

## IMPORTANT NOTICE

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# FOSSE MASTER ISSUER PLC

(incorporated in England and Wales with limited liability, registered number 5925693)

## Residential Mortgage Backed Note Programme

Under the residential mortgage backed note programme (the **programme**), Fosse Master Issuer plc (the **issuer**) may from time to time issue class A notes, class B notes, class M notes, class C notes and class D notes in one or more series (together, the **notes**). Each series will consist of one or more classes of notes. One or more series and one or more classes of notes may be issued at any one time.

This prospectus has been approved by the Financial Services Authority (the **UK listing authority**) in its capacity as competent authority under the Financial Services and Markets Act 2000 (the **FSMA**) as a base prospectus for the purposes of Article 5 of Directive 2003/71/EC (the **Prospectus Directive**) and relevant implementing legislation in the United Kingdom.

Application will be made to the UK listing authority for each series and class of notes issued under the programme (other than any which are to be unlisted or listed on any other exchange) during the period of 12 months after the date of this prospectus to be admitted to the official list of the UK listing authority (the **official list**) and application will be made to the London Stock Exchange plc (the **London Stock Exchange**) for such notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market (being a regulated market for purposes of Directive 93/22/EEC (the **Investment Services Directive**)). Such notes are collectively referred to as the **listed notes**. The final terms of a series of listed notes (including the classes of the notes of such series, the initial principal amounts of such notes, interest (if any) payable in respect of such notes, the issue price of such notes and any other terms and conditions not described in this prospectus and certain financial and other information about the issuer's assets) will be determined by the issuer in accordance with the prevailing market conditions at the time of the issue of the relevant series of notes and will be set out in a separate document (the **final terms**). The final terms for listed notes will be submitted to the UK listing authority and made available to the public in accordance with the prospectus rules made pursuant to Part VI of the FSMA (the **prospectus rules**). This document constitutes the base prospectus of the issuer for the purposes of the Prospectus Directive.

The notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **Securities Act**) or the securities laws of any state of the United States. Subject to certain exceptions, the notes 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 (**Reg S**)).

The programme provides that the issuer may issue notes to be sold outside the United States to non-U.S. persons in reliance on Reg S. Such notes are collectively referred to herein as **Reg S notes**. The issuer may also issue notes which will be sold within the United States only to qualified institutional buyers (**QIBs**) within the meaning of Rule 144A under the Securities Act (**Rule 144A**) in reliance on Rule 144A. Such notes are collectively referred to herein as the **Rule 144A notes**. Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on offers, sales and transfers of notes in this prospectus, see "**Subscription and sale**" below and "**Transfer restrictions and investor representations**" below.

The programme also provides that, in addition to Reg S notes and Rule 144A notes, notes may be listed on such other or further stock exchange(s) as may be agreed between the issuer, the note trustee and the relevant dealers and/or managers. The issuer may also issue unlisted notes.

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

The notes comprising each series will be assigned certain ratings upon issue by each of Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc. (**Standard & Poor's**), Moody's Investors Service Limited (**Moody's**) and Fitch Ratings Ltd. (**Fitch**) which are described in "**Transaction overview – Summary of the notes – Issuance**" below. The ratings assigned to the notes comprising each series will be specified in the accompanying final terms. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

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

A note is not a deposit and neither the notes nor the underlying receivables are insured or guaranteed by any United Kingdom or United States governmental agency.

Currently, there is no public secondary market for the notes.

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

Please consider carefully the risk factors beginning on page 34 of this prospectus.

### Arrangers for the programme

BARCLAYS CAPITAL

CITIGROUP

The date of this prospectus is 21 November 2006

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THERE IS NO UNDERTAKING TO REGISTER THE NOTES UNDER U.S. STATE OR FEDERAL SECURITIES LAWS. UNTIL 40 DAYS AFTER THE COMMENCEMENT OF THE OFFERING, AN OFFER OR SALE OF THE NOTES WITHIN THE UNITED STATES BY ANY DEALER OR MANAGER (WHETHER OR NOT PARTICIPATING IN THE OFFERING) MAY VIOLATE THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IF SUCH OFFER OR SALE IS MADE OTHERWISE THAN IN COMPLIANCE WITH RULE 144A OR PURSUANT TO ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE CLASS A RULE 144A NOTES, CLASS B RULE 144A NOTES, CLASS M RULE 144A NOTES AND CLASS C RULE 144A NOTES OF EACH SERIES WILL BE ERISA-ELIGIBLE UNLESS OTHERWISE SET FORTH IN THE APPLICABLE FINAL TERMS. THE ERISA-ELIGIBILITY OF THE CLASS D RULE 144A NOTES WILL BE SET FORTH IN THE APPLICABLE FINAL TERMS. THE REG S NOTES AND ANY RULE 144A NOTES NOT SPECIFIED IN THE APPLICABLE FINAL TERMS AS ERISA-ELIGIBLE ARE NOT DESIGNED FOR, AND MAY NOT BE PURCHASED OR HELD BY, ANY "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), WHICH IS SUBJECT THERETO, OR ANY "PLANS" AS DEFINED IN SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR BY ANY PERSON ANY OF THE ASSETS OF WHICH ARE, OR ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 OF THE CODE TO BE, ASSETS OF SUCH AN "EMPLOYEE BENEFIT PLAN" OR "PLAN"; AND EACH PURCHASER OF SUCH NOTE WILL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT IT IS NOT, AND FOR SO LONG AS IT HOLDS A REG S NOTE WILL NOT BE, SUCH AN "EMPLOYEE BENEFIT PLAN", "PLAN" OR PERSON.

#### **AVAILABLE INFORMATION**

The issuer has agreed that, for so long as any of the Rule 144A notes remain outstanding and are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the issuer will furnish, upon request of a holder or of any beneficial owner of such a Rule 144A note or of any prospective purchaser designated by such holder or beneficial owner, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if at the time of the request the issuer is not a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the **Exchange Act**), or is not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act.

#### **ENFORCEABILITY OF JUDGMENTS**

The issuer is a public limited company registered in England and Wales. All of the issuer's assets are located outside the United States. None of the officers and directors of the issuer are residents of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the issuer or any such person not residing in the United States with respect to matters arising under the federal securities laws of the United States, or to enforce against them judgments of courts of the United States predicated upon the civil liability provisions of such securities laws. There is doubt as to the enforceability in England and Wales, in original actions or in actions for the enforcement of judgment of U.S. courts, of civil liabilities predicated solely upon the federal securities laws of the United States.

THE NOTES WILL BE OBLIGATIONS OF THE ISSUER ONLY. THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY PERSON OTHER THAN THE ISSUER. IN PARTICULAR, THE NOTES WILL NOT BE OBLIGATIONS OF, OR THE RESPONSIBILITY OF, OR GUARANTEED BY, ANY OF ALLIANCE & LEICESTER PLC (**ALLIANCE & LEICESTER**), THE DEALERS, THE MANAGERS, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE ISSUER SECURITY TRUSTEE, FUNDING 1, THE MORTGAGES TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE ISSUER CORPORATE SERVICES PROVIDER, THE FUNDING 1 SWAP PROVIDER, THE ISSUER SWAP PROVIDERS,

ANY SWAP GUARANTORS (AS APPLICABLE), THE PAYING AGENTS, THE REGISTRAR, THE TRANSFER AGENT, THE EXCHANGE RATE AGENT (IF APPLICABLE), THE AGENT BANK, ANY REMARKETING AGENT (IF APPLICABLE), ANY CONDITIONAL PURCHASER (IF APPLICABLE), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ALLIANCE & LEICESTER OR THE DEALERS, THE MANAGERS OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS. NO LIABILITY WHATSOEVER IN RESPECT OF ANY FAILURE BY THE ISSUER TO PAY ANY AMOUNT DUE UNDER THE NOTES SHALL BE ACCEPTED BY ANY OF ALLIANCE & LEICESTER, THE DEALERS, THE MANAGERS, THE NOTE TRUSTEE, THE FUNDING 1 SECURITY TRUSTEE, THE ISSUER SECURITY TRUSTEE, FUNDING 1, THE MORTGAGES TRUSTEE, THE CORPORATE SERVICES PROVIDER, THE ISSUER CORPORATE SERVICES PROVIDER, THE FUNDING 1 SWAP PROVIDER, THE ISSUER SWAP PROVIDERS, ANY SWAP GUARANTORS (AS APPLICABLE), THE PAYING AGENTS, THE REGISTRAR, THE TRANSFER AGENT, THE EXCHANGE RATE AGENT (IF APPLICABLE), THE AGENT BANK, ANY REMARKETING AGENT (IF APPLICABLE), ANY CONDITIONAL PURCHASER (IF APPLICABLE), ANY COMPANY IN THE SAME GROUP OF COMPANIES AS ALLIANCE & LEICESTER OR THE DEALERS, THE MANAGERS OR ANY OTHER PARTY TO THE TRANSACTION DOCUMENTS (BUT WITHOUT PREJUDICE TO THE OBLIGATIONS OF FUNDING 1 TO THE ISSUER UNDER THE INTERCOMPANY LOAN AGREEMENT).

The issuer accepts responsibility for the information contained in this prospectus. To the best of the knowledge 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. The issuer accepts responsibility accordingly.

A copy of this prospectus and the accompanying final terms relating to listed notes will be available for inspection at the registered office of the issuer and at the specified office of the paying agents or, when implemented, will be available for inspection on the website of the UK listing authority in accordance with the prospectus rules. A copy of the final terms relating to unlisted notes (if any) will be made available at the specified office of each paying agent.

If at any time the issuer shall be required to prepare a supplemental prospectus pursuant to Section 87 of the FSMA, the issuer will prepare and make available an appropriate amendment or supplement to this prospectus which, in respect of any subsequent issue of notes to be listed on the official list and admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market (being the regulated market for the purposes of the Investment Services Directive), shall constitute a supplemental prospectus as required by the UK listing authority and Section 87 of the FSMA.

No person is or has been authorised in connection with the issue and sale of the notes to give any information or to make any representation not 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 directors of the issuer, Funding 1, the mortgages trustee, Alliance & Leicester, the dealers, the managers, the note trustee, the Funding 1 security trustee, the issuer security trustee, the corporate services provider, the issuer corporate services provider, the issuer swap providers, any swap guarantors (as applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Alliance & Leicester or the dealers, the managers or any other party to the transaction documents.

Neither the delivery of this prospectus nor any sale or allotment made in connection with the 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 affairs of the issuer, Funding 1, the mortgages trustee, Alliance & Leicester, the dealers, the managers, the corporate services provider, the issuer corporate services provider, the Funding 1 swap provider, the issuer swap providers, any swap guarantors (as applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Alliance & Leicester or the dealers, the managers or any other party to the transaction documents or that there has been

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

Other than the approval of this prospectus as a base prospectus by the UK listing authority, the filing of this prospectus with the UK listing authority and making the prospectus available to the public in accordance with the prospectus rules, no action has been or will be taken to permit a public offering of any notes or the distribution of this prospectus in any jurisdiction where action for that purpose is required. The distribution of this prospectus and the offering of notes in certain jurisdictions may be restricted by law. Persons into whose possession this prospectus (or any part hereof) comes are required by the issuer, the managers and the dealers to inform themselves about, and to observe, any such restrictions. For a further description of certain restrictions on offers and sales of notes and distribution of this prospectus, see “**Subscription and sale**” below. Neither this prospectus nor any part hereof constitutes an offer of, or an invitation by, or on behalf of, the issuer or the dealers or the managers to subscribe for or purchase any of the notes and neither this prospectus, nor any part hereof, may be used for or in connection with an offer to, or solicitation by, any person in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

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

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

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

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

### Forward-looking statements

This prospectus contains statements which constitute forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such statements appear in a number of places in this prospectus, including, but not limited to, statements made under the captions “**Risk factors**”, “**The loans**” and “**Summary of the transaction documents – Servicing agreement**” below. These forward-looking statements can be identified by the use of forward-looking terminology, such as the words “believes”, “expects”, “may”, “will”, “continue”, “intends”, “plans”, “should”, “could” or “anticipates”, or the negative or other variations of those terms. These statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results and performance of the notes, Alliance & Leicester or the UK residential mortgage industry to differ materially from any future results or performance expressed or implied in the forward-looking statements. These risks, uncertainties and other factors include, among other things: general economic and business conditions in the United Kingdom; currency exchange and interest rate fluctuations; government, statutory, regulatory or administrative initiatives affecting Alliance & Leicester; changes in business strategy, lending practices or customer relationships; and other factors that may be referred to in this prospectus. Moreover, past financial performance should not be considered a reliable indicator of future performance and prospective purchasers of the notes are cautioned that any such statements are not guarantees of performance and involve risks and uncertainties, many of which are beyond the control of the issuer. Some of the most significant of these risks, uncertainties and other factors are discussed under the caption “**Risk factors**” below, and you are encouraged to consider those factors carefully prior to making an investment decision. The issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the issuer's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

### Defined terms and conventions

Terms used in this prospectus are defined in the Glossary. Where terms first appear in the text, they are also defined there or reference is made there to a definition elsewhere.

References in this document to **issuer, we** or **our** mean Fosse Master Issuer plc and references to **you** mean potential investors in the notes.

References in this prospectus to **£, pounds** or **sterling** are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland and references to **sterling notes** mean notes issued and denominated in sterling.

References in this prospectus to **U.S.\$, U.S. dollars** or **dollars** are to the lawful currency of the United States of America and references to **dollar notes** mean notes issued and denominated in dollars.

References in this prospectus to **€, euro** or **Euro** are to the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time and references to **euro notes** mean notes issued and denominated in euro.

### Important notice about information provided in this prospectus and the accompanying final terms

Information about each series of notes is contained in two separate documents: (a) this prospectus, which provides general information, some of which may not apply to a particular series; and (b) the accompanying final terms for a particular series, which describes the specific terms of the notes of that series, including:

- the timing of interest and principal payments;
- financial and other information about our assets;
- information about the credit enhancement for your series or class of notes;
- the ratings for your class of notes; and

- other terms and conditions not contained herein that are applicable to such series and class.

This prospectus may be used to offer and sell any series and class of notes only if accompanied by the final terms for that series and class.

Although the accompanying final terms for a particular series of notes cannot contradict the information contained in this prospectus, insofar as the final terms contains specific information about the series that differs from the more general information contained in this prospectus, you should rely on the information in the final terms.

You should rely only on the information contained in this prospectus and the accompanying final terms, including any information incorporated by reference. The issuer has not authorised anyone to provide you with information that is different from that contained in this prospectus and the accompanying final terms. The information in this prospectus or the accompanying final terms is only accurate as of the dates on their respective covers.

Cross-references are included in this prospectus and each accompanying final terms to captions in these materials where you can find further related discussions. The following table of contents and the table of contents included in each accompanying final terms provide the pages on which these captions are located.

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## TRANSACTION OVERVIEW

*The information in this section is an overview of the principal features of the notes, including the transaction documents and the loans that will generate the income for the issuer to make payments on the notes and is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this document. You should read the entire prospectus carefully, especially the risks of investing in the notes discussed below under “**Risk factors**” herein and in the accompanying final terms under the heading “**Risk factors**”.*

### Overview of the transaction

The following is a brief overview of the transaction and is further illustrated by the diagram set out in “**Structural diagram of the programme**” below. The numbers in the diagram refer to the numbered paragraphs below (save in respect of paragraph (9) which is not represented in the diagram).

- (1) On or around 28 November 2006 (the **initial closing date**) and thereafter from time to time, Alliance & Leicester, the **seller**, will sell loans and their **related security** (which is the security for the repayment of a loan, including the relevant mortgage and any rights under buildings insurance policies) to the mortgages trustee pursuant to a mortgage sale agreement. From time to time the seller may, subject to satisfaction of the conditions of sale in “**Summary of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**” below, sell further loans and their related security to the mortgages trustee. The **loans** are residential mortgage loans originated by Alliance & Leicester and secured over residential properties located in England, Wales, Scotland and Northern Ireland.
- (2) The mortgages trustee will hold the loans and certain other property (the **trust property**) on trust for the benefit of the seller, Funding 1 and any further Funding companies that may be established from time to time as referred to in (10) below (together with Funding 1, the **Funding companies**) pursuant to a mortgages trust deed. The trust property includes the **portfolio**, which at any time consists of the loans and their related security held by the mortgages trustee together with any accrued interest on the loans, other amounts derived from the loans and their related security (including any early repayment charges) and any seller accrued interest amounts in respect of loans sold to the mortgages trustee on the initial closing date. Each of the seller, Funding 1 and any further Funding company has a joint and undivided interest in the trust property, but their entitlement to the proceeds from the trust property is in proportion to their respective shares of the trust property, as further described below under “**The mortgages trust**”.
- (3) The mortgages trustee distributes interest receipts on the loans to each of Funding 1, any further Funding company and the seller based on the percentage share that Funding 1 or such further Funding company, or the seller as the case may be, has in the trust property. The mortgages trustee allocates losses on the loans to the seller, Funding 1 and any other further Funding company in accordance with the percentage share that each of them has in the trust property. These percentages may fluctuate as described in “**The mortgages trust – Fluctuation of share in the trust property**” below. The mortgages trustee allocates principal receipts on the loans between the seller, Funding 1 and any further Funding company in amounts depending on whether Funding 1 or such further Funding company, as the case may be, is required to pay amounts on the intercompany loan or, as the case may be, any new intercompany loan of such further Funding company on the next Funding 1 interest payment date or interest payment date with respect to such further Funding company, as the case may be, or Funding 1 or such further Funding company, as the case may be, is accumulating cash to repay a bullet loan tranche or a scheduled amortisation instalment, as the case may be. However, Funding 1 and any further Funding companies will only be allocated principal receipts in accordance with the percentage share that each of them has in the trust property. The issuer will make loan tranches available to Funding 1 pursuant to the intercompany loan agreement from the proceeds of each series of notes (see “**Summary**”).

