Power of Attorney means the power of attorney in substantially the same form as that set out in Schedule 8 to the Mortgage Sale Agreement;

Servicing Agreement means the agreement so named dated on or about the Closing Date between the Issuer, the Seller, the Servicer, the Back-Up Servicer Facilitator and the Trustee or such other servicing agreement as may be entered into between, *inter alios*, a replacement servicer, the Issuer, the Seller, the Servicer, the Back-Up Servicer Facilitator and the Trustee (including the Replacement Servicing Agreement);

Servicer means Principality Building Society (or any successor duly appointed);

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

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 July 2019;

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

Sterling Reserve Reference Rate means on any Interest Determination Date:

- (a) the Rounded Arithmetic Mean of the rates at which deposits in Sterling are offered in the London interbank market at approximately 11:00 a.m. (London time) on the Interest Determination Date by the principal London office of each of four major banks selected by the Agent Bank in its absolute discretion for Sterling loans for the Relevant Period in the Representative Amount to major banks in the London interbank market; or
- (b) if the Agent Bank certifies that it cannot determine such Rounded Arithmetic Mean as aforesaid, the Reference Rate in effect for the Interest Period ending on the Business Day immediately preceding the relevant Interest Determination Date;

Sterling Screen Rate means, in relation to (i) the first Interest Determination Date, the linear interpolation of the offered quotations for 3 month sterling deposits and 6 month sterling deposits, each in the London interbank market displayed on the Screen or (ii) any subsequent Interest Determination Date, the offered quotations for Sterling deposits for the Relevant Period which appears on the Screen as at or about 11:00 a.m. (London time) on that date (rounded upwards if necessary, to five decimal places);

Stock Exchange means The Irish Stock Exchange plc;

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 subordinated loan agreement so named dated on or about the Closing Date between the Issuer, the Subordinated Loan Provider and the Trustee;

Subordinated Loan Provider means Principality Building Society in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement;

Subscription Agreement means the subscription agreement so named dated on or about 6 June 2014 between the Issuer, the Seller and the Joint Lead Managers;

Substitute Loan means a Loan and its Related Security which has been assigned to the Issuer as consideration for the repurchase of a Loan which was found to be in breach of any representation or warranty in accordance with the terms of the Mortgage Sale Agreement;

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

Substitution Date means the date upon which a Substitute Loan is assigned to the Issuer;

Swap Collateral means any cash or securities transferred by the Interest Rate Swap Provider to the Issuer on any date pursuant to the terms of the Swap Credit Support Annex to the Interest Rate Swap Agreement (and any income or distributions earned thereon);

Swap Collateral Account means any cash and/or securities accounts opened in the name of the Issuer for the purposes of, among other things, posting collateral pursuant to the Interest Rate Swap Agreement;

Swap Collateral Account Bank means HSBC Bank plc or any successor appointed from time to time by the Issuer in accordance with the Swap Collateral Account (Cash) Agreement or the Swap Collateral Account (Securities) Agreement;

Swap Collateral Account (Cash) Agreement means an account agreement dated on or about the Closing Date to be entered into between, *inter alios*, the Issuer and the Swap Collateral Account Bank.

Swap Collateral Account (Securities) Agreement means a custody agreement dated on or about the Closing Date to be entered into between, *inter alios*, the Issuer and the Swap Collateral Account Bank.

Swap Collateral Account Agreements means the Swap Collateral Account (Cash) Agreement and the Swap Collateral Account (Securities) Agreement.

Swap Collateral Account Priority of Payments, in respect of each Swap Collateral Account, has the meaning given thereto in Paragraph 13 (*Swap Collateral Accounts Priority of Payments*) of Schedule 2 (*Cash Management and Maintenance of Ledgers*) to the Cash Management Agreement;

Swap Collateral Account Surplus means, in respect of a Swap Collateral Account, any surplus amounts remaining after funds standing to the credit of such Swap Collateral Account have been applied in accordance with the relevant Swap Collateral Account Priority of Payments;

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

Swap Subordinated Amount means any amount due to the Interest Rate Swap Provider in connection with an early termination of the Interest Rate Swap Agreement where such termination results from an Event of Default (as defined in the Interest Rate Swap Agreement) in respect of which the Interest Rate Swap Provider is the Defaulting Party or an Additional Termination Event (as defined in the Interest Rate Swap Agreement) resulting from a ratings downgrade of the Interest Rate 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 Interest Rate Swap Provider pursuant to the provisions of the Interest Rate 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 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 Servicing Agreement, the Back-Up Servicing Agreement, the Agency Agreement, the Cash Management Agreement, the Back-Up Cash Management Agreement, the Corporate Services Agreement, the Deed of Charge (and any documents entered into pursuant to the Deed of Charge), the Interest Rate Swap Agreement, the Swap Collateral Account Agreements, the Issuer Power of Attorney, the Incorporated Terms Memorandum, the Mortgage Sale Agreement, the Seller Security Power of Attorney, the Subscription Agreement, the Subordinated Loan Agreement, the Trust Deed and such other related documents which are referred to in the terms of the above documents or which relate to the issue of the Notes;

Transaction Party means any person who is a party to a Transaction Document and **Transaction Parties** means some or all of them;

Treaty means the Treaty establishing the European Community, as amended;

Trust Deed means the deed so named dated on or about the Closing Date between the Issuer and the Trustee and any document expressed to be supplemented to the Trust Deed;

Trust Documents means the Trust Deed and the Deed of Charge and (unless the context requires otherwise) includes any deed or other document executed in accordance with the provisions of the Trust Deed or (as applicable) the Deed of Charge and expressed to be supplemental to the Trust Deed or the Deed of Charge (as applicable);

Trustee means HSBC Corporate Trustee Company (UK) Limited in its capacity as trustee under the Trust Deed and the Deed of Charge;