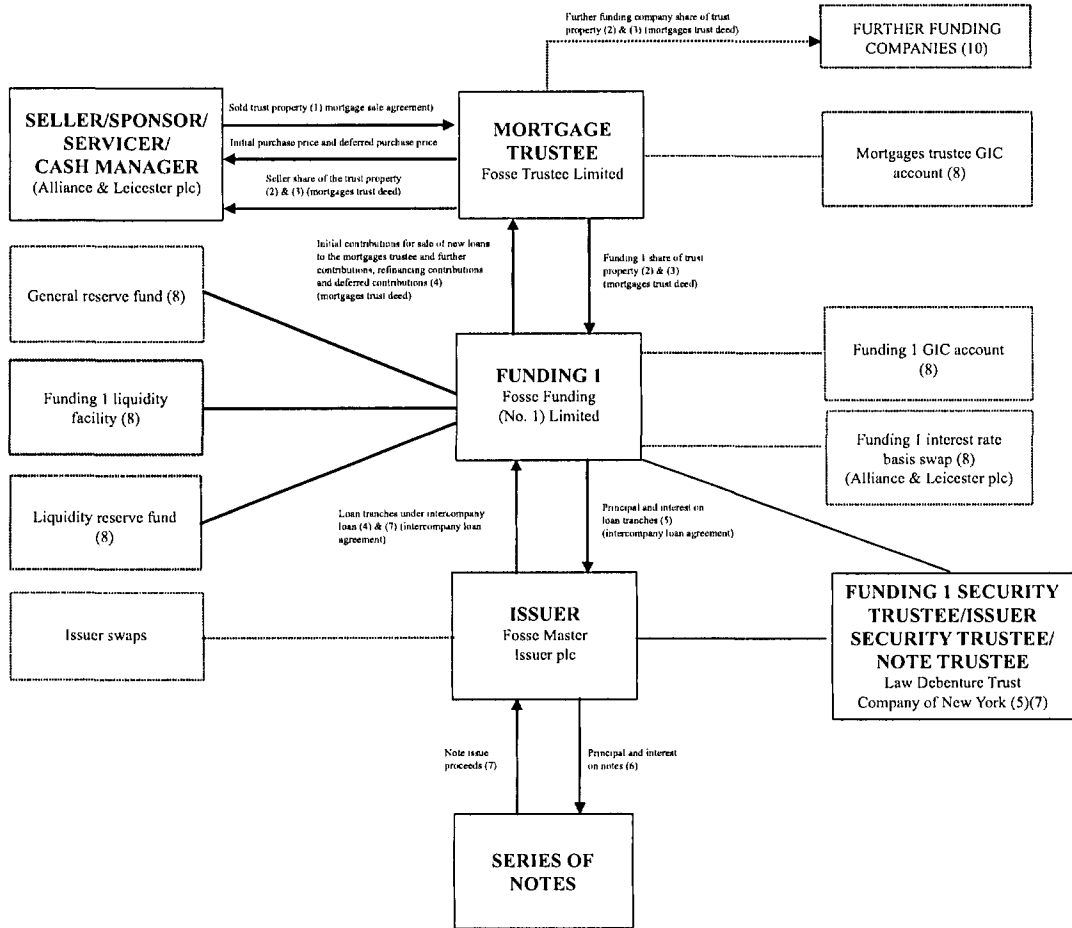
**of the notes – Relationship between the notes and the intercompany loan”** below). The types of loan tranches (namely, bullet loan tranches, scheduled amortisation loan tranches and pass-through loan tranches) are described below under “**Summary of the notes – The intercompany loan**”.

- (4) Funding 1 will use the proceeds of any loan tranches received from time to time from the issuer to:
- (a) make an initial contribution (an **initial contribution**) to the mortgages trustee to acquire a share of the trust property. The mortgages trustee will use the proceeds of the initial contribution to pay the seller part of the consideration for loans (together with their related security) sold to the mortgages trustee in connection with the issuance of notes by the issuer and the making of the relevant loan tranches to Funding 1, which will result in a corresponding increase in Funding 1’s share of the trust property; and/or
  - (b) make a further contribution to the mortgages trustee to acquire part of another further Funding company’s share and/or the seller’s share of the trust property (such contribution to be paid to such further Funding company (a **refinancing distribution**) or the seller (a **special distribution**), as the case may be, which will result in a corresponding decrease of such further Funding company’s or the seller’s share of the trust property, as the case may be, and a corresponding increase in Funding 1’s share of the trust property);
  - (c) refinance and/or repay one or more of the loan tranches or new loan tranches (if any) made available to Funding 1 outstanding from time to time; and/or
  - (d) fund or replenish the general reserve fund.
- (5) Funding 1 will use a portion of the amounts received from its share in the trust property to meet its obligations to pay interest and principal due to the issuer under the intercompany loan. Funding 1’s obligations to the issuer under the intercompany loan, among other things, will be secured under the Funding 1 deed of charge entered into with, among others, the Funding 1 security trustee and the issuer, by, among other things, Funding 1’s share of the trust property.
- (6) The issuer’s obligations to pay principal and interest on the notes will be funded primarily from the payments of principal and interest received by it from Funding 1 under the intercompany loan. The issuer’s primary asset will be its rights under the intercompany loan agreement. Neither the issuer nor the noteholders will have any direct interest in the trust property, although the issuer will have a shared security interest under the Funding 1 deed of charge in Funding 1’s share of the trust property. Prior to service of an intercompany acceleration notice, the issuer will only repay a class of notes (or part thereof) of any series on the relevant interest payment date if it has received principal repayments in respect of the loan tranche that was funded by the issue of such notes. Following service of an intercompany acceleration notice, the issuer will apply amounts received by it from Funding 1 under the intercompany loan to repay all classes of outstanding notes of any series in accordance with the relevant issuer priority of payments.
- (7) Subject to satisfying certain issuance tests (as described below under “**The issuance of notes**”), the issuer will issue notes in separate series and classes from time to time. Each series will consist of one or more classes of class A notes, class B notes, class M notes, class C notes or class D notes and may be offered pursuant to this prospectus and the accompanying final terms setting out the terms of that series. The issuer’s obligations under, among other things, the notes will be secured under the issuer deed of charge entered into with, among others, the issuer security trustee and the issuer, by, among other things, the issuer’s rights under the intercompany loan agreement.

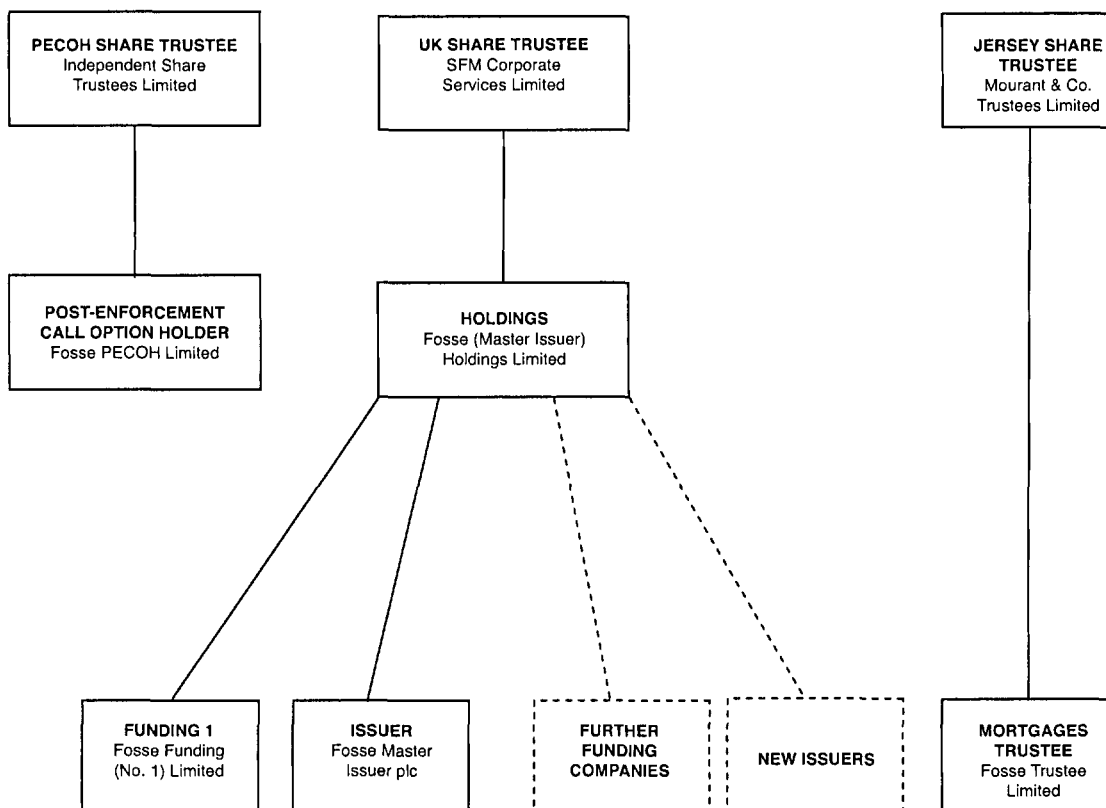


- (8) These items and their function in the programme structure are described later in this prospectus and in the accompanying final terms (where applicable). They are included in the first diagram below so that investors can refer back to see where they fit into the structure.
- (9) New issuers may be established by Holdings from time to time and the proceeds of any new notes issued by new issuers will be on-lent to Funding 1 and/or further Funding companies (where applicable) under the terms of new intercompany loan agreements for any of the purposes described in paragraph (4). Your consent to the establishment of new issuers and the terms of the new notes and new intercompany loans will not be required nor will you have any right of review in respect thereof.
- (10) Further Funding companies may be established by Holdings from time to time to become beneficiaries of the mortgages trust and to receive the proceeds of any new notes issued by new issuers under the terms of new intercompany loan agreements for the purposes described in paragraph (4). Your consent to the establishment of further Funding companies and terms of the new notes issued by new issuers and the new intercompany loans will not be required nor will you have any right of review in respect thereof.

**Structural diagram of the programme**



**Diagram of ownership structure of special purpose vehicles**



This diagram illustrates the ownership structure of the principal special purpose entities in respect of the programme, as follows:

- Each of Funding 1, the issuer, any further Funding company and any new issuer are expected to be wholly-owned subsidiaries of Fosse (Master Issuer) Holdings Limited (**Holdings**). See “**The issuer**” and “**Funding 1**” below.
- The entire issued share capital of Holdings is held on trust by SFM Corporate Services Limited, the UK share trustee, not affiliated with the seller, under the terms of a discretionary trust for charitable purposes. See “**Holdings**” below.
- The entire issued share capital of the mortgages trustee is held on trust by Mourant & Co. Trustees Limited, the Jersey share trustee, not affiliated with the seller, under the terms of a discretionary trust for charitable purposes. See “**The mortgages trustee**” below.
- The entire issued share capital of the post-enforcement call option holder is held on trust by Independent Share Trustees Limited, the PECO share trustee, not affiliated with the seller or Holdings, under the terms of a discretionary trust for charitable purposes.
- Alliance & Leicester, who as the sponsor, will organise and initiate each transaction under the programme, has no ownership interest in any of the entities in the diagrams above. As a result, any transaction under the programme will not be directly linked to the credit of Alliance & Leicester and Alliance & Leicester has no obligation to support such transaction financially, although Alliance & Leicester may still have a connection with such transaction for other reasons (such as acting as servicer of the loans and as a beneficiary under the mortgages trust). See “**Alliance & Leicester**” below.

## The parties

- issuer:** Fosse Master Issuer plc is a public limited company incorporated under the laws of England and Wales as a special purpose vehicle with registered number 5925693. The entire issued share capital of the issuer is owned beneficially by Holdings.
- For a more detailed description of the issuer, see “**The issuer**” below.
- seller:** Alliance & Leicester is a public limited company incorporated under the laws of England and Wales with registered number 03263713 which, amongst other things, originates and acquires residential mortgage loans. The seller will sell residential mortgage loans and their related security to the mortgages trustee pursuant to the terms of the mortgage sale agreement.
- For a more detailed description of the seller, see “**Alliance & Leicester**” below.
- mortgages trustee:** Fosse Trustee Limited is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 94410. The entire issued share capital of the mortgages trustee is held beneficially on trust by the Jersey share trustee under the terms of a discretionary trust for charitable purposes.
- For a more detailed description of the mortgages trustee, see “**The mortgages trustee**” below.
- Funding 1:** Fosse Funding (No. 1) Limited is a private limited company incorporated under the laws of England and Wales with registered number 5925696 and is a wholly-owned subsidiary of Holdings. Funding 1 was established, *inter alia*, to acquire a joint and undivided beneficial interest, with the seller and any further Funding companies that may be established from time to time (together, the **beneficiaries**), in the trust property pursuant to the mortgages trust deed and to borrow funds under the intercompany loan agreement, as more fully described below.
- For a more detailed description of Funding 1, see “**Funding 1**” below.
- servicer:** On or before the initial closing date, Alliance & Leicester (in such capacity, the **servicer**) will be appointed as servicer to service the loans and their related security on behalf of the mortgages trustee and the beneficiaries pursuant to the terms of a servicing agreement.
- For a more detailed description of the role of the servicer and the terms of the servicing agreement, see “**Summary of the transaction documents – Servicing agreement**” below.
- cash manager:** On or before the initial closing date, Alliance & Leicester (in such capacity, the **cash manager**) will be appointed as cash manager pursuant to the cash management agreement to provide cash management services to the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee and each further Funding company and each security trustee with respect to any further Funding company (a **further Funding security trustee and, together with the Funding 1 security trustee, the Funding security trustees**) which accedes to the cash management agreement from time to time.

For a more detailed description of the role of the cash manager and the terms of the cash management agreement, see “**Summary of the transaction documents – Cash management agreement**” below.

**issuer cash manager:**

On or before the initial closing date, Alliance & Leicester (in such capacity, the **issuer cash manager**) will be appointed to provide cash management services to the issuer and the issuer security trustee pursuant to the issuer cash management agreement.

For a more detailed description of the role of the issuer cash manager and terms of the issuer cash management agreement, see “**Summary of the transaction documents – Issuer cash management agreement**” below.

**issuer security trustee:**

Law Debenture Trust Company of New York, acting through its offices at 767 Third Avenue – 31st Floor, New York, New York 10017 (in its capacity as security trustee pursuant to the issuer deed of charge, the **issuer security trustee**) will hold the benefit of the security granted by the issuer under the issuer deed of charge and will be entitled to enforce the security granted in its favour under the issuer deed of charge.

For a more detailed description of the issuer security trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below. For a more detailed description of the terms of the issuer deed of charge, see “**Summary of the transaction documents – Issuer deed of charge**” below.

**note trustee:**

Law Debenture Trust Company of New York, acting through its offices at 767 Third Avenue – 31st Floor, New York, New York 10017 (in its capacity as trustee pursuant to the note trust deed, the **note trustee**) will be appointed to act on behalf of the holders of the notes.

For a more detailed description of the note trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below.

**Funding 1 security trustee:**

Law Debenture Trust Company of New York, acting through its offices at 767 Third Avenue – 31st Floor, New York, New York 10017 (in its capacity as security trustee pursuant to the Funding 1 deed of charge, the **Funding 1 security trustee**) will hold the benefit of the security granted by Funding 1 under the Funding 1 deed of charge and will be entitled to enforce the security granted in its favour under the Funding 1 deed of charge.

For a more detailed description of the Funding 1 security trustee, see “**The note trustee, issuer security trustee and Funding 1 security trustee**” below. For a more detailed description of the terms of the Funding 1 deed of charge, see “**Summary of the transaction documents – Funding 1 deed of charge**” below.

**paying agents and agent bank:**

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (in such capacity, the **principal paying agent**) will act as principal paying agent pursuant to the paying agent and agent bank agreement.

Citibank, N.A., acting through its office at 14th Floor, 388 Greenwich Street, New York, New York 10013 (in such capacity, the **U.S. paying agent**) will act as paying agent in respect of the dollar notes.

The principal paying agent and the U.S. paying agent are together referred to as the **paying agents**. The paying agents will make payments on the notes to the noteholders.

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (in such capacity, the **agent bank**) will calculate the interest on the notes and under the intercompany loan agreement.

**exchange rate agent:**

If an exchange rate agent is specified in the relevant final terms, Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB (in such capacity, the **exchange rate agent**) will act as exchange rate agent in respect of the series pursuant to the paying agent and agent bank agreement.

**registrar and transfer agent:**

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB will maintain a register in respect of the notes (in such capacity, the **registrar**) which may or may not include the issuer unless expressly provided otherwise.

Citibank, N.A., acting through its offices at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB will be responsible for administering any transfer of notes (in such capacity, the **transfer agent**).