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 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;

Class or 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 to, 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 to 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 to 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. (**Euroclear**) or Clearstream Banking, *société anonyme* (**Clearstream, Luxembourg**), as appropriate.
- 3.4 For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradable only in minimal amounts of £100,000 and integral multiples of £1,000 thereafter.
- 3.5 Certificates evidencing definitive registered Notes in an aggregate principal amount equal to the Principal Amount Outstanding of the Global Notes (the **Definitive Certificates**) will be issued in registered form and serially numbered in the circumstances referred to below. Definitive Certificates, if issued, will be issued in the denomination of £100,000 and any amount in excess thereof in integral multiples of £1,000.
- 3.6 If, while any Notes are represented by a Global Note:
- (a) in the case of a Global Note held in Euroclear or Clearstream, Luxembourg, Euroclear or Clearstream, Luxembourg are closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announce an intention permanently to cease business or do so cease business and no alternative clearing system satisfactory to the Trustee is available; or
 - (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or any political subdivision thereof) or of any authority therein or thereof having power to tax or in the interpretation by a revenue authority or a court of, or in the administration of, such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will be required to make any withholding or deduction from any payment in respect of the Notes which would not be required if the Notes were in definitive registered form and a certificate to such effect signed by an authorised director of the Issuer is delivered to the Trustee,

(each an **Exchange 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 Exchange 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.

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, 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, 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.
- 8.10 ***Reference Banks and Agent Bank:*** The Issuer shall ensure that, so long as any of the Notes remains outstanding there shall at all times be an Agent Bank, a Paying Agent and a Principal Paying Agent, and will use reasonable endeavours to appoint four Reference Banks. 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 (other than the Most Senior Class of 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) 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 a Servicer Report with respect to a Collection Period (each such period being a **Determination Period**), then the Cash Manager may use the Servicer Report in respect of the three most recent Collection Periods (or, where there are not at least three previous Servicer Reports, any previous Servicer Reports) for the purposes of calculating the amounts available to the Issuer to make payments, as set out in this Condition 8.12. When the Cash Manager receives the Servicer 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 Servicer Reports (or, where there are not at least three previous Servicer Reports, any previous Servicer 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) one 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 Servicer 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 Servicer 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 Available 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 Available 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.

Reconciliation Amount means in respect of any Collection Period which is a Determination Period, (i) the actual Principal Receipts as determined in accordance with the available Servicer Reports, less (ii) the Calculated Principal Receipts in respect of such Collection Period, plus (iii) any Reconciliation Amount not applied in respect of previous Collection Periods;

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, 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 equal to or less than 10% 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 with a copy to the Interest Rate Swap Provider, 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 is (or the Paying Agents on the Issuer's behalf are) to make any payment in respect of the Notes or the Interest Rate Swap Provider is to make any payment in respect of the Interest Rate Swap Agreement and either the Issuer (or the Paying Agents on the Issuer's behalf) or the Interest Rate 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 otherwise than in accordance with regulations 14 to 21 of the Securitisation Regulations;

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, with a copy to the Interest Rate Swap Provider, 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 Interest Rate 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(a) above only, a certificate signed by two directors of the Issuer or, in the case of the current Interest Rate 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) above and 9.4(b) above only, a certificate signed by an authorised director 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.
- 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 current Interest Rate 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 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*) 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*).

9.10 ***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 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**). 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 (i) any applicable fiscal or other laws and regulations applicable thereto in any jurisdiction and (ii) any withholding or deduction required pursuant to an agreement described in section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

11.4 ***Partial Payments***: If a Principal Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note.

11.5 ***Payments on Business Days:*** If the due date for payment of any amount in respect of any Note is not a Business Day, then the holder shall not be entitled to payment until the next succeeding Business Day and no further payments of additional amounts by way of interest, principal or otherwise shall be due in respect of such Note.

12. **Taxation**

12.1 ***Payments free of Tax:*** All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for or on account of, any Taxes imposed, levied, collected, withheld or assessed by the Issuer Jurisdiction or any political subdivision or any authority thereof or therein having power to tax, unless the Issuer, the Trustee or the Paying Agents (as the case may be) are required by law to make any Tax Deduction or if the withholding of Taxes is required by agreement of the Issuer (or any Paying Agent) under the provisions of section 1471(b) of the Code or otherwise imposed pursuant to sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. In that event, the Issuer, the Trustee or the Paying Agents (as the case may be) shall make such payments after such Tax Deduction and shall account to the relevant authorities for the amount so withheld or deducted.

12.2 ***No payment of additional amounts:*** Neither the Issuer, the Trustee nor the Paying Agents will be obliged to pay any additional amounts to the Noteholders as a result of any such Tax Deduction.

13. **Events of Default**

13.1 ***Events of Default:*** Subject to the other provisions of this Condition, each of the following events shall be treated as an **Event of Default**:

- (a) ***Non-payment:*** the Issuer fails to pay any amount of principal in respect of the Most Senior Class of Notes within seven days following the due date for payment of such principal or fails to pay any amount of interest in respect of the Most Senior Class of Notes within fourteen days following the due date for payment of such interest (provided that, for the avoidance of doubt, a deferral of interest in respect of a Class of Notes (other than the Class A Notes) in accordance with Condition 8.11 (*Interest Accrual*) shall not constitute a default in the payment of such interest for the purposes of this Condition 13); 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% 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, with a copy to the Interest Rate Swap Provider.

- 13.3 **Conditions to delivery of Enforcement Notice:** Notwithstanding Condition 13.2 (*Delivery of Enforcement Notice*) the Trustee shall not be obliged to deliver an Enforcement Notice unless:
- (a) in the case of the occurrence of any of the events mentioned in Condition 13.1(b) (*Breach of other obligations*) the Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders of the Most Senior Class of Notes outstanding; and
 - (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.
- 13.4 **Consequences of delivery of Enforcement Notice:** Upon the delivery of an Enforcement Notice, the Notes of each class shall become immediately due and payable, without further action or formality, at their Principal Amount Outstanding together with any accrued interest.
14. **Enforcement**
- 14.1 **Proceedings:** The Trustee may, at its discretion and without further notice, institute such steps, actions, proceedings as it thinks fit to enforce its rights under the Trust Deed in respect of the Notes of each class (including these Conditions), the Deed of Charge or under the other Transaction Documents or to enforce the Security, but it shall not be bound to do so unless:
- (a) so requested in writing by the holders of in aggregate at least 25% 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 confirms to the Trustee that having regard to the amount to be received from the proposed disposal of the Charged Property (as notified to the Cash Manager) such amount would be sufficient 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, at all times having regard to amounts due and owing at the time of confirmation; or
 - (b) the Trustee is of the opinion, which shall be binding on the Noteholders and the other Secured Creditors, reached after considering at any time and from time to time the advice of an investment bank or other financial adviser selected by the Trustee, (and if the Trustee is unable to obtain such advice having made reasonable efforts to do so this

Condition 14.3(b) shall not apply) that the cash flow prospectively receivable by the Issuer will not (or that there is a significant risk that it will not) be sufficient, having regard to any other relevant actual, contingent or prospective liabilities of the Issuer, to discharge in full in due course all amounts due in respect of the Notes of each class after payment of all other claims ranking in priority to the Notes in accordance with the Post-Enforcement Priority of Payments; and

- (c) the Trustee shall not be bound to make the determination contained in Condition 14.3(b) unless the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

14.4 **Third Party Rights:** No person shall have any right to enforce any Condition or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

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

15.1 Only the Trustee may pursue the remedies available under the general law or under the Trust Documents to enforce the Security and no Noteholder or other Secured Creditor shall be entitled to proceed directly against the Issuer to enforce the Security. In particular, none of the Noteholders or any other Secured Creditor (nor any person on its or their behalf, other than the Trustee where appropriate) are entitled:

- (a) otherwise than as permitted by these Conditions, to direct the Trustee to enforce the Security or take any proceedings against the Issuer to enforce the Security;
- (b) to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due by the Issuer to such Noteholders or any other Secured Creditors;
- (c) until the date falling two years after the Final Discharge Date, to initiate or join any person in initiating any insolvency proceeding in relation to the Issuer; or
- (d) to take or join in the taking of any steps or proceedings which would result in the Priority of Payments not being observed.

16. **Meetings of Noteholders**

16.1 **Convening:** The Trust Deed contains "*Provisions for Meetings of Noteholders*" for convening separate or combined meetings of Noteholders of any class to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed, which modification may be made if sanctioned by an Extraordinary Resolution.

16.2 **Separate and combined meetings:** The Trust Deed and the Deed of Charge provide that:

- (a) an Extraordinary Resolution which in the opinion of the Trustee affects the Notes of only one class shall be transacted at a separate meeting of the Noteholders of that class;
- (b) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one class of Notes and the holders of another class of Notes shall be transacted either at separate meetings of the Noteholders of each such class or at a single meeting of the Noteholders of all such classes of Notes as the Trustee shall determine in its absolute discretion; and
- (c) an Extraordinary Resolution which in the opinion of the Trustee affects the Noteholders of more than one class of Notes 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 10% of the aggregate Principal Amount Outstanding of the outstanding Notes of that class.

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% 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% 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 the relevant affected Class 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 the relevant affected Class 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 or by Electronic Consents:** A Written Resolution shall take effect as if it were an Extraordinary Resolution. Any resolution passed by way of Electronic Consents given by holders through the relevant clearing system(s) in accordance with these Conditions and the Trust Deed shall also be binding on the relevant Noteholders.

17. **Modification and Waiver**

17.1 **Modification:** the Trustee may at any time and from time to time, without the consent or sanction of the Noteholders or any other Secured Creditors, concur with the Issuer and any other relevant parties in making:

- (a) any modification to these Conditions, the Trust Documents, the Notes or the other Transaction Documents in relation to which its consent is required (other than in respect of a Reserved Matter or any provisions of the Trust Documents referred to in the definition of a Reserved Matter) which, in the opinion of the Trustee, will not be materially prejudicial to the holders of the Most Senior Class of outstanding Notes; or

- (b) any modification to these Conditions, the Trust Documents or the other Transaction Documents in relation to which its consent is required, if, in the opinion of the Trustee, such modification is of a formal, minor or technical nature or is made to correct a manifest error.

Any modifications made pursuant to this Condition 17.1 shall be notified by the Issuer (or the Cash Manager on its behalf) to the Interest Rate Swap Provider three Business Days prior to such modifications taking effect, provided that, the failure by the Issuer (or the Cash Manager on its behalf) to deliver such notice will not affect the validity of the modifications when effected, PROVIDED FURTHER THAT the prior written consent of the Interest Rate Swap Provider shall be required for modifications to Transaction Documents (i) to which the Interest Rate Swap Provider is a party; or (ii) which would have the effect of increasing the amount that the Interest Rate Swap Provider would reasonably be required to pay or decreasing the amount that the Interest Rate Swap Provider would receive if the Interest Rate Swap Provider were to replace itself as swap provider under the Interest Rate Swap Transaction than otherwise would have been the case prior to such amendment, or (iii) which would modify any of the Priority of Payments such that the Interest Rate Swap Provider would be further contractually subordinated to any Secured Creditor than otherwise would have been the case prior to such amendment. In circumstances where the consent of the Interest Rate Swap Provider is not required pursuant to (i), (ii) or (iii) above, the Issuer (or the Cash Manager on its behalf) shall certify as such in writing to the Trustee prior to the making of such amendment and the Trustee shall be entitled to rely absolutely of such certification without any liability to any person for so doing.