**Funding 1 swap provider:**

Alliance & Leicester (in such capacity, the **Funding 1 swap provider**) will act as swap provider pursuant to the terms of the Funding 1 swap agreement in respect of the possible variances between the rates of interest payable on the loans in the portfolio sold by the seller to the mortgages trustee and the rates of interest payable by Funding 1 under the intercompany loan agreement.

For a more detailed description of the Funding 1 swap, see "**Summary of the transaction documents – Swap agreements – Funding 1 swap agreement**" below.

**issuer swap providers:**

The issuer swap providers will hedge certain interest rate, currency and/or other risks in respect of amounts received by the issuer under the intercompany loan agreement and amounts payable by the issuer under the notes pursuant to the terms of issuer swap agreements.

For a more detailed description of the issuer swaps, see "**Summary of the transaction documents – Swap agreements – Issuer swap agreements**" below.

**Funding 1 account bank:**

On or before the initial closing date, Alliance & Leicester (in such capacity, the **Funding 1 account bank**) will be appointed to act as account bank to Funding 1 pursuant to the terms of the Funding 1 bank account agreement.

For a more detailed description of the Funding 1 bank account agreement, see "**Summary of the transaction documents – Funding 1 bank account agreement**" below.

<b>mortgages trustee account bank:</b>	<p>On or before the initial closing date, Alliance &amp; Leicester (in such capacity, the <b>mortgages trustee account bank</b>) will be appointed to act as account bank to the mortgages trustee pursuant to the terms of the mortgages trustee bank account agreement.</p> <p>For a more detailed description of the mortgages trustee bank account agreement, see "<b>Summary of the transaction documents – Mortgages trustee bank account agreement</b>" below.</p>
<b>issuer account bank:</b>	<p>On or before the initial closing date, Alliance &amp; Leicester (in such capacity, the <b>issuer account bank</b>) will be appointed to act as account bank to the issuer pursuant to the issuer bank account agreement.</p> <p>For a more detailed description of the issuer bank account agreement, see "<b>Summary of the transaction documents – Issuer bank account agreement</b>" below.</p>
<b>Funding 1 start-up loan provider:</b>	<p>Alliance &amp; Leicester (in such capacity, the <b>Funding 1 start-up loan provider</b>) will act as Funding 1 start-up loan provider to Funding 1 pursuant to the terms of the Funding 1 start-up loan agreements. Funding 1 may (in the future) enter into Funding 1 start-up loan agreements with parties other than Alliance &amp; Leicester.</p> <p>For a more detailed description of the Funding 1 start-up loan agreements, see "<b>Summary of the transaction documents – Funding 1 start-up loan agreements</b>" below and for information relating to the credit support they provide, see "<b>Credit structure – Funding 1 start-up loans</b>" below.</p>
<b>post-enforcement call option holder:</b>	<p>On the initial closing date, Fosse PECO Limited (the <b>post-enforcement call option holder</b> or <b>PECOH</b>) will agree to act in such capacity in respect of the notes pursuant to the terms of a post-enforcement call option agreement.</p> <p>For a more detailed description of the post-enforcement call option holder, see "<b>The post-enforcement call option holder</b>" below, and for a more detailed description of the post-enforcement call option agreement, see "<b>Summary of the transaction documents – Post-enforcement call option agreement</b>" below.</p>
<b>Holdings:</b>	<p>Fosse (Master Issuer) Holdings Limited (<b>Holdings</b>) is a private limited company incorporated under the laws of England and Wales with registered number 5925689. For a more detailed description of Holdings, see "<b>Holdings</b>" below. The entire issued share capital of Holdings is held beneficially on trust by the UK share trustee under the terms of a discretionary trust for charitable purposes.</p>
<b>UK share trustee:</b>	<p>SFM Corporate Services Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated under the laws of England and Wales with registered number 03920255 and (in such capacity, the <b>UK share trustee</b>) will hold the entire share capital of Holdings under the terms of a discretionary trust for charitable purposes.</p>
<b>PECOH share trustee:</b>	<p>Independent Share Trustees Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated under the laws of England and Wales with</p>

	<p>registered number 05829390 and (in such capacity, the <b>PECOH share trustee</b>) will hold the entire share capital of PECO under the terms of a discretionary trust for charitable purposes.</p>
<b>Jersey share trustee:</b>	<p>Mourant &amp; Co. Trustees Limited, having its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, is a private limited company incorporated under the laws of Jersey, Channel Islands with registered number 18478 and (in such capacity, the <b>Jersey share trustee</b>) will hold the entire share capital of the mortgages trustee under the terms of a discretionary trust for charitable purposes.</p>
<b>corporate services provider:</b>	<p>Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the <b>corporate services provider</b>) will act as corporate services provider to Holdings, Funding 1 and any further Funding company established from time to time.</p>
<b>issuer corporate services provider:</b>	<p>Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the <b>issuer corporate services provider</b>) will act as corporate services provider to the issuer.</p>
<b>mortgages trustee corporate services provider:</b>	<p>Mourant &amp; Co. Limited, having its registered office at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands, is a private limited company with registered number 36615 and (in such capacity, the <b>mortgages trustee corporate services provider</b>) will act as corporate services provider to the mortgages trustee.</p>
<b>PECOH corporate services provider:</b>	<p>Structured Finance Management Limited, having its registered office at 35 Great St. Helen's, London EC3A 6AP, is a private limited company incorporated in England and Wales with registered number 03853947 and (in such capacity, the <b>PECOH corporate services provider</b>) will act as corporate services provider to PECO.</p>
<b>remarketing agent:</b>	<p>If a remarketing agent is specified in the accompanying final terms with respect to any remarketable notes, the remarketing agent will agree with the issuer pursuant to a remarketing agreement to use reasonable efforts to identify third party purchasers for such remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event.</p> <p>For a more detailed description of the remarketing arrangements, see "<b>Summary of the notes – Money market notes</b>" below and "<b>Summary of the transaction documents – The remarketing agreement</b>" below.</p>
<b>conditional purchaser:</b>	<p>If a conditional purchaser is specified in the accompanying final terms with respect to any remarketable notes, the conditional purchaser will agree pursuant to a conditional purchase agreement to purchase all remarketable notes that are not sold to third party purchasers by the remarketing agent.</p> <p>For a more detailed description of the conditional purchase agreement, see "<b>Summary of the notes – Money market notes</b>" below.</p>



## Summary of the notes

### Series

The issuer may from time to time issue class A notes, class B notes, class M notes, class C notes and class D notes in one or more series. Each series will consist of one or more classes of notes. One or more series or classes or sub-classes of notes may be issued at one time. Each series and class of notes will be secured over the same assets. The notes issued from time to time by the issuer will constitute direct, secured and unconditional obligations of the issuer.

The notes of a particular class in different series (and the notes of the same class and series) will not necessarily have all the same terms. Differences may include issue price, principal amount, interest rates and interest rate calculations, currency, permitted redemption dates and final maturity dates. The terms of each series and class of notes will be set out in the accompanying final terms.

### Payment

Some series of notes will be paid ahead of others, regardless of the class designation of the notes. In particular, some payments on some series of class B notes, class M notes, class C notes and class D notes will be paid before some series of class A notes, as described in “– **Payment and ranking of the notes**” and “– **Diagram of the priority of payments by the issuer and subordination relationships**” below. See also “**Cashflows**” below.

In addition, the occurrence of an asset trigger event or non-asset trigger event (which are described below under “– **Trigger events**”) will alter the payments on the notes.

### Issuance

Notes may only be issued on the satisfaction of certain issuance tests, as described below under “**The issuance of notes**”. In particular, a note may be issued only if there is sufficient credit enhancement on that date in the form of outstanding subordinated loan tranches and reserves or other forms of credit enhancement, equal to or greater than the required subordinated amount for each outstanding class of notes. The required subordinated percentage for each class of notes will be specified in the applicable final terms. The required subordination for a class of notes may, subject to certain conditions, be increased or decreased without your consent. The issuer may issue notes at any time without notice to or the consent of existing noteholders. There are no restrictions on the issuance of any notes so long as the issuance tests are satisfied.

It is a condition to the issuance of each series and class of notes that they be assigned the following ratings (the **required note issuance ratings**) by at least one of Standard & Poor’s, Moody’s or Fitch:

	<u>Class A</u>	<u>Class B</u>	<u>Class M</u>	<u>Class C</u>	<u>Class D</u>
Standard & Poor’s .....	AAA	AA	A	BBB	BB
Moody’s .....	Aaa	Aa3	A2	Baa2	Ba2
Fitch.....	AAA	AA	A	BBB	BB

It is a condition of the issuance of any series and class of notes which are designated as money market notes that they will be assigned a rating of A-1+, P-1 or F1+ by at least one of Standard & Poor’s, Moody’s or Fitch, respectively. With respect to any money market notes that are designated as remarketable notes, the short-term rating is in respect of the issuer’s timely payment obligation of interest and principal up to (and including) the first mandatory transfer date and the procurement of the payment of the mandatory transfer price on the first mandatory transfer date. The issuer anticipates seeking a short-term rating affirmation for remarketable notes on an annual basis in respect of the period from (and excluding) a mandatory transfer date to (and including) the next following mandatory transfer date to the extent a remarketing termination event has not occurred.

The ratings assigned to each class of notes will be specified in the accompanying final terms.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation if, in its judgement, circumstances in the future so warrant.

Standard & Poor's, Moody's and Fitch together comprise the rating agencies referred to in this prospectus. The term **rating agencies** also includes any further or replacement rating agency appointed by the issuer with the approval of the note trustee to give a credit rating to the notes of any series and/or class.

The issuer (or Funding 1, if the issuer is unable to pay) has agreed to pay ongoing surveillance fees to the rating agencies, in exchange for which each rating agency will monitor the ratings it has assigned to each series and class of notes while they are outstanding.

### ***Listing***

Application will be made to the UK listing authority for the notes issued during the period of 12 months from the date of this prospectus to be admitted to the official list maintained by the UK listing authority. Application will also be made to the London Stock Exchange for notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market.

### ***Form and denominations of the notes***

The notes (in either global or definitive form) (other than the Rule 144A notes) will be issued in such denominations as specified in the accompanying final terms, save that the minimum denomination of each note will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant currency and save that the minimum denomination of each note (other than the Rule 144A notes) will be £50,000 (or, in the case of notes denominated in sterling with a minimum maturity of less than 366 days, £100,000) and in integral multiples of £1,000 in excess thereof if denominated in sterling or €50,000 and in integral multiples of €1,000 in excess thereof (or its equivalent in any other currency as at the date of issue of such notes) if denominated in a currency other than sterling. The Rule 144A notes will be issued in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof (or its equivalent in any other currency as at the date of the issue of the notes).

The notes issued by the issuer will be constituted by the note trust deed.

The notes of any class sold to non-U.S. persons in reliance on Regulation S will be represented by one or more Reg S global notes, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Reg S global note may only be held through, and transfers thereof will only be effected through, records maintained by Euroclear or Clearstream, Luxembourg or their participants (as applicable) at any time.

The notes of any class sold in reliance on Rule 144A to persons who are QIBs acting for their own accounts or the accounts of other persons that are QIBs will be represented by one or more Rule 144A global notes, which will be deposited with the custodian for, and registered in the name of Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A global note may only be held through, and transfers thereof will only be effected through, records maintained by DTC or their participants (as applicable) at any time. See "**Book-entry clearance procedures**" and "**Transfer restrictions and investor representations**". A beneficial interest in a Rule 144A global note of one class may be transferred to a person that takes delivery in the form of a beneficial interest in a Reg S global note of the same class and a beneficial interest in a Reg S global note of one class may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A global note of the same class only upon receipt by the issuer of a written certification from the transferor and in accordance with the procedures as further described under "**Form of the notes – Transfer of interests**" and "**Transfer restrictions and investor representations**" below.

### ***Maturities***

Notes will be issued in such maturities as may be specified in the relevant final terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

### ***Currencies***

Subject to compliance with all applicable legal, regulatory and central bank requirements, a series and class of notes may be denominated in such currency or currencies as may be agreed between the relevant dealers and/or managers and the issuer as specified in the applicable final terms.

### ***Issue price***

Each series and class of notes may be issued on a fully paid or partly paid basis and at an issue price which is at par, or at discount from, or premium over, par.

### ***Selling restrictions***

For a description of certain restrictions on offers, sales and deliveries of notes and on the distribution of offering material in the United States of America, the United Kingdom and certain other jurisdictions, see "**Subscription and sale**" below and in the relevant final terms.

### ***Relationship between the notes and the intercompany loan***

The intercompany loan will comprise multiple loan tranches. The gross proceeds of each issue of a series and class of notes will fund a single loan tranche. The repayment terms of each loan tranche (for example, dates for payment of principal and the type of amortisation or redemption) will reflect the terms of the related series and class of notes. Subject to any swap agreements as described under "**Transaction overview – Swap agreements**" below and the Funding 1 priority of payments and the issuer priority of payments, the issuer will repay the series and class of notes from payments received by it from Funding 1 under the corresponding loan tranche and in each case where the relevant class of notes is denominated in a currency other than sterling after making the appropriate currency exchange under the relevant issuer swap agreement. For more information on the intercompany loan, see "**Transaction overview – The intercompany loan**" below.

The ability of Funding 1 to make payments on the intercompany loan will depend to a large extent on Funding 1 receiving its share of collections on the trust property, which will in turn depend principally on the collections the mortgages trustee receives on the loans and the related security and the allocation of monies to Funding 1. See "**Risk factors – Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**" below.

### ***Payment and ranking of the notes***

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

Payments of interest and principal on the class A notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class A notes). Payments of interest and principal on the class B notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class B notes). Payments of interest and principal on

the class M notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class M notes). Payments of interest and principal on the class C notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class C notes). Payments of interest and principal on the class D notes of each series rank equally (but subject to the interest payment dates, scheduled redemption dates and permitted redemption dates of each series of class D notes). The interest payment dates, scheduled redemption dates and permitted redemption dates for a series and class of notes will be specified in the accompanying final terms.

Investors should note that subject as further described below under “**Cashflows**”:

- Notes of different series and classes are intended to receive payment of interest and principal at different times, therefore lower ranking classes of notes of one series may be paid interest and principal before higher ranking classes of notes of a different series.
- No loan tranche other than the AAA loan tranches and, consequently, no notes of any class other than the class A notes may be repaid principal if, following such repayment, the amount of subordination available from all outstanding subordinated loan tranches, reserves and other forms of credit enhancement is less than the required subordinated amount for the class of notes. The repayment tests which determine whether any loan tranche and, consequently any series and class of notes, may be repaid principal are set out in “**Cashflows**” below. The failure to repay principal in respect of a loan tranche (other than the AAA loan tranches) and the related notes on the applicable interest payment dates due to the repayment tests not being met will not constitute an event of default in respect of such loan tranche or in respect of the related notes.
- If there is a debit balance on a subordinate ranking principal deficiency sub-ledger or the general reserve fund is less than the general reserve required amount or arrears in respect of loans in the mortgages trust exceeds a specified amount (each as described below under “**Cashflows**”) and there is a more senior loan tranche and related series and class of notes outstanding, no amount of principal will be repayable in respect of a loan tranche and related series and class of notes until such situation is cured. The failure to repay principal in respect of such loan tranche and the related notes on the applicable redemption dates for such reason will not constitute an event of default in respect of such loan tranche or in respect of the related notes.
- To the extent required, but subject to certain limits and conditions, Funding 1 may apply amounts standing to the credit of the general reserve fund and the liquidity reserve fund (if any) and amounts available under the Funding 1 liquidity facility (if established) in payment of, among other things, amounts due to the issuer in respect of the loan tranches.
- Prior to service of a note acceleration notice, a series and class of notes will be redeemed on a permitted redemption date only to the extent of the amount (if any) repaid on the related loan tranche in respect of such date.
- If not redeemed earlier, each series and class of notes will be redeemed by the issuer on the final maturity date specified in the accompanying final terms. The failure to redeem a series and class of notes on its final maturity date will constitute a note event of default in respect of such notes.
- Following service of a note acceleration notice and/or an intercompany loan acceleration notice and/or enforcement of the Funding 1 security and/or the issuer security, the priority of payments will change and payments of interest and principal will be made in accordance with and subject to the relevant priority of payments as described below under “**Cashflows**”.

### **Interest**

Interest will accrue on each series and class of notes from its date of issuance at the applicable interest rate specified for that series and class of notes, which may be fixed or floating

rate or have a combination of these characteristics and will be specified in the accompanying final terms. Interest on each series and class of notes will be due and payable on interest payment dates as specified in the accompanying final terms.

Any shortfall in payments of interest due on any series of the class B notes (to the extent that any class A notes are outstanding), the class M notes (to the extent that any class A notes and/or class B notes are outstanding), the class C notes (to the extent that any class A notes and/or class B notes and/or class M notes are outstanding) and the class D notes (to the extent that any class A notes and/or class B notes and/or class M notes and/or class C notes are outstanding) on any interest payment date in respect of such notes will be deferred until the immediately succeeding interest payment date in respect of such notes. On that immediately succeeding interest payment date, the amount of interest due on the relevant class of notes will be increased to take account of any deferred interest and interest on that deferred interest. If on that interest payment date there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of the notes, at which point all amounts will become due and payable. However, if on the final maturity date of the notes there is insufficient money available to the issuer to pay interest on the class B notes, the class M notes, the class C notes or the class D notes, then noteholders may not receive all interest amounts payable on those classes of notes. Payments of interest due on any interest payment date in respect of the most senior class of notes then outstanding may not be deferred and the failure to pay interest on such notes will be a note event of default.