17.2 ***Additional Right of Modification:*** Notwithstanding the provisions of Condition 17.1 (Modification), the Trustee shall be obliged, without any consent or sanction of the Noteholders, or, subject to the receipt of consent from any of the Secured Creditors party to the Transaction Document being modified or which, as a result of such amendment, would be further contractually subordinated to any Secured Creditor than would otherwise have been the case prior to such amendment, any of the other Secured Creditors, to concur with the Issuer in making any modification (other than in respect of a Reserved Matter) to these Conditions or any other Transaction Document to which it is a party or in relation to which it holds security or enter into any new, supplemental or additional documents that the Issuer (in each case) considers necessary:

- (a) in order to enable the Issuer to comply with any requirements which apply to it under EMIR, subject to receipt by the Trustee of a certificate issued by the Issuer or the Cash Manager on behalf of the Issuer certifying to the Trustee the requested amendments are to be made solely for the purpose of enabling the Issuer to satisfy its requirements under EMIR and have been drafted solely to that effect and the Trustee shall be entitled to rely absolutely on such certification without any liability to any person for so doing; or
- (b) in order to allow the Issuer to open additional accounts with an additional account bank or to move the Issuer Accounts to be held with an alternative account bank with the Account Bank Rating, provided that the Issuer or the Cash Manager has certified to the Trustee that (a) such action would not have an adverse effect on the then current ratings of the Class A Notes, and (b) if a new account bank agreement is entered into, such agreement will be entered into on substantially the same terms as the Account Bank Agreement provided further that if the Issuer or the Cash Manager determines that it is not practicable to agree terms substantially similar to those set out in the Account Bank Agreement with such replacement financial institution or institutions and the Issuer or the Cash Manager certifies in writing to the Trustee that the terms upon which it is proposed the replacement bank or financial institution will be appointed are reasonable commercial terms taking into account the then prevailing current market conditions, whereupon a replacement agreement will 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 or other terms may differ materially from those on which the previously appointed bank or financial institution agreed to act), or
- (c) for the purpose of complying with, or implementing or reflecting, any change in the criteria of one or more of the Rating Agencies which may be applicable from time to time, provided that in relation to any amendment under this Condition 17.2(c):

- (i) the Issuer or the Cash Manager on behalf of the Issuer certifies in writing to the Trustee that such modification is necessary to comply with such criteria or, as the case may be, is solely to implement and reflect such criteria; and
- (ii) in the case of any modification to a Transaction Document proposed by any of the Seller, the Servicer, the Interest Rate Swap Provider, the Account Bank, the Swap Collateral Account Bank in order (x) to remain eligible to perform its role in such capacity in conformity with such criteria and/or (y) to avoid taking action which it would otherwise be required to take to enable it to continue performing such role (including, without limitation, posting collateral or advancing funds):
 - (A) the Seller, the Servicer, the Interest Rate Swap Provider, the Account Bank and/or the Swap Collateral Account Bank, as the case may be, certifies in writing to the Issuer and the Trustee that such modification is necessary for the purposes described in paragraph (ii)(x) and/or (y) above (and in the case of a certification provided to the Issuer, the Issuer shall certify to the Trustee that it has received the same from the Seller, the Servicer, the Interest Rate Swap Provider, the Account Bank and/or the Swap Collateral Account Bank, as the case may be);
 - (B) either:
 - (I) the Seller, the Servicer, the Interest Rate Swap Provider, the Account Bank and/or the Swap Collateral Account Bank, as the case may be, obtains from each of the Rating Agencies written confirmation (or certifies in writing to the Issuer and the Trustee that it has been unable to obtain written confirmation, but has received oral confirmation from an appropriately authorised person at each of the Rating Agencies) that such modification would not result in a downgrade, withdrawal or suspension of the then current ratings assigned to the Class A Notes by such Rating Agency and would not result in any Rating Agency placing any Class A Notes on rating watch negative (or equivalent) and, if relevant, delivers a copy of each such confirmation to the Issuer and the Trustee; or
 - (II) the Issuer or the Cash Manager on behalf of the Issuer certifies in writing to the Trustee that the Rating Agencies have been informed of the proposed modification and none of the Rating Agencies has indicated that such modification would result in (x) a downgrade, withdrawal or suspension of the then current ratings assigned to any Class of the Notes by such Rating Agency or (y) such Rating Agency placing any Notes on rating watch negative (or equivalent); and
 - (C) the Seller pays all costs and expenses (including legal fees) incurred by the Issuer and the Trustee or any other Transaction Party in connection with such modification;

(the certificate to be provided by the Cash Manager on behalf of the Issuer, the Seller, the Servicer, the Interest Rate Swap Provider, the Account Bank, the Swap Collateral Account Bank and/or the relevant Transaction Party, as the case may be, pursuant to paragraphs (i), (B)(I) or (B)(II) above being a **Modification Certificate**), provided that:

- (I) at least 30 calendar days' prior written notice of any such proposed modification has been given to the Trustee;
- (II) the Modification Certificate in relation to such modification shall be provided to the Trustee both at the time the Trustee is notified of the proposed modification and on the date that such modification takes effect;

- (III) the consent of each Secured Creditor which is party to the relevant Transaction Document or whose ranking in any Priority of Payments is affected has been obtained; and
- (IV) the Issuer (or the Cash Manager on its behalf) certifies in writing to the Trustee (which certification may be in the Modification Certificate) that the Issuer has provided at least 30 calendar days' notice to the Noteholders of each Class of the proposed modification in accordance with Condition 22 (Notices) and by publication on Bloomberg on the "Company News" screen relating to the Notes, and Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the most senior Class of Notes then outstanding have not contacted the Issuer or Principal Paying Agent in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within such notification period notifying the Issuer or Principal Paying Agent that such Noteholders do not consent to the modification.