#### ***Fixed rate notes***

For a series and class of fixed rate notes, interest will be payable at a fixed rate on such interest payment dates and on redemption as specified in the applicable final terms and will be calculated on the basis of such day count fraction as specified in the applicable final terms.

#### ***Floating rate notes***

A series and class of floating rate notes will bear interest in each case at a rate specified in the applicable final terms. The margin, if any, relating to such series and class of notes will be specified in the applicable final terms. Interest on floating rate notes in respect of each interest period will be payable on such interest payment dates and will be calculated on the basis of such day count fraction as specified in the applicable final terms.

#### ***Scheduled redemption notes***

A series and class of scheduled redemption notes will be redeemable on scheduled redemption dates in two or more scheduled amortisation instalments, the dates and amounts of which will be specified in the applicable final terms. Funding 1 will seek to accumulate funds relating to scheduled amortisation instalments over its cash accumulation period in order to repay such funds as a lump sum payment to the issuer so that the issuer can redeem the corresponding scheduled redemption notes on the relevant scheduled redemption date. A cash accumulation period in respect of scheduled amortisation instalments is the period of 3 months prior to the relevant scheduled repayment date for Funding 1 to accumulate enough principal receipts derived from its share of the trust property to repay that scheduled amortisation instalment to the issuer so that the issuer will be able to redeem the corresponding scheduled redemption notes on the relevant scheduled redemption date. If there are insufficient funds on a scheduled redemption date to repay the relevant scheduled amortisation instalment in respect of a series and class of scheduled redemption notes, then the issuer will be required to pay the shortfall, to the extent it receives funds therefor, on subsequent interest payment dates in respect of such notes. No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any scheduled amortisation instalments to enable it to repay the relevant loan tranche to the issuer so that the issuer is able to repay principal of the related series of scheduled redemption notes on their scheduled redemption dates.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of scheduled redemption notes, such notes will be deemed to be pass-through notes and the issuer will repay such notes to the extent that funds are available and subject to the conditions regarding repayment on applicable interest payment dates.

### ***Bullet redemption notes***

A series and class of bullet redemption notes will be redeemable in full on the bullet redemption date specified in the applicable final terms. Funding 1 will seek to accumulate funds relating to principal payments on each bullet loan tranche over its cash accumulation period in order to repay such funds as a lump sum payment to the issuer so that the issuer can redeem the corresponding bullet redemption notes in full on the relevant bullet redemption date. A cash accumulation period in respect of a bullet loan tranche is the period of time estimated to be the number of months prior to the relevant bullet repayment date necessary for Funding 1 to accumulate enough principal receipts derived from its share of the trust property to repay that bullet loan tranche to the issuer so that the issuer will be able to redeem the corresponding notes in full on the relevant bullet redemption date. The cash accumulation period will be determined according to a formula described under "**The mortgages trust**" below. To the extent that there are insufficient funds to redeem a series and class of bullet redemption notes on the relevant bullet redemption date, then the issuer will be required to pay the shortfall, to the extent it receives funds therefor, on subsequent interest payment dates in respect of such notes. No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any bullet loan tranche to enable it to repay the relevant loan tranche to the issuer so that the issuer is able to repay principal of the related series of bullet redemption notes on their bullet redemption date.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of bullet redemption notes, such notes will be deemed to be pass-through notes and the issuer will repay such notes to the extent that funds are available and subject to the conditions regarding repayment on applicable interest payment dates.

### ***Pass-through notes***

A series and class of pass-through notes will be redeemable in full on the final maturity date specified in the applicable final terms. On each Funding 1 interest payment date, Funding 1 may be permitted to make payments in respect of pass-through loan tranches to the issuer so that the issuer may, on the applicable interest payment date, repay all or part of the pass-through notes prior to their final maturity dates.

Following the earlier to occur of a pass-through trigger event and the step-up date (if any) in relation to a series and class of notes, any notes comprising such series which are scheduled redemption notes and bullet redemption notes shall be deemed to be pass-through notes and the issuer will repay such notes *pari passu* and *pro rata* with any original pass-through notes of that series and class to the extent that funds are available and subject to the conditions for repayment on subsequent interest payment dates.

### ***Money market notes***

From time to time, the issuer may issue a series and class of Rule 144A notes designated as money market notes in the applicable final terms (**money market notes**). Rule 144A notes designated as money market notes in the relevant final terms will be "Eligible Securities" within the meaning of Rule 2a-7 under the United States Investment Company Act of 1940, as amended (the **Investment Company Act**).

However, any determination as to qualification and compliance with other aspects of Rule 2a-7 is solely the responsibility of each money market fund and its investment adviser, and no representation as to such compliance is made by any of the issuer, Funding 1, the mortgages trustee, Alliance & Leicester, the dealers, the managers, the note trustee, the Funding 1 security trustee, the issuer security trustee, the corporate services provider, the issuer corporate services provider, the issuer swap providers, any swap guarantors (as applicable), the paying agents, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), any company in the same group of companies as Alliance & Leicester or the dealers, the managers or any other party to the transaction documents, and no assurance can be given in this regard.

Money market notes will generally be bullet redemption notes or scheduled redemption notes, the final maturity date of which will be less than 397 days from the closing date on which such notes were issued.

The issuer may also redeem certain series and classes of money market notes prior to their final maturity dates, but less than 397 days following issuance, using amounts received from a third party that has agreed to purchase those notes pursuant to the terms of a money market note purchase agreement. If such arrangements apply to any money market notes, the applicable final terms will, in addition to providing information regarding a series and class of money market notes, identify any money market note purchaser in respect of such money market notes and the terms of the applicable money market note purchase agreement.

Money market notes designated as remarketable notes in the relevant final terms will be issued subject to the mandatory transfer arrangements referred to in **condition 5.8**, the remarketing agreement (as defined below) and the note trust deed (the **mandatory transfer**). Under the terms of the mandatory transfer, the issuer will procure the purchase of the remarketable notes on the interest payment date specified in the relevant final terms as the initial mandatory transfer date and on each anniversary thereafter (subject to adjustment for non-business days and subject to the mandatory transfer termination event (as defined below) not having occurred) (each such date being a **mandatory transfer date**) until the final maturity or earlier redemption in full of such remarketable notes. Upon payment of the principal amount outstanding on such remarketable notes on the relevant mandatory transfer date (following the application of note principal payments on that date) (the **mandatory transfer price**), all rights in respect of such remarketable notes will be transferred to or for the account of the remarketing agent (as defined below) or as designated by the remarketing agent.

Under the terms of the relevant remarketing agreement (see "**Summary of the transaction documents – The remarketing agreement**" below), the issuer will appoint the remarketing agent specified in the applicable final terms (the **remarketing agent**) to act as its agent to use reasonable efforts to identify third party purchasers for the relevant remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event. If the remarketing agent is unable to identify third party purchasers for all such remarketable notes then outstanding, then the remarketing agent on behalf of the issuer will give notice to the conditional purchaser specified in the relevant final terms (the **conditional purchaser**) under an agreement (the **conditional purchase agreement**) to purchase all such remarketable notes. The obligation of the conditional purchaser to purchase such remarketable notes may be subject to limitations on the conditional purchaser's ability to fund its obligations (see "**Risk Factors – Risks related to money market notes**" below). If a remarketing termination event (as defined below), other than a note event of default, occurs on or before the relevant mandatory transfer date, the conditional purchaser will be obliged to purchase all the relevant remarketable notes on such mandatory transfer date.

The remarketing agent will have the ability to increase or decrease the margin on the remarketable notes from that payable as at the issue date of the relevant remarketable notes on each mandatory transfer date in accordance with the remarketing agreement. Any increase in margin on the remarketable notes may not exceed an amount specified in the relevant final terms as the maximum reset margin. As from the occurrence of a remarketing termination event, the margin applicable to such remarketable notes will equal the maximum reset margin.

Certain risks relating to the remarketable notes are described below under "**Risk factors – Risks related to money market notes**" below.

#### ***Optional redemption or repurchase of the notes***

The issuer may redeem all, but not a portion, of a series and class of notes at their principal amount outstanding, together with any accrued interest and unpaid interest in respect thereof by giving notice in accordance with the terms and conditions of the notes, subject to the notes not having been accelerated and the availability of sufficient funds, as described in detail in **condition 5** under "**Terms and conditions of the notes**" in the following circumstances, subject to certain conditions set out in the referenced conditions:

- if at any time it would become unlawful for the issuer to make, fund or to allow to remain outstanding a loan tranche made by it under the intercompany loan agreement and the issuer requires Funding 1 to repay the loan tranche (see **condition 5.5** under “**Terms and conditions of the notes**” below); or
- if on any interest payment date in the event of particular tax changes that affect the issuer, the notes or the corresponding loan tranche under the intercompany loan (see **condition 5.5** under “**Terms and conditions of the notes**” below); or
- on or prior to 31 December 2010 or any other date permitted by the FSA, if the new regulatory capital framework known as the Basel II Framework has been implemented in the United Kingdom (including through the implementation of the EU Capital Requirements Directive) (see **condition 5.6** under “**Terms and conditions of the notes**” below).

In addition, the issuer may redeem a series and class of notes outstanding in accordance with the terms and conditions of such notes:

- on the step-up date relating to such series and class of notes (as specified in the applicable final terms) and on any interest payment date thereafter (see **condition 5.4** under “**Terms and conditions of the notes**” below); or
- on any interest payment date on which the aggregate principal amount of such series and class of notes is less than 10 per cent. of the aggregate principal amount outstanding of such series and class of notes as at the applicable closing date (see **condition 5.4** under “**Terms and conditions of the notes**” below).

#### ***Post-enforcement call option***

The note trustee is required at the request of the post-enforcement call option holder, for a nominal consideration, to transfer or procure the transfer of all of the notes of any series to the post-enforcement call option holder pursuant to the option granted to it by the note trustee (as agent for the noteholders) under the terms of the post-enforcement call option agreement. The post-enforcement call option agreement may only be exercised following the final maturity date of the latest maturing notes or the service of a note acceleration notice and following the application of the proceeds of enforcement of the issuer security. See “**The post-enforcement call option holder**” below.

#### ***Withholding tax***

Payments of interest and principal with respect to the notes will be subject to any applicable withholding or deduction for or on account of any taxes and neither the issuer nor any other person will be obliged to pay additional amounts in relation thereto. The applicability of any UK withholding tax is discussed under “**United Kingdom taxation**” below.

#### ***Credit enhancement***

Subject to the detailed description and limitations set out in “**Credit structure**” below, the notes of each series will have the benefit of the following credit enhancement or support:

- availability of excess portions of **Funding 1 available revenue receipts** (which consist of revenue receipts on the loans paid by the mortgages trustee to Funding 1 and other amounts set out in “**Cashflows – Definition of Funding 1 available revenue receipts**” below) and of **Funding 1 principal receipts** (which are principal receipts on the loans paid by the mortgages trustee to Funding 1);
- a reserve fund called the **general reserve fund** to be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal;
- a reserve fund called the **liquidity reserve fund**, which will be established following a seller rating downgrade to meet interest and principal shortfalls in limited circumstances on the notes;
- the Funding 1 liquidity facility (if established);



- subordination of junior classes of notes.

The notes will also have the benefit of derivatives instruments, namely the Funding 1 swap provided by Alliance & Leicester and any issuer currency and interest rate swaps in respect of the relevant series and class of notes as specified in the relevant final terms. See “**Swap agreements**” below.

#### ***Principal deficiency ledger***

A principal deficiency ledger has been established to record (i) principal losses on the loans allocated to Funding 1 and (ii) the application of Funding 1 principal receipts to meet any deficiency in Funding 1 available revenue receipts or to fund the liquidity reserve fund.

The principal deficiency ledger has five sub-ledgers which will correspond to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches, respectively. See “**Credit structure – Principal deficiency ledger**” below.

#### ***Trigger events***

If an asset trigger event or non-asset trigger event should occur, then distributions on the notes may be altered, as described in “**Cashflows**” below.

An **asset trigger event** will occur when an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 or any further Funding company, unless such debit is made when the sum of the amount standing to the credit of the general reserve ledger, liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made is greater than the amount necessary to pay items (a) to (f) of the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made.

A **non-asset trigger event** means on a trust calculation date (a) the occurrence of an insolvency event in relation to the seller on or before that trust calculation date, (b) the seller’s role as servicer is terminated and a new servicer is not appointed within 60 days, (c) the current seller share of the trust property is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date) or (d) as at the trust calculation date immediately preceding the relevant trust calculation date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms and this has not been remedied by the relevant trust calculation date. See “**The mortgages trust – Cash management of trust property – Principal receipts**” below.

A **trigger event** means an asset trigger event or a non-asset trigger event.

#### ***Acceleration***

All notes will become immediately due and payable and the issuer security will become enforceable on the service on the issuer by the note trustee of a note acceleration notice. The note trustee becomes entitled to serve a note acceleration notice at any time after the occurrence of a note event of default in respect of a series and class of notes (and it may do so using its own discretion or on the instructions of the noteholders of the applicable class of notes across all series (holding in aggregate at least one quarter in principal amount outstanding of such class of notes) or pursuant to an extraordinary resolution of noteholders of the applicable class of notes across all series provided that, at such time, all notes ranking in priority to such class of notes have been repaid in full or such notes are also accelerated).

#### ***New issuers***

The programme is structured to allow for new issuers, each of which will be a wholly-owned subsidiary of Holdings, to issue new notes and on-lend all or part of the equivalent gross issue proceeds by way of new intercompany loans to Funding 1 and/or any further Funding company (where applicable). Noteholders and the note trustee will be informed of any new issuers and new intercompany loans in the next investor report available after the date of such issue. Funding 1’s

obligations under any relevant new intercompany loans are or will be secured by the same security that secures the intercompany loan of the issuer. If new issuers are established to issue new notes, one of the conditions precedent to that issue is that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified by the rating agencies as a result of that issue; however, your consent will not be required for the establishment of new issuers and the related transactions, nor will you have any right of review in respect thereof. Funding 1 will use the proceeds of new intercompany loans for the purposes more fully described in "**Summary of the transaction documents – The intercompany loan agreement – New Funding 1 intercompany loan agreements**" below. All new notes issued from time to time by new issuers, the proceeds of which are on-lent to Funding 1 will be secured ultimately over the Funding 1 share of the trust property and will be subject to the ranking described in the following paragraphs.

Funding 1 will apply amounts it receives from its share in the trust property to pay amounts it owes under the loan tranches and/or any new loan tranches (where applicable) without distinguishing when the interest in the trust property was acquired or when the loan tranches and/or any new loan tranches (where applicable) were made. Funding 1's obligations to pay interest and principal to the new issuers on their new loan tranches will rank either equally with, ahead of or after each other, primarily depending on the relative loan tranche rating of each new loan tranche.

If Funding 1 enters into new intercompany loan agreements, it will also, if required, enter into new Funding 1 swaps with either the Funding 1 swap provider or a different swap provider in order to address the potential mismatch between the variable rates or fixed rates paid by borrowers on the loans and the LIBOR-based rate of interest paid by Funding 1 on the new intercompany loans. Each new Funding 1 swap and the Funding 1 swap will rank without any order of priority between themselves, but in proportion to the amounts due and, in each case, ahead of payments on the AAA loan tranches, as described further in "**Summary of the transaction documents – Swap agreements – Funding 1 swap agreement**" below.

If Funding 1 enters into new intercompany loan agreements, it will, if required, simultaneously enter into new Funding 1 start-up loan agreements with the Funding 1 start-up loan provider or new Funding 1 start-up loan providers, which will provide for the costs and expenses of the issue of the new notes and, if required by the rating agencies in order to support the rating of the notes, for extra amounts to be credited to the general reserve fund. Each new Funding 1 start-up loan agreement and the Funding 1 start-up loan agreements will rank without any order of priority between them but in proportion to the amounts due. Pursuant to its obligations under the listing rules of the UK listing authority, if a new issuer is established to issue new notes, then the issuer will notify or procure that notice is given of that new issuer to you.

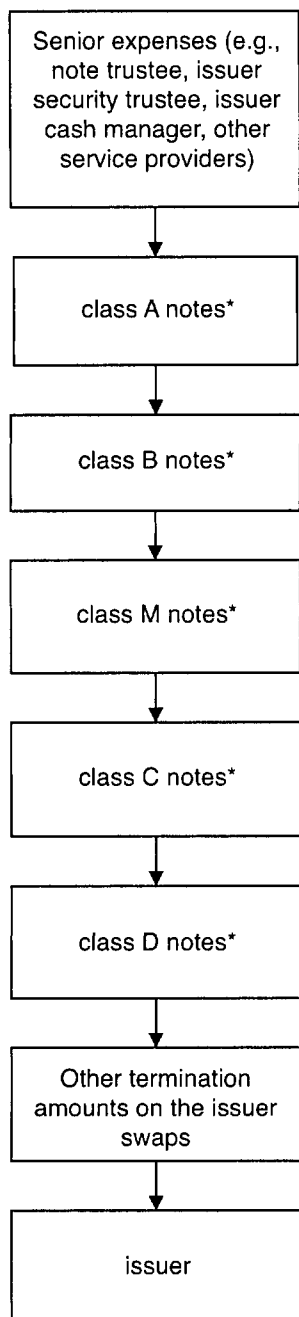
#### **Operative documents relating to the notes**

The issuer will issue each series of notes under the note trust deed. The notes will also be subject to the paying agent and agent bank agreement. The security for the notes is provided for under the issuer deed of charge between the issuer, the issuer security trustee and the issuer's other secured creditors. Operative legal provisions relating to the notes will be included in the note trust deed, the paying agent and agent bank agreement, the issuer deed of charge, the issuer cash management agreement and the notes themselves, each of which will be governed by English law.

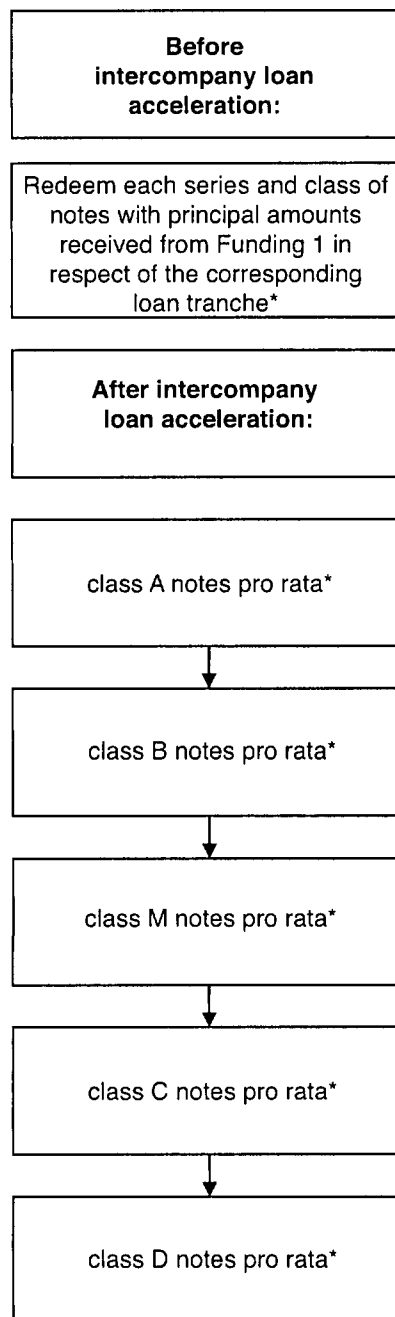
#### ***Diagram of the priority of payments by the issuer and subordination relationships***

The following diagram illustrates in a general way the payment priorities for revenue receipts and principal receipts by the issuer before acceleration of the notes and also indicates the subordination relationship among the notes. This diagram does not indicate the priority of payments by Funding 1, nor does it reflect the payment priorities by the issuer after acceleration of the notes. For the sake of simplicity, this diagram omits material details relating to the priority of payments. You should refer to "**Cashflows**" below for a complete understanding of the priorities of payments by Funding 1 and the issuer in all circumstances.

### Revenue receipts



### Principal receipts



\* Includes interest and certain termination amounts, or principal amounts, as applicable, payable to the issuer swap providers for the swaps entered into by the issuer corresponding to the relevant series and class of notes. Amounts received by the issuer from such swap providers under the relevant swap will be used to make payments of interest and principal on the corresponding series and class of notes.

## **The loans**

The loans comprising the portfolio from time to time have been and will be originated by the seller. Each loan in the portfolio (and any drawings under flexible loans and any further advance) is secured by either first legal charges over freehold or leasehold properties located in England or Wales or Northern Ireland or first ranking standard securities over heritable or long lease properties located in Scotland. The loans included in the portfolio consist of several different types with a variety of characteristics relating to, among other things, calculation of interest and repayment of principal. Some of the loans in the portfolio carry variable rates of interest based on a variable rate, some of the loans pay interest at a fixed rate or rates of interest and some of the loans pay interest at a rate of interest which tracks the Bank of England base rate (the base rate-linked rate is currently set at a margin above and/or equal to and/or below a rate set by the Bank of England).

See "**The loans – Characteristics of the loans**" below for a more detailed description of the loans offered by the seller and see the accompanying final terms for statistical information on the portfolio.

All loans are originated in accordance with the seller's lending criteria for loans applicable at the time of origination. The seller may from time to time change its lending criteria and any other terms applicable to new loans or their related security assigned to the mortgages trust after the initial closing date so that all new loans originated after the date of that change will be subject to the new lending criteria. Notwithstanding any change to the lending criteria or other terms applicable to the loans, the loans and their related security may only be assigned to the mortgages trust if those new loans comply with the seller's representations and warranties in the mortgage sale agreement. If a loan or its related security does not comply with these representations and warranties, then the seller will have 20 London business days in which to cure the default, failing which it will be required to repurchase the loan or loans under the relevant mortgage account and their related security from the mortgages trustee. See "**Summary of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**" and "**Summary of the transaction documents – The mortgage sale agreement – Repurchase of loans under a mortgage account**" below. The seller's current lending criteria are described further in "**The loans – Lending criteria**" below.

## **Sale of the loans**

The seller will sell the initial portfolio to the mortgages trustee on the initial closing date. After the initial closing date, the seller may sell new loans and their related security to the mortgages trustee in order to increase or maintain the size of the trust property. The seller may increase the size of the trust property from time to time in relation to an issue of any notes by the issuer or any new notes by any new issuer, the proceeds of which may be applied to fund the sale of the new loans and their related security to the mortgages trustee, or to comply with the seller's obligations under the mortgage sale agreement as described under "**Summary of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**" and "**Summary of the transaction documents – The mortgage sale agreement – Sale of new loans and their related security to the mortgages trustee**" below.

When new loans are sold to the mortgages trustee, the amount of the trust property will increase. Depending on the circumstances, the increase in the trust property may result in an increase in the seller's share of the trust property, Funding 1's share of the trust property and/or a further Funding company's share of the trust property. For a description of how adjustments are made to the seller's share, Funding 1's share and any further Funding company's share of the trust property, see "**The mortgages trust**" below.

## **The mortgages trust**

As of the initial closing date, the mortgages trustee will hold the trust property for both Funding 1 and the seller as beneficiaries of the trust. Funding 1 and the seller will each have a joint and undivided beneficial interest in the trust property. Payments of interest and principal arising from the loans in the portfolio will be allocated to Funding 1 and the seller according to their share of the trust property, calculated periodically as described later in this section. Other Funding

companies may, after the initial closing date, acquire interests in the trust property and thereby become beneficiaries of the trust. Such further Funding companies will receive allocations of payments of interest and principal arising from the loans according to their respective shares in the trust property.

The trust property will consist of the loans in the portfolio and their related security and any income generated by the loans or their related security. The trust property will also include any money in the mortgages trustee guaranteed investment contract or GIC account. The **mortgages trustee GIC account** is the bank account in which the mortgages trustee holds any cash that is part of the trust property until it is distributed to the beneficiaries.

Payments by borrowers and any recoveries made in respect of the loans in the portfolio will be paid initially into accounts called the **collection accounts** in the name of the seller and swept into the mortgages trustee GIC account on a regular basis but in any event in the case of direct debits no later than the next London business day after they are deposited in the collection accounts.

In addition, drawings under flexible loans and any further advances and any new loans and their related security that the seller sells to the mortgages trustee after the initial closing date will be part of the trust property, unless they are repurchased by the seller. The seller will be solely responsible for funding drawings under any flexible loans and further advances. The composition of the trust property will fluctuate as drawings under any flexible loans and further advances and new loans are added and as the loans that are already part of the trust property are repaid or mature or default or are repurchased by the seller.

The accompanying final terms will set out the approximate amounts of Funding 1's share, any further Funding company's share (if applicable) and the seller's share of the trust property as at the relevant closing date.

Income from the trust property is distributed at least monthly to Funding 1, any further Funding company and the seller on each distribution date. A **distribution date** is the date which is four London business days after each **trust calculation date** (being the initial closing date, the London business day following the last day of each calendar month and the day on which the mortgages trust is terminated) other than the trust calculation date occurring on the initial closing date in respect of which no distribution will be made. On each trust calculation date, Funding 1's share, any further Funding company's share and the seller's share of the trust property are recalculated based on the aggregate outstanding principal balance of the loans constituting the trust property on the last day of the immediately preceding trust calculation period. See "**The mortgages trust**" below for details of this recalculation.

On each distribution date, income (but not principal) from the trust property is allocated to Funding 1 in an amount equal to Funding 1's percentage share of the revenue receipts, any further Funding company in an amount equal to such further Funding company's percentage share of the revenue receipts and to the seller in an amount equal to the seller's share of the revenue receipts.

Losses on the loans are allocated to Funding 1, any further Funding companies and the seller based on their respective percentage shares in the trust property.

Whether the mortgages trustee allocates principal received on the loans to Funding 1 and any further Funding company depends on a number of factors. In general, each of Funding 1 and any further Funding company receives payment of principal in the following circumstances:

- when, in relation to any loan tranche or new loan tranche (where applicable), Funding 1 or each other further Funding company, as the case may be, is either accumulating principal during a cash accumulation period (as described below under "**The intercompany loan**") or is scheduled to make principal repayments on those loan tranches or new loan tranches (where applicable) (in which case principal receipts will be paid to Funding 1 and other further Funding companies based on their cash accumulation requirements or repayment requirements in relation to those loan tranches or new loan tranches (where applicable));

- when a non-asset trigger event has occurred (in which case all principal receipts on the loans will be paid to Funding 1 and each other further Funding company *pro rata* according to Funding 1's share of the trust property and each other further Funding company's share of the trust property until the Funding 1 share of the trust property and the share of the trust property attributable to each other further Funding company has been reduced to zero. When the Funding 1 share of the trust property and the share of the trust property of each other further Funding company is zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller); and
- when an asset trigger event has occurred (in which case principal receipts on the loans will be paid to Funding 1, each other further Funding company and the seller *pro rata* according to the Funding 1 share of the trust property, the share of the trust property attributable to each other further Funding company and the seller share of the trust property, until the Funding 1 share of the trust property and the share of the trust property attributable to each such further Funding company is zero. When the Funding 1 share of the trust property and each other further Funding company's share of the trust property is zero, the remaining mortgages trust available principal receipts (if any) will be allocated to the seller).

Neither Funding 1 nor any other further Funding company will be entitled to receive in aggregate an amount of mortgages trust available principal receipts on a distribution date which is in excess of, as applicable, the Funding 1 share of the trust property or such other further Funding company's share of the trust property on the relevant distribution date.

For more information on the distribution of principal receipts on the loans, including a description of when a non asset trigger event or an asset trigger event will occur, see "**The mortgages trust**" below.

Under the terms of the controlling beneficiary deed, Funding 1 and the seller will agree to, amongst other things, arrangements amongst themselves in respect of certain commercial decisions (relating to directions, rights, powers, benefits and/or discretions (or any equivalent thereof) under the transaction documents) to be made from time to time in respect of the mortgages trust deed and other transaction documents. In the event of any further Funding company becoming a beneficiary of the mortgages trust, such further Funding company will accede to the controlling beneficiary deed and agree to such arrangements.

### **The intercompany loan**

The issuer has entered into the intercompany loan agreement with Funding 1. As described above under "**Summary of the notes – Relationship between the notes and the intercompany loan**", the intercompany loan will consist of separate loan tranches, each corresponding to a particular series and class of notes. The loan tranches will comprise AAA tranches, AA tranches, A tranches, BBB tranches and BB tranches reflecting the designated credit rating assigned to each loan tranche. The loan tranche related to a series and class of notes will be specified for such series and class of notes in the applicable final terms. The terms of each loan tranche will be set forth in the related final terms and the intercompany loan agreement.

From time to time and subject to certain conditions, the issuer will lend amounts to Funding 1 as separate loan tranches using the sterling equivalent proceeds of each issuance of a series and class of notes. Funding 1 will use the funds advanced under each such loan tranche to:

- pay to the mortgages trustee a contribution, either as an initial contribution to be paid to the seller in consideration for the sale of loans to the mortgages trustee or a further contribution to acquire and/or increase its beneficial interest in the trust property pursuant to the mortgages trust deed;
- to fund or replenish the general reserve fund; and/or
- to refinance an existing loan tranche or a new loan tranche (if any) made available to Funding 1.

Subject to the provisions of the relevant Funding 1 priority of payments (see “**Cashflows**” below), Funding 1 will repay the intercompany loan from payments received from the mortgages trustee, as described under “**The mortgages trust**” below. To the extent required, but subject to certain limits and conditions, Funding 1 may also apply amounts standing to the credit of the general reserve fund and the liquidity reserve fund (if any) and amounts available under the Funding 1 liquidity facility (if established) to make payments of interest and principal due under the intercompany loan. The issuer will make payments of interest on and principal of the notes from payments of interest and principal made by Funding 1 to it under the intercompany loan agreement.

A loan tranche may be a bullet loan tranche, a scheduled amortisation loan tranche or a pass-through loan tranche. A **bullet loan tranche** is a loan tranche that is scheduled to be repaid in full on one Funding 1 interest payment date. A **scheduled amortisation loan tranche** is a loan tranche that is scheduled to be repaid in instalments on more than one Funding 1 interest payment date. Such instalment amounts and repayment dates are referred to as **scheduled amortisation instalments**. A **pass-through loan tranche** is a loan tranche that has no scheduled repayment date other than its final repayment date. Loan tranches with pass-through repayment will be repaid on or after the Funding 1 interest payment date on which the loan tranches with the same series designation and a higher rating designation in respect of the series have been fully repaid. Bullet loan tranches and scheduled amortisation loan tranches will become pass-through loan tranches if a pass-through trigger event occurs. The designation and type of loan tranche and the repayment schedule, if any, for the loan tranche advanced in connection with a particular series and class of notes will be set out in the accompanying final terms.

During a cash accumulation period for any bullet loan tranche, Funding 1 will continue to make principal repayments on any other loan tranches that are then due and scheduled to be paid, subject to having sufficient funds therefor after meeting its obligations with a higher priority. Such principal repayments may only be made to the extent that (following such principal repayments and the principal repayments on the related series and class of notes) the amount of subordination available from all outstanding subordinate classes of notes (and other forms of credit enhancement) and reserves (as applicable) is at least equal to the required credit enhancement for each of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes then outstanding. In certain circumstances, payment on the scheduled amortisation loan tranches and pass-through loan tranches will be deferred. See “**Cashflows – Distribution of Funding 1 available principal receipts**” below. No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to any bullet loan tranches or any scheduled amortisation loan tranche to enable it to repay the relevant loan tranche to the issuer so that the corresponding notes will be redeemed in their scheduled amounts and on their scheduled redemption dates.

Funding 1 is generally required to repay principal on the loan tranches based on their respective loan tranche ratings. This means that the AAA loan tranches are repaid before the AA loan tranches, which in turn are repaid before the A loan tranches, which in turn are repaid before the BBB loan tranches, which in turn are repaid before the BB loan tranches. Prior to the occurrence of a trigger event or the acceleration of the intercompany loan or the acceleration of all notes of each series, there are a number of exceptions to this priority of payments. For further information on such exceptions you should read the “**Cashflows**” section of this prospectus below.

The circumstances under which the issuer can take action against Funding 1 if it does not make a repayment under the intercompany loan are limited. In particular, it will not be an event of default in respect of the intercompany loan if Funding 1 does not repay amounts due in respect of the intercompany loan where Funding 1 does not have the money to make the relevant repayment or where the repayment tests are not satisfied. For more information on the intercompany loan, see “**Summary of the transaction documents – The intercompany loan agreement**” below.

If the notes of each series are or have been accelerated, then the outstanding loan tranches will be immediately due and payable, but the Funding 1 security will not become enforceable unless Funding 1 is also in default under the intercompany loan agreement, and Funding 1 will allocate its principal receipts to repay the loan tranches in order of rating designation, from highest to lowest.

### **Security granted by Funding 1 and the issuer**

On the initial closing date, Funding 1 will enter into a Funding 1 deed of charge to secure its obligations to its secured creditors and, in connection with the issuance of future series of notes, new secured creditors of Funding 1 may accede to the Funding 1 deed of charge.

Besides the issuer, Funding 1's secured creditors on the initial closing date will be, among others, the Funding 1 swap provider, the Funding 1 account bank, the cash manager, the corporate services provider, the Funding 1 security trustee, the Funding 1 start-up loan provider and the seller.

Pursuant to the terms of the Funding 1 deed of charge, Funding 1 will grant security over all of its assets in favour of the Funding 1 security trustee. As of the initial closing date, the Funding 1 security trustee will hold that security for the benefit of the Funding 1 secured creditors. Except in very limited circumstances, only the Funding 1 security trustee will be entitled to enforce the security granted by Funding 1. For more information on the security granted by Funding 1, see "**Summary of the transaction documents – Funding 1 deed of charge**" below. For details of the Funding 1 post-acceleration priority of payments, see "**Cashflows**" below.

To secure the issuer's obligations to the noteholders and to the issuer's other secured creditors, the issuer will grant security over all of its assets in favour of the issuer security trustee pursuant to the issuer deed of charge. The issuer security trustee will hold that security for the benefit of the issuer's secured creditors, which will be, among others, the noteholders of each series, the issuer security trustee, the note trustee, the agent bank, the exchange rate agent, the paying agents, the transfer agent, the issuer cash manager, the issuer account bank, the paying agents, the issuer swap providers and the issuer corporate services provider. Except in very limited circumstances, only the issuer security trustee will be entitled to enforce the security granted by the issuer. For more information on the security granted by the issuer, see "**Summary of the transaction documents – Issuer deed of charge**" below. For details of the relevant issuer priority of payments following enforcement of the issuer security, see "**Cashflows**" below.