If Noteholders representing at least 10 per cent. of the aggregate Principal Amount Outstanding of the most senior Class of Notes then outstanding have notified the Principal Paying Agent or the Issuer in writing (or otherwise in accordance with the then current practice of any applicable clearing system through which such Notes may be held) within the notification period referred to above that they do not consent to the modification, then such modification will not be made unless an Extraordinary Resolution of the Noteholders of the most senior Class of Notes then outstanding is passed in favour of such modification in accordance with Condition 16 (Meetings of Noteholders).

Objections made in writing other than through the applicable clearing system must be accompanied by evidence to the Issuer's satisfaction (having regard to prevailing market practices) of the relevant Noteholder's holding of the Notes.

- (d) Notwithstanding anything to the contrary in this Condition 17.2 (*Additional Right of Modification*), the prior written consent of the Interest Rate Swap Provider shall be required for any modifications to Transaction Documents made pursuant to this Condition 17.2 (*Additional Right of Modification*) if the modification (i) would have the effect of increasing the amount that the Interest Rate Swap Provider would reasonably be required to pay or decreasing the amount that the Interest Rate Swap Provider would receive if the Interest Rate Swap Provider were to replace itself as swap provider under the Interest Rate Swap Transaction than otherwise would have been the case prior to such amendment, or (ii) would modify any of the Priority of Payments such that the Interest Rate Swap Provider would be further contractually subordinated to any Secured Creditor than otherwise would have been the case prior to such amendment. In circumstances where the consent of the Interest Rate Swap Provider is not required pursuant to (i) or (ii) above, the Issuer (or the Cash Manager on its behalf) shall certify as such in writing to the Trustee, prior to the making of such amendment and the Trustee shall be entitled to rely absolutely on such certification without any liability to any person for so doing. The Issuer (or the Cash Manager on its behalf) shall certify to the Trustee that any amendment to be made pursuant to this Condition 17.2 (*Additional Right of Modification*) will not result in any Secured Creditor who is not otherwise providing its consent to such amendment being further contractually subordinated to any other Secured Creditor and the Trustee shall be entitled to rely absolutely on such certification without any liability to any person for so doing.
- (e) Notwithstanding anything to the contrary in this Condition 17.2 (Additional Right of Modification) or any Transaction Document:
 - (i) when implementing any modification pursuant to this Condition 17.2 (Additional Right of Modification) (save to the extent the Trustee considers that the proposed modification would constitute a Reserved Matter), the Trustee shall not consider the interests of the Noteholders, any other Secured Creditor or any other person

and shall act and rely solely and without further investigation on any certificate or evidence provided to it by the Issuer (or the Cash Manager on behalf of the Issuer) or the relevant Transaction Party, as the case may be, pursuant to this Condition 17.2 (Additional Right of Modification) and shall not be liable to the Noteholders, any other Secured Creditor or any other person for so acting or relying, irrespective of whether any such modification is or may be materially prejudicial to the interests of any such person; and

- (ii) the Trustee shall not be obliged to agree to any modification which, in the sole opinion of the Trustee would have the effect of (i) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or pre-funded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the rights or protection, of the Trustee in the Transaction Documents and/or these Conditions.
- (f) Any such modification shall be binding on all Noteholders and shall be notified by the Issuer as soon as reasonably practicable to:
- (i) so long as any of the Notes rated by the Rating Agencies remains Outstanding, each Rating Agency;
 - (ii) the Secured Creditors; and
 - (iii) the Noteholders in accordance with Condition 22 (Notices).
- 17.3 **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.
- 17.4 **Restriction on power to waive:** The Trustee shall not exercise any powers conferred upon it by Condition 17.3 (*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% 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 have, by Extraordinary Resolution, so authorised its exercise.
- 17.5 **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.
- 17.6 **Binding Nature:** Any authorisation, waiver, determination or modification referred to in Condition 17.1 (*Modification*) or Condition 17.3 (*Waiver*) shall be binding on the Noteholders and the other Secured Creditors.
- 17.7 **New Secured Creditors:** Subject to the Issuer providing the certificate and obtaining the confirmations stipulated pursuant to clause 15.4(c) of the Trust Deed (and set out below), the prior consent of the Trustee, the Noteholders and the other Secured Creditors will not be required or obtained in relation to the accession of any New Secured Creditor pursuant to an Accession Undertaking in the Deed of Charge. Accordingly, each Secured Creditor (other than the Trustee, but including the Noteholders) shall be deemed to have consented to the admission of any company as a New Secured Creditor without the necessity for any approval by means of Extraordinary Resolution or otherwise of the Noteholders or for any other Secured Creditor who is party to any Transaction Document to concur in or consent to any deed admitting any New Secured Creditor. In addition, each other Secured Creditor is deemed to:

- (i) subject to the Issuer securing the confirmations set out in the Trust Deed, consent to any consequential changes to the Priority of Payments set out in the Cash Management Agreement and/or the Deed of Charge as are required and any other amendment to the Transaction Documents as may be required to give effect to the Accession Undertaking save to the extent that any such change or amendment results in an alteration to the ranking of any such Secured Creditor in which event such change or amendment shall not become effective without the prior written consent of such Secured Creditor; and
- (ii) agree that, upon the accession of any New Secured Creditor as provided above, any deed, agreement or other document to which such New Secured Creditor is a party shall be subject to the Security Interests set out in clause 3 (Security and Declaration of Trust) of the Deed of Charge.