### **Swap agreements**

Some of the loans in the portfolio carry variable rates of interest based on a variable rate, some of the loans pay interest at a fixed rate or rates of interest and some of the loans pay interest at a rate of interest which tracks the Bank of England base rate (the base rate-linked rate is currently set at a margin above and/or equal to and/or below a rate set by the Bank of England). These interest rates do not necessarily match the floating rate of interest payable on the loan tranches under the intercompany loan. Funding 1 will enter into a swap documented under the Funding 1 swap agreement to hedge against these potential interest rate mismatches.

Borrowers will make payments under the loans in sterling. Payments made by the mortgages trustee to Funding 1 under the mortgages trust deed and payments made by Funding 1 to the issuer under the intercompany loan will be made in sterling. To enable the issuer to make payments on the notes of a series denominated in dollars, euro or any other currency other than sterling in their respective currencies, the issuer will enter into issuer dollar currency swap agreements, issuer euro currency swap agreements and, in relation to notes denominated in any other currency, issuer currency swap agreements in relation to any other applicable currency. The interest payable by Funding 1 to the issuer under the loan tranches under the intercompany loan agreement is calculated as a margin over LIBOR for three-month sterling deposits. However, some of the sterling notes will accrue interest at a fixed rate. Therefore, to address this potential interest rate mismatch, the issuer may enter into issuer interest rate swaps from time to time under the issuer interest rate swap agreements.

### **United Kingdom tax status**

You are referred to "**United Kingdom taxation**" below for a discussion of certain UK tax matters, including UK withholding tax on interest payments to noteholders.



### **United States tax status**

A discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the Rule 144A notes is set out in “**United States federal income taxation**” below. As set forth in that discussion, unless otherwise indicated in the applicable final terms, it is anticipated that upon issuance of the notes Allen & Overy LLP, our U.S. tax adviser, will deliver their opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A notes, the class A, class B and class M Rule 144A notes, when issued, will be treated as debt for U.S. federal income tax purposes and the class C Rule 144A notes, when issued, should be treated as debt for U.S. federal income tax purposes. The treatment of the class D Rule 144A notes for U.S. federal income tax purposes will be set forth in the applicable final terms. Also, as discussed in “**United States federal income taxation**” below, it is anticipated that upon issuance of the Rule 144A notes our U.S. tax adviser will deliver their opinion that, assuming compliance with the transaction documents, the mortgages trustee acting in its capacity as trustee of the mortgages trust, Funding 1 and the issuer will not be subject to U.S. federal income tax.

### **Jersey (Channel Islands) tax status**

It is the opinion of Mourant du Feu & Jeune, our Jersey (Channel Islands) tax counsel, that the mortgages trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 20 per cent. in respect of the profits it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust. See “**Material Jersey (Channel Islands) tax considerations**” below.

### **ERISA considerations for investors**

The eligibility of the Rule 144A notes for purchase by employee benefit and other plans subject to Section 406 of ERISA or Section 4975 of the Code and by governmental plans that are subject to any state, local or other federal law of the United States that is substantially similar to Section 406 of ERISA or Section 4975 of the Code will be set forth in the applicable final terms for such notes, subject to consideration of the issues described below under “**ERISA considerations**”. See “**ERISA considerations**” below.

## Fees

The following table sets out the on-going fees to be paid by the issuer, Funding 1 and the mortgages trustee to transaction parties. Each of these fees is subject to change at any time without your notification or approval, including upon the appointment of any successor service provider or any other successor transaction party pursuant to the applicable transaction document.

Type of fee	Amount of fee	Priority in cashflow	Frequency of Payment
Servicing fee	Estimated 0.08 per cent. per year of the aggregate outstanding principal amount of the trust property	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable by mortgages trustee on each distribution date
Mortgages trustee fee	Estimated £1,000 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable annually by mortgages trustee on the distribution date occurring in January
Cash management fee	Estimated 0.01 per cent. per year of principal amount outstanding of the intercompany loan	Ahead of all loan tranches	Payable quarterly by Funding 1 on each Funding 1 interest payment date occurring in January, April, July and October of each year
Issuer cash management fee	Estimated 0.01 per cent. per year of the principal amount outstanding of the notes	Ahead of all outstanding notes	Payable quarterly by issuer on each interest payment date occurring in January, April, July and October of each year
Corporate expenses of mortgages trustee	Estimated £5,500 each year	Ahead of all revenue amounts payable to Funding 1 by the mortgages trustee	Payable annually by mortgages trustee on each distribution date occurring in January
Corporate expenses of Funding 1	Estimated £2,500 each year	Ahead of all loan tranches	Payable semi-annually by Funding 1 on each Funding 1 interest payment date occurring in January and July of each year
Corporate expenses of issuer	Estimated £6,250 each year	Ahead of all outstanding notes	Payable semi-annually by issuer on each interest payment date occurring in January and July of each year
Funding 1 security trustee and issuer security trustee fee (including paying agents)	Estimated £3,000 each year	Ahead of all outstanding notes	Payable annually by Funding 1 on each Funding 1 interest payment date occurring in January of each year

Subject to the following, the servicing fee, the cash management fee and the issuer cash management fee set out in the preceding table are inclusive of value added tax (**VAT**), which is currently assessed at 17.5 per cent., and the aggregate amount payable in respect of such services will not be adjusted in the event of any change in the rate of VAT.

## THE ISSUANCE OF NOTES

The notes will be issued pursuant to the note trust deed. The following summary and the information set out in the note trust deed, “**Form of the notes**” and “**Terms and conditions of the notes**” below summarise the material terms of the notes and the note trust deed. These summaries do not purport to be complete and are subject to the provisions of the note trust deed and the terms and conditions of the notes.

### General

The notes will be issued in series. Each series will comprise one or more class A notes, class B notes, class M notes, class C notes or class D notes issued on a single issue date. A class designation determines the relative seniority for receipt of cashflows. The notes of a particular class in different series (and the notes of the same class and series) will not necessarily have the same terms. Differences may include principal amount, interest rates, interest rate calculations, currency, dates, final maturity dates and ratings. Each series and class of notes will be secured over the same property as the notes offered by this prospectus together with the final terms. The terms of each series of notes will be set forth in the related final terms.

### Issuance

The issuer may issue new series and classes of notes and advance loan tranches to Funding 1 from time to time without obtaining the consent of existing noteholders. As a general matter the issuer may only issue a new series and class of notes if sufficient subordination is provided for that new series and class of notes by one or more subordinate classes of notes and/or the general reserve fund. The required subordinated percentage, which is used to calculate the required subordination for each class of notes other than the class D notes, will be set forth in the applicable final terms for each series of that class of notes. Similarly, the general reserve required amount will be specified in each final terms. The conditions and tests (including the required levels of subordination) necessary to issue a series and class of notes, or the **issuance tests**, include the following:

#### **All classes of notes**

On the issue date of any series and class of notes:

- there shall be no debit balance on the principal deficiency ledger which shall not be cured on the next Funding 1 interest payment date;
- no note event of default shall have occurred which is continuing or will occur as a consequence of such issuance;
- no acceleration notice has been served on the issuer;
- no intercompany loan enforcement notice has been served on Funding 1;
- the general reserve fund is fully funded up to the general reserve required amount;
- the liquidity reserve fund is fully funded up to the liquidity reserve fund required amount;
- each of the applicable transaction documents has been executed by the relevant parties to those documents;
- the issuer has delivered a solvency certificate to the note trustee in form and substance satisfactory to the note trustee; and
- the rating agencies have provided written confirmation that (i) such series of notes have been assigned the required note issuance ratings and (ii) their ratings of the notes then outstanding will not be reduced, qualified or withdrawn as a consequence of such issuance,

and,

***for the class A notes of any series***

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class A available subordinated amount must be equal to or greater than the class A required subordinated amount.

The **class A required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

- A = the class A required subordinated percentage as specified in the most recent final terms for class A notes of any series; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class A available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class B notes of all series, the class M notes of all series, the class C notes of all series and the class D notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on AA loan tranches, A loan tranches, BBB loan tranches and BB loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

***for the class B notes of any series***

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class B available subordinated amount must be equal to or greater than the class B required subordinated amount.

The **class B required subordinated amount** is calculated, on any date, as the product of:

A x B

where:

- A = the class B required subordinated percentage as specified in the most recent final terms for class B notes of any series; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class B available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class M notes of all series, the class C notes of all series and the class D notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on A loan tranches, BBB loan tranches and BB loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

**for the class M notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class M available subordinated amount must be equal to or greater than the class M required subordinated amount.

The **class M required subordinated amount** is calculated, on any date, as the product of:

$A \times B$

where:

- A = the class M required subordinated percentage as specified in the most recent final terms for class M notes of any series; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class M available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class C notes of all series and the class D notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on BBB loan tranches and BB loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

**for the class C notes of any series**

On the closing date for that series of notes and after giving effect to the issuance of that series of notes, the class C available subordinated amount must be equal to or greater than the class C required subordinated amount.

The **class C required subordinated amount** is calculated, on any date, as the product of:

$A \times B$

where:

- A = the class C required subordinated percentage as specified in the most recent final terms for class C notes of any series; and
- B = the principal amount outstanding of all notes on such date (after giving effect to any payments of principal to be made on the notes on such date) less the amounts standing to the credit of the cash accumulation ledger and the principal ledger available on such date for the repayment of principal on the loan tranches (after giving effect to any repayments of principal to be made on the loan tranches on such date).

The **class C available subordinated amount** is calculated, on any date, as:

- (a) the sum of (i) the aggregate of the principal amounts outstanding of the class D notes of all series (after giving effect to repayments of principal to be made on the notes on such date), (ii) the aggregate amount of the general reserve fund on such date and (iii) rating agency excess spread;

less:

- (b) the amounts standing to the credit of the principal ledger available on such date for the payment of principal on BB loan tranches (after giving effect to any payments of principal to be made on the loan tranches on such date).

In relation to the above, the amounts available on any date for the payment of principal on any loan tranche shall be calculated in accordance with the Funding 1 pre-acceleration principal priority of payments (as set out in "**Cashflows – Distribution of Funding 1 available principal receipts**" below) and shall be calculated without reference to the rules for the application of Funding 1 available principal receipts (as set out in "**Cashflows – Distribution of Funding 1 available principal receipts**" below).

The **rating agency excess spread** is calculated, on any date, as:

- (a) the product of:

$$\frac{X + Y}{2}$$

and the aggregate outstanding principal balance of the loan tranches outstanding under the intercompany loan less the amount debited to the principal deficiency ledger at such date;  
less:

- (b) the product of the weighted average interest rate of the outstanding notes at such date, including any notes issued on such date (subject to adjustment where the step-up date occurs for any series and class of notes and taking into account the margins on the issuer swaps as at such date and the expenses of the issuer ranking in priority to payments on such notes) and the aggregate principal amount outstanding of such notes at such date.

where:

X = the weighted average yield on the loans in the portfolio at such date, together with new loans (if any) to be assigned to the mortgages trustee on such date (taking into account the margins on the Funding 1 swaps as at such date); and

Y = LIBOR for 3 month sterling deposits plus 0.4 per cent.

The required subordinated amount for any class of notes or the method of computing the required subordinated amount may be changed at any time without the consent of any noteholders provided confirmation has been obtained from each rating agency that has rated any outstanding notes that the change will not result in the reduction, qualification or withdrawal of its then current rating of any outstanding notes.

If confirmation is obtained from each rating agency that has rated any outstanding notes that the issuance of a new series and class of notes will not cause a reduction, qualification or withdrawal of the ratings of any outstanding notes rated by that rating agency, then some of the other conditions to issuance described above may be waived without the consent of the noteholders.

The issuer shall prior to the issue of any notes certify in writing to the note trustee that all the conditions to issue of notes described above are satisfied and (where the issuer has waived one or more such conditions in accordance with the foregoing paragraph) specifying the same in such certificate, which certificate shall be conclusive and binding on all parties.

## RISK FACTORS

*The following is a summary of certain risk factors of which prospective noteholders should be aware. This section describes the principal risk associated with an investment in the notes. Prospective noteholders should also read the detailed information set out elsewhere in this document prior to making an investment decision in relation to the notes.*

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

The notes will not represent an obligation or be the responsibility of Alliance & Leicester or any of its affiliates, the dealers and/or the managers, the mortgages trustee, the note trustee, the issuer security trustee, the Funding 1 security trustee, any further Funding companies and/or any new issuers and/or any other party to the transaction other than the issuer.

### **The issuer has limited resources available to it to make payments on your notes**

The issuer's ability to make payments of principal and interest on the notes and to pay its operating and administrative expenses will depend primarily on payments being received by it under the intercompany loan agreement. In addition, the issuer will rely on the issuer swaps to make payments on the notes which are not denominated in sterling (or notes, if any, which carry a fixed rate of interest).

### **Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on your notes**

Funding 1's ability to pay amounts payable on the loan tranches will depend upon:

- Funding 1 receiving enough funds from its share in the trust property on or before each Funding 1 interest payment date;
- Funding 1 receiving the required funds from the Funding 1 swap provider;
- Funding 1 receiving the required funds from the Funding 1 liquidity facility provider under the Funding 1 liquidity facility (if established);
- the amount of funds credited to the general reserve fund (as described below in "**Credit structure – General reserve fund**");
- any amount of funds credited to the liquidity reserve fund, if any (as described below in "**Credit structure – Liquidity reserve fund**"); and
- the allocation of funds under any new intercompany loans provided by any new issuers to Funding 1 (as described below in "**Cashflows**").

According to the terms of the mortgages trust deed, the mortgages trustee is obliged to pay to Funding 1 the Funding 1 share percentage of revenue receipts by crediting those amounts to the Funding 1 GIC account on each distribution date. The mortgages trustee is obliged to pay to Funding 1 the Funding 1 share percentage of principal receipts on the loans by crediting those amounts to the Funding 1 GIC account as and when required pursuant to the terms of the mortgages trust deed.

Funding 1 will be obliged to pay amounts due and payable to the issuer under each loan tranche only to the extent that it has funds available to it after making payments ranking in priority to such loan tranche, such as payments of certain fees and expenses of Funding 1 and payments on loan tranches of a more senior ranking, and taking into account payments ranking equally with such loan tranche (such as loan tranches of the same ranking). See "**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**" and "**Cashflows – Distribution of Funding 1 available principal receipts**" below.

If Funding 1 does not pay amounts to the issuer in respect of a loan tranche under the intercompany loan agreement because it does not have sufficient funds available, those amounts will be due but not payable until funds are available to pay those amounts in accordance with the relevant Funding 1 priority of payments. Funding 1's failure to pay those amounts to the issuer when due in such circumstances will not constitute an event of default under the intercompany loan



agreement until the latest occurring final repayment date of any loan tranche under the intercompany loan agreement. Following enforcement of the Funding 1 security and application of the proceeds of enforcement, any remaining shortfall under the intercompany loan will be extinguished.

If there is a shortfall between the amounts payable by Funding 1 to the issuer under the intercompany loan agreement and the amounts payable by the issuer on the notes, you may not, depending on what other sources of funds are available to the issuer and to Funding 1, receive the full amount of interest and/or principal and/or other amounts which would otherwise be payable on your notes.

**Enforcement of the issuer security is the only remedy for a default on the issuer's obligations, and the proceeds of that enforcement may not be enough to make all the payments due on your notes**

The only remedy for recovering amounts on the notes is through the enforcement of the issuer security. The issuer does not have any recourse to the assets of Funding 1 unless Funding 1 has also defaulted on its obligations under the intercompany loan and the Funding 1 security has been enforced.

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

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

The class B notes, the class M notes, the class C notes and class D notes of any series are subordinated in right of payment of interest to the class A notes of any series. The class M notes, the class C notes and the class D notes of any series are subordinated in right of payment of interest to the class B notes of any series. The class C notes and the class D notes of any series are subordinated in right of payment of interest to the class M notes of any series. The class D notes of any series are subordinated in right of payment of interest to the class C notes of any series.

The class B notes, the class M notes, the class C notes and class D notes of any series are subordinated in right of payment of principal to the class A notes of any series. The class M notes, the class C notes and the class D notes of any series are subordinated in right of payment of principal to the class B notes of any series. The class C notes and the class D notes of any series are subordinated in right of payment of principal to the class M notes of any series. The class D notes of any series are subordinated in right of payment of principal to the class C notes of any series.

You should be aware however that not all classes of notes are scheduled to receive payments of principal on the same interest payment dates. The interest payment dates for the payment of interest and principal in respect of each series and class of notes will be specified in the applicable final terms. Each series and class of notes may have interest payment dates in respect of interest and/or principal that are different from other notes of the same class (but of different series) or of the same series (but of different class). Despite the principal priority of payments described above, subject to no trigger event having occurred and satisfaction of the repayment tests, lower ranking classes of notes may nevertheless be repaid principal before higher ranking classes of notes and a series and class of notes may be repaid principal before other series of notes of the same class. Payments of principal are expected to be made to each class of notes in amounts up to the amounts set forth below under "**Cashflows – Distribution of issuer principal receipts before note acceleration**" and "**Cashflows – Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration**".