The Issuer shall, in order to provide the certificate under clause 15.5(b) of the Trust Deed to the Trustee, obtain the following confirmations: (i) the Interest Rate Swap Provider providing written confirmation to the Issuer consenting to such modification of those documents to which they are a party and (ii) the Issuer, (so long as the Seller is the Cash Manager), the Cash Manager or (following the date on which the Seller ceases to be the Cash Manager) the Corporate Services Provider, as the case may be, providing certification to the Issuer, in writing that such modifications are required in order to accommodate the addition of a New Secured Creditor.

The Trustee, without seeking any approval by means of an Extraordinary Resolution or otherwise of the Noteholders, shall be obliged to concur in and to effect any modifications to the Transaction Documents that are required to accommodate the accession of a New Secured Creditor, provided that (i) it receives a certificate from the Issuer confirming that such modifications are made only in order to accommodate such accession and the Trustee shall not be required or entitled to look behind such certificate; and (ii) the modifications to the Transaction Documents would not have the effect of (a) exposing the Trustee to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (b) increasing the obligations or duties (the entry into such new Transaction Document not being grounds which would constitute an increase in the obligations or duties of the Trustee, such determination being made based on the terms of that new Transaction Document), or decreasing the protections, of the Trustee under the Transaction Documents and/or the Conditions.

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, 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 Servicer 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 **provided that** there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such directive.

21. Substitution of Issuer

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

- (a) the consent of the Issuer;
- (b) the approval of the Rating Agencies in relation thereto; and
- (c) such further conditions as are specified in the Trust Deed,

agree to the substitution of a Substituted Obligor in place of the Issuer as the principal debtor in respect of the Trust Documents, the Transaction Documents, the Notes and the Secured Amounts.

21.2 **Notice of Substitution of Issuer:** Not later than fourteen days after any substitution of the Issuer in accordance with this Condition, the Substituted Obligor shall cause notice of such substitution to be given to the Noteholders and the other Secured Creditors in accordance with the Notices Condition and the other relevant Transaction Documents.

21.3 **Change of Law:** In the case of a substitution pursuant to this Condition, the Trustee may in its absolute discretion agree, without the consent of the Noteholders or the other Secured Creditors to a change of the law governing the Notes and/or any of the Transaction Documents provided that such change would not, in the opinion of the Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of outstanding Notes, provided that the Rating Agencies are notified. For the avoidance of doubt, a Transaction Document cannot be amended without the agreement of all the parties thereto.

21.4 **No indemnity:** No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

22. **Notices**

- 22.1 **Valid Notices:** Any notice to Noteholders shall be validly given 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 and (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 by a notification in writing to the Company Announcements Office of the Irish Stock Exchange, and by publication on Bloomberg on the “Company News” screen relating to the Notes where required pursuant to Condition 17.2.
- 22.2 **Date of publication:** Any notices so published shall be deemed to have been given on the date on which it was so sent or, as the case may be, on the date of such publication or, if published more than once or on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which publication is required or on the Relevant Screen or on the applicable date of delivery of the relevant notice to Euroclear and Clearstream, Luxembourg (as applicable).
- 22.3 **Other Methods:** The Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or to a class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the Stock Exchange on which the Notes are then listed and provided that notice of such other method is given to the Noteholders in such manner as the Trustee shall require.

23. **Non-Responsive Rating Agency**

- 23.1 In respect of the exercise of any power, duty, trust, authority or discretion as contemplated hereunder or in relation to the Notes and any of the Transaction Documents, the Trustee shall be entitled but not obliged to take into account any written confirmation or affirmation (in any form acceptable to the Trustee) from the relevant Rating Agencies that the then current ratings of the Class A Notes will not be reduced, qualified, adversely affected or withdrawn thereby (a **Rating Agency Confirmation**).
- 23.2 If a Rating Agency Confirmation or other response by a Rating Agency is a condition to any action or step under any Transaction Document and a written request for such Rating Agency Confirmation or response is delivered to each Rating Agency by or on behalf of the Issuer (copied to the Trustee) and:
- (a) (I) one Rating Agency (such Rating Agency, a **Non-Responsive Rating Agency**) indicates that it does not consider such Rating Agency Confirmation or response necessary in the circumstances or that it does not, as a matter of practice or policy provide such Rating Agency Confirmation or response or (II) within 30 days of delivery of such request, no Rating Agency Confirmation or response is received and/or such request elicits no statement by such Rating Agency that such Rating Agency Confirmation or response could not be given; and
 - (b) one Rating Agency gives such Rating Agency Confirmation or response based on the same facts;

then such condition to receive a Rating Agency Confirmation or response from each Rating Agency shall be modified so that there shall be no requirement for the Rating Agency Confirmation or response from the Non-Responsive Rating Agency if the Cash Manager on behalf of the Issuer provides to the Trustee a certificate signed by two directors certifying and confirming that each of the events in paragraphs (a)(I) or (II) and (b) above has occurred, the Issuer having sent a written request to each Rating Agency and the Trustee shall be entitled to rely upon such certificate without liability to any person for so doing.

- 23.3 The Trustee shall be entitled to rely without Liability to any person on any certificate delivered to it in connection with a Non-Responsive Rating Agency pursuant to Condition 23. The Trustee shall not be required to investigate any action taken by the Issuer or such Non-Responsive Rating Agency and shall treat the applicable condition or requirement to receive a Rating Agency

Confirmation or response from each Rating Agency as having been modified with the consent of all Noteholders and all parties to the relevant Transaction Documents so that there shall be no requirement for such Rating Agency Confirmation or response from Non-Responsive Rating Agency.

24. **Governing Law and Jurisdiction**

24.1 ***Governing law:*** The Transaction Documents and the Notes and all non-contractual obligations arising from or connected with them are governed by, and shall be construed in accordance with, English law.

24.2 ***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 applies only to persons who are the beneficial owners of Notes and is a summary of the Issuer's understanding of current law and practice in the United Kingdom relating only to United Kingdom withholding tax treatment of payments of principal and interest in respect of Notes. It does not deal with any other United Kingdom taxation implications of acquiring, holding or disposing of Notes. The United Kingdom tax treatment of prospective Noteholders depends on their individual circumstances and may be subject to change in the future. Prospective Noteholders who may be subject to tax in a jurisdiction other than the United Kingdom or who may be unsure as to their tax position should seek their own professional advice.

Interest on the Notes

Payments of interest on the Notes may be made without deduction of or withholding on account of United Kingdom income tax provided that the Notes continue to be listed on a "recognised stock exchange" within the meaning of section 1005 of the Income Tax Act 2007. The Irish Stock Exchange is a recognised stock exchange. The Notes will satisfy this requirement if they are officially listed in Ireland in accordance with provisions corresponding to those generally applicable in EEA states and are admitted to trading on the main market of the Irish Stock Exchange. Provided, therefore, that the Notes remain so listed, interest on the Notes will be payable without withholding or deduction on account of United Kingdom tax.

Interest on the Notes may also be paid without withholding or deduction on account of United Kingdom tax where interest on the Notes is paid by a company and, at the time the payment is made, the Issuer reasonably believes (and any person by or through whom interest on the Notes is paid reasonably believes) that the beneficial owner is within the charge to United Kingdom corporation tax as regards the payment of interest; provided that HM Revenue and Customs (**HMRC**) has not given a direction (in circumstances where it has reasonable grounds to believe that the above exemption is not available in respect of such payment of interest at the time the payment is made) that the interest should be paid under deduction of tax.

In other cases, an amount must generally be withheld from payments of interest on the Notes on account of United Kingdom income tax at the basic rate (currently 20%). However, where an applicable double tax treaty provides for a lower rate of withholding tax (or for no tax to be withheld) in relation to a Noteholder, HMRC can issue a notice to the Issuer to pay interest to the Noteholder without deduction of tax (or for interest to be paid with tax deducted at the rate provided for in the relevant double tax treaty).

HMRC has powers, in certain circumstances, to obtain information about: payments derived from securities (whether income or capital); certain payments of interest (including the amount payable on the redemption of a deeply discounted security); and securities transactions.

The persons from whom HMRC can obtain information include: a person who receives (or is entitled to receive) a payment derived from securities; a person who makes such a payment (received from, or paid on behalf of another person); a person by or through whom interest is paid or credited; a person who effects or is a party to securities transactions (which includes an issue of securities) on behalf of others; registrars or administrators in respect of securities transactions; and each registered or inscribed holder of securities.

The information HMRC can obtain includes: details of the beneficial owner of securities; details of the person for whom the securities are held, or the person to whom the payment is to be made (and, if more than one, their respective interests); information and documents relating to securities transactions; and, in relation to interest paid or credited on money received or retained in the United Kingdom, the identity of the security under which interest is paid. HMRC is generally not able to obtain information (under its power relating solely to interest) about a payment of interest to (or a receipt for) a person that is not an individual. This limitation does not apply to HMRC's power to obtain information about payments derived from securities.

In certain circumstances the information which HMRC has obtained using these powers may be exchanged with tax authorities in other jurisdictions.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of certain payments of interest or similar income paid or secured by a person established in a Member State to or for the benefit of an individual resident in another Member State or certain limited types of entities established in another Member State.

On 24 March 2014, the Council of the European Union adopted a Council Directive amending and broadening the scope of the requirements described above. Member States are required to apply these new requirements from 1 January 2017. The changes will expand the range of payments covered by the Directive, in particular to include additional types of income payable on securities. The Directive will also expand the circumstances in which payments that indirectly benefit an individual resident in a Member State must be reported. This approach will apply to payments made to, or secured for, persons, entities or legal arrangements (including trusts) where certain conditions are satisfied, and may in some cases apply where the person, entity or arrangement is established or effectively managed outside of the European Union.

For a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments. The changes referred to above will broaden the types of payments subject to withholding in those Member States which still operate a withholding system when they are implemented. In April 2013, the Luxembourg Government announced its intention to abolish the withholding system with effect from 1 January 2015, in favour of automatic information exchange under the Directive.

The end of the transitional period is dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries. A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

Foreign Account Tax Compliance Act

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 (**FATCA**) impose a new reporting regime and potentially a 30% withholding tax with respect to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or **FFI** (as defined by FATCA)) that does not become a **Participating FFI** by entering into an agreement with the U.S. Internal Revenue Service (**IRS**) to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States Account" of the Issuer (a **Recalcitrant Holder**). The Issuer may be classified as an FFI.

The new withholding regime will be phased in beginning on 1 July 2014 for payments from sources within the United States and will apply to **foreign passthru payments** (a term not yet defined) no earlier than 1 January 2017. This withholding would potentially apply to payments in respect of (i) any Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal tax purposes that are issued after the **grandfathering date**, which is the date that is six months after the date on which final U.S. Treasury regulations defining the term foreign passthru payment are filed with the Federal Register, or which are materially modified on or after the grandfathering date and (ii) any Notes characterised as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each, an **IGA**). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a **Reporting FI** not subject to withholding

under FATCA on any payments it receives. Further, an FFI in a Model 1 IGA jurisdiction would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being **FATCA Withholding**) from payments it makes. The Model 2 IGA leaves open the possibility that a Reporting FI might in the future be required to withhold as a Participating FFI on foreign passthru payments and payments that it makes to Recalcitrant Holders. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS. The United States and the United Kingdom have entered into an agreement (the **U.S.-UK IGA**) based largely on the Model 1 IGA.