However, there is no assurance that these subordination rules will protect the class A noteholders from all risks of loss, the class B noteholders from all risks of loss, the class M noteholders from all risks of loss, the class C noteholders from all risks of loss or the class D noteholders from all risk of loss. If the losses borne by the class D notes, the class C notes, the

class M notes and the class B notes are in an amount equal to the aggregate outstanding principal balances of the class D notes, the class C notes, the class M notes and the class B notes, then losses on the loans will thereafter be borne by the class A notes at which point there will be an asset trigger event. Similarly, if the losses borne by the class D notes, the class C notes and the class M notes are in an amount equal to the aggregate outstanding principal balances of the class D notes, the class C notes and the class M notes, then losses on the loans will thereafter be borne by the class B notes. Similarly, if the losses borne by the class D notes and the class C notes are in an amount equal to the aggregate outstanding principal balances of the class D notes and the class C notes, then losses on the loans will thereafter be borne by the class M notes. Finally, if the losses borne by the class D notes are in an amount equal to the aggregate outstanding principal balances of the class D notes, then losses on the loans will thereafter be borne by the class C notes.

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

If, on any interest payment date on which a repayment of principal is due on any series of class B notes, class M notes, class C notes or class D notes at a time when, if the repayment was made, the principal amount outstanding of the remaining subordinate classes of notes is not sufficient to provide the level of credit enhancement required to support the ratings on the more senior classes of notes then outstanding and the issuer is unable to issue additional notes of such class B notes, class M notes, class C notes or class D notes or obtain acceptable alternative forms of credit enhancement, such subordinated class of notes will not be entitled to receive payments of principal until all more senior classes of notes outstanding have their required level of subordination. See “**Cashflows**” below.

On any interest payment date on which a payment of principal is due on any series of class B notes, class M notes, class C notes and class D notes, our obligation to make such principal payments will be subject to the satisfaction of the repayment tests described under “**Cashflows – Distribution of Funding 1 available principal receipts**”, including an arrears test, a general reserve fund requirement and a principal deficiency sub-ledger test to the extent that any class A notes of any series or any other senior ranking notes of any series are outstanding on that date.

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

The issuer may change the required subordinated amount for any class of notes, or the method of calculating the required subordinated amount for such class, at any time without the consent of any noteholders if certain conditions are met, including confirmation from each rating agency that such change will not cause a reduction, qualification or withdrawal of its then-current rating of any outstanding notes that will be affected by such change.

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

If the issuer obtains confirmation from each rating agency that the issuance of a new series and class of notes will not cause a reduction, qualification or withdrawal of the then-current rating of any outstanding notes rated by that rating agency, then some of the other conditions to issuance of notes (e.g. the absence of a note event of default in respect of a series and/or class of notes) may be waived. For a description of the conditions to issuance and the waiver of such conditions see “**The issuance of notes**” below.

**The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**

Pursuant to the terms of the Funding 1 deed of charge, the issuer deed of charge and the note trust deed, the Funding 1 security trustee, the issuer security trustee and/or the note trustee respectively may, without the consent or sanction of the Funding 1 secured creditors (except where they are a party to the relevant transaction document the subject of such modification, where the consent of such party will be required), the issuer secured creditors (except where they are a party

to the relevant transaction document the subject of such modification, where the consent of such party will be required) and/or the noteholders, concur with any person in making or sanctioning any modifications to the transaction documents (other than a basic terms modification):

- which in the case of the Funding 1 security trustee it has been directed to do so by the issuer security trustee and which the issuer security trustee has in turn been directed to do so by the note trustee in the circumstances described below;
- which in the case of the issuer security trustee it has been directed to do so by the note trustee in the circumstances described below; and
- which in the opinion of the note trustee (a) will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion, the noteholders have sanctioned such modification by way of an extraordinary resolution or (b) is made to correct a manifest error or an error which is, in the opinion of the note trustee is proven or is of a formal, minor or technical nature.

In the exercise of any of its powers, trusts, authorities, rights or discretions under any of the transaction documents (including the Funding 1 deed of charge) the Funding 1 security trustee shall act as directed by the issuer security trustee which shall in turn act as directed by the note trustee. In the exercise of any of its powers, trusts, authorities and discretions under any transaction document (including the issuer deed of charge), the issuer security trustee shall act as directed by the note trustee. In the exercise of any of its powers, trusts, authorities and discretions under the note trust deed or any other transaction document, the note trustee shall have regard to the interests of the noteholders (subject to the provisions of the next paragraph) but in the event of a conflict of interest it shall have regard to the interests of the noteholders of the class of notes with the highest rating, subject to the provisions of the note trust deed.

In determining whether a modification to a transaction document is materially prejudicial to the interests of the noteholders, the note trustee will have regard to confirmations from each of the rating agencies that the then current ratings of the notes would not be downgraded, withdrawn or qualified and any other confirmation which it considers, in its sole and absolute discretion, is necessary and/or appropriate.

In addition, the Funding 1 security trustee will give its consent to any modifications to the transaction documents that are requested by Funding 1, the cash manager, the issuer and/or the issuer cash manager, provided that Funding 1, the cash manager, the issuer and/or the issuer cash manager certifies to the note trustee in writing that such modifications are required in order to accommodate:

- (i) any loan tranches to be advanced to Funding 1 under the intercompany loan and/or the issue of any notes by the issuer;
- (ii) new intercompany loan agreements of Funding 1 or any further Funding companies and/or the issue of new notes by any new issuer;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);
- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the general reserve required amount and/or any additional amounts for the purposes of an arrears or step-up trigger event and/or the liquidity reserve fund required amount and/or the manner in which each of such amounts are funded;
- (viii) the establishment of the Funding 1 liquidity facility; and/or
- (ix) changes to the asset trigger events and non-asset trigger events;

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (ix) above, the note trustee has received written confirmation from each of the rating agencies that as a result of the relevant modifications the then current ratings of the notes will not be downgraded, withdrawn or qualified.

The modifications required to give effect to the matters listed in paragraphs (i) to (vi) above may include, among other matters, amendments to the provisions of the mortgages trust deed and the Funding 1 deed of charge relating to the allocation of and entitlement to monies. There can be no assurance that the effect of the modifications to the transaction documents will not ultimately adversely affect your interests. Any modifications to the documents described above will require the actual consent of each of the issuer swap providers (in respect only of amendments to any document to which they are a party), as applicable, such consent not to be unreasonably withheld and to be deemed given if no written response (affirmative or negative) is given within ten business days after the written request for consent is sent to each such party.

**There may be a conflict of interests between the issuer and new issuers, and the interests of the new issuers may prevail over the interests of the issuer**

The issuer and any new issuers that enter into new loan agreements with Funding 1 will share in the Funding 1 security. In the exercise of its rights, powers or discretions under any of the transaction documents and subject as provided below, the Funding 1 security trustee shall act on the directions of the issuer security trustees and the issuer security trustees will in turn act on the directions of the respective note trustees. In the event of a conflict between the directions of the note trustees and the corresponding directions of the issuer security trustees, the Funding 1 security trustee will act only on the directions of the issuer security trustees acting as directed by the respective note trustees for the holders of notes of the highest ranking outstanding class at that time (unless expressly provided otherwise) and provided that the Funding 1 security trustee is indemnified and/or secured to its satisfaction. If the Funding 1 security trustee receives conflicting directions from two or more such issuer security trustees because such issuer security trustees receive conflicting directions from the respective note trustees, it will follow the directions given by one or (if in agreement) more of the issuer security trustees directed by one or (if in agreement) more of note trustees acting for the holders of notes and new notes (as applicable) of the highest ranking outstanding class at that time the aggregate principal amount outstanding of which exceeds the aggregate principal amount outstanding of notes and new notes (as applicable) of the highest ranking outstanding class at that time for the holders of notes and new notes (as applicable) which the note trustee(s) have given directions to the respective issuer security trustee(s) which conflict with such directions. If the note trustee(s) whose directions prevail does not act as trustee for holders of notes issued by the issuer, then the interests of the holders of the notes will not prevail. This could ultimately cause a reduction in the payments you receive on your notes.

**Holdings may establish further Funding companies, which will be additional beneficiaries under the mortgages trust**

Holdings may in the future establish new funding entities (each a **further Funding company** and together with Funding 1, the **Funding companies**), which may raise debt from time to time and use the proceeds thereof to acquire or increase their shares in the trust property. However, any such increase will be subject to obtaining prior written confirmation from each of the rating agencies that the then current ratings of the notes then outstanding (and any new notes, where applicable) will not be withdrawn, downgraded or qualified as a result of the relevant Funding company acquiring or increasing its share of trust property.

As beneficiaries, the seller, Funding 1 and any further Funding companies will have a joint and undivided interest in the trust property but their entitlement to the proceeds from the trust property will be in proportion to their respective shares of the trust property. However, if any

Funding company besides Funding 1 has a cash accumulation requirement at a time when Funding 1 has no cash accumulation requirement, then such further Funding company will receive principal receipts from the mortgages trustee in priority to Funding 1. In addition, if any Funding company besides Funding 1 is in a cash accumulation period, this will affect the amount of principal receipts payable to Funding 1 and the ability of Funding 1 to repay the pass-through loan tranches.

On each distribution date, the mortgages trustee will distribute revenue receipts and principal receipts to the beneficiaries, subject to the terms of the mortgages trust deed.

Where it is provided in the transaction documents that, following any further Funding company becoming a beneficiary of the mortgages trust, both Funding 1 and the further Funding company, acting together, or the Funding 1 security trustee and the further Funding security trustee, acting together, may provide or exercise, as applicable, directions, rights, powers, benefits and/or discretions (or any equivalent thereof) (including, without limitation, agreeing to any amendment or waiver of any provision thereof and/or giving its consent, approval or authorisation of any event, matter or thing requested thereunder), then (irrespective of whether or not Funding 1 and the further Funding company or, as the case may be, the Funding 1 security trustee and the further Funding security trustee shall so act together with any other parties to the transaction documents) such directions, rights, powers, benefits and/or discretions (or their equivalent) shall be provided and/or exercised by Funding 1 and the further Funding company or, as the case may be, the Funding 1 security trustee and the further Funding security trustee in accordance with the controlling beneficiary deed. Therefore, in circumstances, following any further Funding company becoming a beneficiary of the mortgages trust, where there is a conflict of interest, the directions of Funding 1 or the Funding 1 security trustee (acting on behalf of the Funding 1 secured creditors) may not prevail over the directions of the further Funding company or the further Funding security trustee (acting on behalf of the relevant secured creditors of the further Funding company), which may adversely affect your interests.

**If Funding 1 enters into new intercompany loan agreements, such new intercompany loans and accompanying new notes may be repaid prior to the intercompany loan and the notes.**

Subject to satisfaction of certain conditions, Holdings may, in the future, establish additional wholly-owned subsidiary companies that will issue new notes to investors. The proceeds of each such issue of new notes may be advanced by way of a new intercompany loan to Funding 1 and/or any further Funding company. Where such proceeds are advanced to Funding 1, Funding 1 may use the proceeds of such new intercompany loan to, amongst other things, pay the seller the consideration for new loans and their related security to be sold to the mortgages trustee or pay the seller for a portion of the seller share of the trust property, each of which will result in an increase in the Funding 1 share of the trust property, and/or to refinance all or part of an existing Funding 1 intercompany loan outstanding at that time. If the intercompany loan (or any part thereof) is refinanced, you could be repaid early.

The issuer expects that the payment of the amounts owing by Funding 1 under any new intercompany loan to Funding 1 will be funded from amounts received by Funding 1 from the trust property. You should note that the obligation to make such payments may rank equally or in priority with payments made by Funding 1 to the issuer under the intercompany loan. The terms of the new notes issued by such new issuer and of the new intercompany loan entered into by Funding 1 may result in such new notes and such new intercompany loan being repaid prior to the repayment of the notes issued by the issuer under this prospectus and the accompanying final terms and such new intercompany loan being repaid prior to the repayment of the intercompany loan.

You will not have any right of prior review or consent before Funding 1 enters into any new intercompany loans or the corresponding issuance of new notes by the new issuer. Similarly, the terms of the transaction documents (including, but not limited to, the mortgage sale agreement, the mortgages trust deed, the Funding 1 deed of charge and the intercompany loan agreement), the definitions of the trigger events and the criteria for the sale of new loans to the mortgages trustee may be amended to reflect the issuance of such new notes. Your consent to these changes will not be required. There can be no assurance that these changes will not affect the cashflow available to pay amounts due on your notes. See “– **The Funding 1 security trustee, the issuer security**

**trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests”** above.

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

**Other creditors may share in the same security granted by Funding 1 to the Funding 1 security trustee, and this may adversely affect payments on the notes**

Any new issuer that enters into a new intercompany loan with Funding 1 may become party to the Funding 1 deed of charge and, if so, will be entitled to share in the security granted by Funding 1 for the benefit of the issuer (and the benefit of the other Funding 1 secured creditors) under the Funding 1 deed of charge. If the Funding 1 security is enforced and there are insufficient funds to make the payments that are due to all new issuers that are Funding 1 secured creditors, the issuer expects that each new issuer will only be entitled to its proportionate share of those limited funds. This could ultimately cause a reduction in the payments you receive on your notes.

If Funding 1 borrows other loan tranches from the issuer, it may also be required to enter into a new Funding 1 start-up loan agreement with the Funding 1 start-up loan provider or a new Funding 1 start-up loan provider and the Funding 1 security trustee.

If required by the rating agencies in order to support the rating of the notes, Funding 1 will use part of the proceeds of the new Funding 1 start-up loan to further fund the general reserve fund. Similarly, if necessary, Funding 1 may also enter into a new swap with either the Funding 1 swap provider or a new Funding 1 swap provider and the Funding 1 security trustee and/or amend the Funding 1 swap.

Any new Funding 1 start-up loan provider and any new Funding 1 swap provider will become party to the Funding 1 deed of charge pursuant to a deed of accession and will be entitled to share in the security granted by Funding 1 for the issuer's benefit (and the benefit of the other Funding 1 secured creditors) under the Funding 1 deed of charge. In addition, the liabilities owed by Funding 1 to the Funding 1 swap provider which are secured by the Funding 1 deed of charge may increase each time that Funding 1 borrows other loan tranches. These factors could ultimately cause a reduction in the payments you receive on your notes. Your consent to the requisite changes to the transaction documents will not be sought. See **“The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests”** above.

**Issuance of further series of notes may affect the timing and amounts of payments to you**

The issuer expects to issue further series of notes from time to time. Further series of notes may be issued without notice to existing noteholders and without their consent, and may have different terms from outstanding notes. For a description of the conditions that must be satisfied before the issuer can issue further series of notes, see **“The issuance of notes”** below.

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

**The yield to maturity of your notes may be adversely affected by prepayments or redemptions on the loans**

The yield to maturity of the notes of each class will be affected by the amount and timing of payment of principal on the loans and the price paid by the noteholders of each class of notes.

The yield to maturity of the notes of each class may be adversely affected by a higher or lower than anticipated rate of prepayments on the loans. The factors affecting the rate of

prepayment on the loans are described in “– **The issuer’s ability to redeem the notes on their final maturity dates may be affected by the rate of prepayment on the loans**” below.

No assurance can be given that Funding 1 will accumulate sufficient funds during the cash accumulation period relating to each bullet loan tranche and/or each scheduled amortisation instalment to enable it to repay the relevant loan tranches to the issuer so that the corresponding classes of notes will be redeemed on their scheduled redemption dates. The extent to which sufficient funds are saved by Funding 1 during a cash accumulation period or received by it from its share in the mortgages trust for application on a scheduled repayment date will depend on whether the actual principal prepayment rate of the loans is the same as the assumed principal prepayment rate.

If Funding 1 is not able to save enough money during a cash accumulation period or does not receive enough money from its share in the mortgages trust to pay the full amount scheduled to be repaid on a bullet loan tranche or scheduled amortisation instalment and the issuer is therefore unable to redeem the corresponding series and class of notes on their scheduled redemption dates, then Funding 1 will be required to pay to the issuer on those scheduled redemption dates only the amount that it has actually saved or received. Accordingly, the issuer will only be obliged to pay the amount of funds received from Funding 1 to holders of the corresponding series and classes of notes. Any shortfall will be deferred and paid on subsequent Funding 1 interest payment dates when Funding 1 has money available to make the payment. In these circumstances, there will be a variation in the yield to maturity of the relevant class of notes.

During the cash accumulation period for a bullet loan tranche, payments of principal in respect of scheduled amortisation instalment will be restricted and may not be made if certain CPR tests and other repayment tests are not met as set out below in “**Cashflows – Distribution of Funding 1 available principal receipts**”. Additionally, during the cash accumulation period for a bullet loan tranche and/or a scheduled amortisation instalment, payments of principal on pass-through loan tranches will be restricted and may not be made if certain CPR, cash accumulation shortfall and other repayment tests are not met as set out below in the repayment tests under “**Cashflows – Distribution of Funding 1 available principal receipts**”.

#### **Risks related to money market notes**

Notes designated in the relevant final terms as money market notes will be “Eligible Securities” within the meaning of Rule 2a-7 under the Investment Company Act. However, under Rule 2a-7, a money market fund may be required to dispose of the money market notes upon the occurrence of any of the following events:

- the rating currently assigned to the money market notes is lowered or withdrawn;
- a material default occurs with respect to the money market notes;
- the money market fund determines that the money market notes no longer present minimal credit risk;
- upon certain events of insolvency with respect to the issuer; or
- the money market notes otherwise cease to meet the eligibility criteria under Rule 2a-7.