Assuming that the Issuer is treated as a Reporting FI pursuant to the U.S.-UK IGA, it does not anticipate being obliged to deduct any FATCA Withholding on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would in the future not be required to deduct FATCA Withholding from payments it makes. Accordingly, the Issuer and financial institutions through which payments on the Notes are made may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Notes is made is not a Participating FFI or a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

While the Class A Notes are in global form and held within the clearing systems, it is expected that FATCA will not affect the amount of any payments made under, or in respect of, the Class A Notes by the Issuer, any paying agent and the common depositary, given that each of the entities in the payment chain between the Issuer and participants in the clearing systems is a major financial institution whose business is dependent on compliance with FATCA and that any alternative approach introduced under an IGA will be unlikely to affect the Class A Notes. The documentation expressly contemplates the possibility that the Class A Notes may go into definitive form and therefore that they may be taken out of the clearing systems. If this were to happen, then a non-FATCA compliant holder could be subject to FATCA Withholding. However, Definitive Certificates will only be printed in remote circumstances.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form.

TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

SUBSCRIPTION AND SALE

HSBC Bank plc and Barclays Bank PLC (together, the **Joint Lead Managers**) have, pursuant to a subscription agreement dated on or about the date hereof amongst the Seller, the Joint Lead Managers and the Issuer (the **Subscription Agreement**), agreed with the Issuer (subject to certain conditions) to subscribe and pay for £ 475,000,000 of the Class A Notes at the issue price of 100% of the aggregate principal amount of the Class A Notes.

In the Subscription Agreement the Seller has covenanted that it will, *inter alia*, retain a material net economic interest of not less than 5% in the securitisation in accordance with Article 405 of the CRR and Article 51 of AIFMR. As at the Closing Date, such retention requirement will be satisfied by Accord holding the first loss tranche as required by Article 405 and Article 51 (comprising the Class B Notes). Any change to the manner in which such interest is held will be notified to the Noteholders, 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.principality.co.uk. For the avoidance of doubt, this website and the contents thereof do not form part of this Prospectus.

Principality has, pursuant to the Subscription Agreement, agreed with the Issuer (subject to certain conditions) to subscribe and pay for 100% of the Class B Notes at the issue price of 100% of the aggregate principal amount of the Class B Notes as at the date hereof.

The Issuer has agreed to indemnify Principality 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 Principality, 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 Principality 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 Principality Building Society has acknowledged that, save for having obtained the approval of the Prospectus as a prospectus in accordance with Part VI of the 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 Principality 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 Principality has agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Notes as part of its distribution at any time or otherwise until 40 days after the later of the commencement of the offering 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.

France

Each of the Joint Lead Managers and Principality has represented and agreed that it has not offered or sold and will not offer or sell, directly or indirectly, Notes to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Prospectus, or any other offering material relating to the Notes, and that such offers, sales and distributions have been and will be made in France only to (a) providers of investment services relating to portfolio management for the account of third parties, and/or (b) qualified investors (*investisseurs qualifiés*), other than individuals all as defined in, and in accordance with, Articles L.411-1, L.411-2, and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

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 Principality 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 9 June 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 16 April 2014 (being the date of incorporation of the Issuer) and 16 April 2014 (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 of the Issuer are Deloitte LLP. Deloitte LLP 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. The Issuer does not publish interim accounts.
- (d) Since the date of its incorporation, the Issuer has not entered into any contracts or arrangements not being in the ordinary course of business.
- (e) The issue of the Notes was authorised pursuant to a resolution of the Board of Directors of the Issuer passed on 30 May 2014.
- (f) The following Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg under the following ISIN and Common Codes:

<u>Class of Notes</u>	<u>ISIN</u>	<u>Common Code</u>
Class A	XS1067654134	106765413
Class B	XS1067654563	106765456

- (g) From the date of this Prospectus and for so long as the Notes are listed on the Irish Stock Exchange's regulated market, copies of the following documents may be inspected in physical and/or electronic form at the registered office of the Trustee during usual business hours, on any weekday (public holidays excepted):
- (i) the Memorandum and Articles of Association of the Issuer;
- (ii) copies of each of the Transaction Documents (other than the Subscription Agreement).
- (h) The Cash Manager on behalf of the Issuer will as long as the Notes remain outstanding 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 <http://www.principality.co.uk/> or following the appointment of the Back-Up Cash Manager to perform the cash management services at <http://www.virtusllc.com>, the first investor report being provided no earlier than the date falling one month from the Closing Date. The Cash Manager on behalf of the Issuer will make available to investors a cash-flow model and loan level and detailed summary statistics in respect of the Loans from the Closing Date to the Final Maturity Date through EuroABS and shall make available updates to such information on a periodic basis. For the avoidance of doubt, the above websites and the contents thereof do not form part of this Prospectus. Investor reports will also be made available to the Seller, the Interest Rate 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. Each Investor report shall contain a glossary of terms used in such report.
- (i) In addition, the first investor report shall disclose the amount of Notes:

- (i) privately placed with investors which are not the Seller or part of the Principality Group;
- (ii) retained by the Seller or by a member of the Principality Group; and
- (iii) publicly placed with investors which are not in the Principality Group.

The Cash Manager shall also disclose (to the extent possible), in relation to any amount initially retained by a member of the Principality Group, but subsequently placed with investors which are not in the Principality Group, such placement in the next investor report.

- (j) 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.
- (k) 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 £4,500.
- (l) The language of the Prospectus is English. Any foreign language text that is included with or within this document has been included for convenience purposes only and does not form part of the Prospectus.
- (m) Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in relation to the Notes and is not itself seeking admission of the Notes to the Official List of the Irish Stock Exchange or to trading on the regulated market of the Irish Stock Exchange for the purposes of the Prospectus Directive.

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