Where the issuer has entered into a money market note purchase agreement or remarketing agreement in respect of a series and class of money market notes, the eligibility of the notes for investment by money market funds will be dependent upon timely receipt of proceeds from the money market note purchaser, remarketing agent or conditional purchaser.

If any money market notes are designated in the applicable final terms as remarketable notes, the ability of the issuer to procure payment of the mandatory transfer price with respect to such notes will be dependant upon the remarketing agent, as agent for the issuer, either (a) agreeing terms for the sale of such remarketable notes to third party purchasers on or prior to the relevant mandatory transfer date and obtaining the required part of the mandatory transfer price from those third party investors or (b) exercising the issuer’s rights under the conditional purchase agreement to require the conditional purchaser to acquire the remarketable notes. After the occurrence of a

mandatory transfer termination event, the remarketable notes will no longer be subject to any mandatory transfer.

There can be no assurance that the remarketing agent will be able to identify purchasers interested in acquiring the remarketable notes on the relevant mandatory transfer date. The conditional purchaser may not have sufficient funds on or before the relevant mandatory transfer date to satisfy its obligations to purchase the remarketable notes under the conditional purchase agreement. If the conditional purchaser defaults upon its obligation to pay the amounts otherwise due under the conditional purchase agreement on the relevant mandatory transfer date, the issuer may not be able to procure the purchase of all or any of the remarketable notes on any mandatory transfer date.

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

Funding 1 may refinance some or all of the loan tranches through proceeds received from the issuer under loan tranches. The issuer would fund such loans through the issuance of a new series and classes of notes. For example, an existing loan tranche might be re-financed in order to provide the issuer with funds to redeem a class of notes after their step-up date. If the proceeds of a refinanced loan tranche were used by the issuer to exercise an optional redemption of notes prior to their expected maturity, your notes could be repaid early. This, in turn, could have an adverse effect on the yield on your notes.

**The issuer's ability to redeem the notes on their scheduled redemption dates or their final maturity dates may be affected by the rate of prepayment on the loans**

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. For instance, prepayments on the loans may be due to borrowers refinancing their loans and sales of mortgaged properties by borrowers (either voluntarily or as a result of enforcement action taken). In addition, if the seller is required to repurchase a loan or loans and the related security under a mortgage account because, for example, one of the loans does not materially comply with the representations and warranties in the mortgage sale agreement or there is a transfer of a portable loan, then the payment received by the mortgages trustee will have the same effect as a prepayment of all of the loans under that mortgage account. Because these factors are not within the issuer's control or the control of Funding 1 or the mortgages trustee, the issuer cannot give any assurances as to the level of prepayments that the portfolio may experience.

Variation in the rate of prepayments of principal on the loans or loans being subject to a product switch or a further advance may affect each series and class of notes differently depending upon amounts already repaid by Funding 1 to the issuer under the intercompany loan and whether a trigger event has occurred, or the security granted by the issuer under the issuer deed of charge or by Funding 1 under the Funding 1 deed of charge has been enforced. If prepayments on the loans occur less frequently than anticipated, there may be insufficient funds available to the issuer to redeem notes in full on their respective schedule redemption dates.

**As new loans are sold to the mortgages trustee, the characteristics of the trust property may change from those existing at the applicable closing date, and those changes may adversely affect payments on your notes**

There is no guarantee that any new loans sold to the mortgages trustee will have the same characteristics as the loans in the portfolio as at the applicable closing date. In particular, new loans may have payment characteristics that differ from those of the loans in the portfolio as at the applicable closing date. The ultimate effect of this could be to delay or reduce the payments you receive on your notes. However, any new loans will be required to meet the conditions described below in "**Summary of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**". See further "**– The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the**



**transaction documents without your prior consent, which may adversely affect your interests”** above.

**The seller may change the lending criteria relating to loans that are subsequently sold to the mortgages trustee, which could affect the characteristics of the trust property and which may adversely affect payments on your notes**

Each of the loans sold to the mortgages trustee by the seller will have been originated in accordance with the lending criteria of the seller at the time of origination. The current lending criteria of Alliance & Leicester as originator are set out in the section “**The loans – Characteristics of the loans – Lending criteria**” below. These lending criteria consider a variety of factors such as a potential borrower’s credit history, employment history and status and repayment ability, as well as the value of the mortgaged property to be mortgaged. In the event of the sale of any new loans and their related security to the mortgages trustee, the seller will warrant that such new loans and their related security were originated in accordance with the seller’s lending criteria applicable at the time of their origination. However, the seller retains the right to revise its lending criteria from time to time, so the lending criteria applicable to any loan at the time of its origination may not be or have been the same as those set out below in the section “**The loans – Characteristics of the loans – Lending criteria**”.

If new loans that have been originated under revised lending criteria are sold to the mortgages trustee, the characteristics of the trust property could change. This could lead to a delay or reduction in the making of payments on your notes.

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

The seller does not require a solicitor or a licensed conveyancer or (in Scotland) a qualified conveyancer to conduct a full investigation of the title to a mortgaged property in all cases. Where the borrower is remortgaging, there may be a more limited investigation to carry out some but not all of the searches and investigations which would normally be carried out by a solicitor conducting a full investigation of the title to a mortgaged property. Mortgaged properties which have undergone such a limited investigation may be subject to matters which would have been revealed by a full investigation of title and which may have been remedied or, if incapable of remedy, may have resulted in the mortgaged properties not being accepted as security for a loan had such matters been revealed. However, to mitigate against this risk, title insurance is obtained in respect of such mortgaged properties, although it should be noted that the seller’s practice in relation to such limited investigation backed by title insurance may be subject to change in the future. The introduction of loans secured by such mortgaged properties into the trust property could result in a change of the characteristics of the trust property. This could lead to a delay or reduction in the payments received on your notes.

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

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. Other factors in borrowers’ individual, personal or financial circumstances may affect the ability of such borrowers to repay loans. Loss of earnings, illness, divorce and 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 loans.

Prepayments may also be affected by the characteristics of the loans. The seller offers mortgages which incorporate a flexible payment option allowing borrowers to make overpayments, underpayments, take payment holidays or make cash withdrawals. Any overpayment will be applied

against the loan to reduce the current balance of the loan. Any cash withdrawal, underpayment or payment holiday will increase the current balance of the loan.

In addition, the ability of a borrower to sell a mortgaged property given as security for a loan at a price sufficient to repay the amounts outstanding under the loan will depend upon a number of factors, including the availability of buyers for that mortgaged property, the value of that mortgaged property and property values in general at the time.

Further, the mortgage loan industry in the United Kingdom is highly competitive. This competitive environment may affect the rate at which the seller originates new loans and may also affect the repayment rate of the seller's existing borrowers.

The principal source of income for repayment of the notes by the issuer is the intercompany loan. The principal source of income for repayment by Funding 1 of the intercompany loan is its interest in the loans held on trust by the mortgages trustee for Funding 1, the seller and any further Funding company. If the timing and payment of the loans is adversely affected by any of the risks described in this section, then the payments on the notes could be reduced or delayed.

### **The portfolio may be subject to geographic concentration risks**

To the extent that specific geographic regions within the United Kingdom have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the loans in such a region may be expected to exacerbate all of the risks relating to the loans described in this section. The economy of each geographic region within the United Kingdom is dependant on different mixtures of industries and other factors. Any downturn in a local economy or particular industry may adversely affect the regional employment levels and consequently the repayment ability of 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 mortgaged properties. This may result in a loss being incurred upon sale of the mortgaged property. These circumstances could affect receipts on the loans and ultimately result in losses on the notes.

### **No new loans may be sold to the mortgages trustee if the step-up date in respect of any notes issued by any of the issuers has occurred and the relevant issuer has not exercised its option to redeem the relevant notes**

No sale of new loans may occur if, at the relevant sale date, the step-up date in respect of any series of notes has occurred and the relevant issuer has not exercised its option to redeem each relevant class of notes of such series at that date. If the minimum seller share is not maintained then this could result in the occurrence of a non-asset trigger event. See "**Summary of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans**" below for further details of the conditions new loans are required to meet.

### **The occurrence of an asset trigger event or enforcement of the issuer security or the Funding 1 security may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If an asset trigger event has occurred or the issuer security and/or the Funding 1 security has been enforced, the mortgages trustee will distribute principal receipts on the loans to Funding 1, any further Funding company and the seller proportionally based on their percentage shares of the trust property. Funding 1 will, on each Funding 1 interest payment date (which, if not already the case, shall be a monthly payment date) following the occurrence of an asset trigger event or the service of a note acceleration notice on the issuer or the service of an intercompany loan acceleration notice on Funding 1 and any other date following enforcement of the Funding 1 security, apply those principal receipts received by it from the mortgages trustee, after making higher ranking payments (including in making any requisite repayments under the Funding 1 liquidity facility (if established)), to repay:

- *first*, the AAA loan tranches until each of those AAA loan tranches is fully repaid;
- *then*, the AA loan tranches until each of those AA loan tranches is fully repaid;
- *then*, the A loan tranches until each of those A loan tranches is fully repaid;

- *then*, the BBB loan tranches until each of those BBB loan tranches is fully repaid; and
- *then*, the BB loan tranches until each of those BB loan tranches is fully repaid.

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

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

If a non-asset trigger event has occurred and until the occurrence of an asset trigger event, the mortgages trustee will distribute all principal receipts to Funding 1 and any further Funding company until the Funding 1 share percentage and the share percentage attributable to each such further Funding company of the trust property are each zero and will thereafter apply all principal receipts to the seller. Funding 1 will, on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) following the occurrence of a non-asset trigger event, apply these principal receipts received by it from the mortgages trustee, after making higher ranking payments (including in making any requisite repayments under the Funding 1 liquidity facility (if established)), to repay:

- firstly, the AAA loan tranches in order of final repayment date, beginning with the earliest final repayment date, until each of those AAA loan tranches is fully repaid;
- then, in no order of priority between them, the AA loan tranches until each of those AA loan tranches is fully repaid;
- then, in no order of priority between them, the A loan tranches until each of those A loan tranches is fully repaid;
- then, in no order of priority between them, the BBB loan tranches until each of those BBB loan tranches is fully repaid; and
- then, in no order of priority between them, the BB loan tranches until each of those BB loan tranches is fully repaid.

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

**The enforcement of the issuer security may accelerate the repayment of certain notes and/or delay the repayment of other notes**

If the issuer security is enforced, then the mortgages trustee will distribute funds in the manner described below in “**Cashflows**”. As a consequence, certain series and classes of notes may be repaid more rapidly than expected and other series and classes of notes may be repaid more slowly than expected and there is a risk that such notes may not be repaid by their final maturity date.

**In limited circumstances, loans subject to product switches and further advances will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this will affect the yield to maturity of your notes**

Loans subject to product switches and further advances will only be repurchased if: (i) as at the date of such product switch or further advance, the relevant loan does not materially comply with the representations and warranties set out in the mortgage sale agreement; and/or (ii) as of the next following trust calculation date, the relevant loan does not comply with the conditions precedent applicable to such loan, as described below in “**Summary of the transaction documents – The mortgage sale agreement – Conditions for product switches and further advances**”. If the seller is required to repurchase any such loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans on the trust calculation date immediately following the date of such product switch or further advance on which such loans and their related security are repurchased.

See further “**Summary of the transaction documents – The mortgage sale agreement – Product switches and further advances**” below as to the circumstances in which a loan will be subject to a product switch or further advance.

The yield to maturity of your notes may be affected by the repurchase of loans subject to product switches or further advances.

**Portable loans will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your notes**

Portable loans will be repurchased if the borrower transfers the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period, as described in “**Summary of the transaction documents – The mortgage sale agreement – Repurchase of loans under a mortgage account**”. If the seller is required to repurchase any such portable loans and their related security from the mortgages trustee, the repurchase price will be equal to the current balance of those loans on the London business day immediately following the transfer date.

The yield to maturity of your notes may be affected by the repurchase of portable loans.

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

The ratings assigned by Standard & Poor's and Fitch to each class of notes address the likelihood of full and timely payment to noteholders of all payments of interest on each interest payment date under that class of notes in accordance with the terms of the transaction documents and the conditions of the notes. The ratings also address the likelihood of “ultimate” payment of principal by the final maturity date of each class of notes. The ratings assigned by Moody's to each class of notes address the expected loss in proportion to the initial class principal amount of such class and express Moody's opinion that the structure allows for timely payment of interest and ultimate payment of principal at par on or before the final maturity date. The expected ratings of each class of notes on the applicable closing date are set out in the accompanying final terms. Any rating agency may lower, qualify or withdraw its rating if, in the sole judgment of the rating agency, the credit quality of the notes has declined or is in question. If any rating assigned to the notes then outstanding is lowered, qualified or withdrawn, the market value of such notes may be reduced. A change to the ratings assigned to each class of notes will not affect the relevant loan tranche ratings assigned to each relevant loan tranche under the intercompany loan.

**Ratings confirmation in respect of notes**

The terms of certain transaction documents require the rating agencies to confirm that any action proposed to be taken by the mortgages trustee, the Funding 1 security trustee, the issuer security trustee, the note trustee, a Funding company or any issuer, will not have an adverse effect on the then current rating of the notes (a **ratings confirmation**).

By acquiring the notes, you acknowledge and agree that notwithstanding the foregoing, a credit rating is an assessment of credit risk and does not address other matters that may be of relevance to you. The transaction documents provide that none of the Funding 1 secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding 1 security trustee, the issuer security trustee, the note trustee or any other person whether by way of contract or otherwise shall acquire any actual or contingent rights against any rating agency (nor shall any rating agency assume any actual or contingent liability to any of the Funding 1 secured creditors, the issuer secured creditors (including the noteholders), the mortgages trustee, the Funding 1 security trustee, the issuer security trustee or the note trustee), notwithstanding the fact that any of the Funding 1 security trustee, the issuer security trustee and note trustee may be entitled to assume that any matter or event is not materially prejudicial to the interests of any class of noteholders if any rating agency has confirmed that the then current rating of a relevant class of notes would not be adversely affected by such matter or event.

Any such ratings confirmation may or may not be given at the sole discretion of each rating agency. It should be noted that, depending on the timing of delivery of the request and any

information needed to be provided as part of any such request, it may be the case that a rating agency cannot provide a ratings confirmation in the time available or at all, and the rating agency should not be responsible for the consequences thereof. A ratings confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the securities form part since the applicable closing date. A ratings confirmation represents only a restatement of the opinions given, and cannot be construed as advice for the benefit of any parties to the transaction.

#### **Principal payments on pass-through loan tranches and scheduled amortisation instalments are subject to certain rules**

There will be circumstances in which payment of principal on the notes will be deferred in accordance with the rules described below in "**Cashflows – Distribution of Funding 1 available principal receipts**".

#### **You may not be able to sell your notes**

There currently is no secondary market for your notes. The dealers and/or managers of the offering of the notes outside the United States expect, but are not obliged, to make a market in the notes. If no secondary market develops, you may not be able to sell your notes prior to maturity. The issuer cannot offer any assurance that a secondary market will develop or, if one does develop, that it will continue.

#### **The mortgages trustee account bank or the Funding 1 account bank may cease to satisfy certain criteria, which may adversely affect the rate of interest receivable on the mortgages trustee GIC account or the Funding 1 GIC account**

Each of the mortgages trustee account bank and the Funding 1 account bank is required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account and the Funding 1 GIC account, respectively. If any of the mortgages trustee account bank or the Funding 1 account bank ceases to satisfy those criteria, the relevant account would need to be transferred to another entity which does satisfy those criteria. In these circumstances, the new account bank provider may not offer an interest rate on deposits in the mortgages trustee GIC account or the Funding 1 GIC account on terms as favourable as those provided by the mortgages trustee account bank or the Funding 1 account bank, respectively.

#### **Risks associated with the Funding 1 swap**

Certain of the loans in the portfolio may pay a variable rate of interest for a period of time that may be linked to the seller variable rate or linked to an interest rate other than the seller variable rate, such as a rate offered by a basket of UK mortgage lenders or a rate that tracks the Bank of England Base Rate. Other loans pay a fixed rate of interest for a period of time. Funding 1 will receive interest on the variable rate loans based on the seller variable rates.

To provide a hedge against the rates of interest payable on the loans in the portfolio and the rate of interest payable by Funding 1 on the loan tranches, Funding 1 entered into the Funding 1 swap agreement on the initial closing date. If Funding 1 fails to make timely payments under the Funding 1 swap, it will have defaulted under the Funding 1 swap.

The Funding 1 swap provider is obliged only to make payments under the Funding 1 swap if and for so long as Funding 1 makes payments under the same. If the Funding 1 swap provider is not obliged to make payments, or defaults in its obligation to make payments under the Funding 1 swap, Funding 1 will be exposed to the variance between the rates of interest payable on the loans and the rate of interest payable by it under the loan tranches unless a replacement Funding 1 swap is entered into. If the Funding 1 swap terminates, Funding 1 may as a result be obliged to make a termination payment to the Funding 1 swap provider. Any variance between the rates of interest payable on the loans and the rate of interest payable by Funding 1 under the intercompany loan and any termination payment payable by it to the Funding 1 swap provider may adversely affect the ability of Funding 1 to meet its obligations under the intercompany loan.

**The issuer relies on third parties to provide services in relation to the notes, and you may be adversely affected if they fail to perform their obligations**

The issuer is a party to contracts with a number of third parties that have agreed to provide services in relation to its notes. For example, the issuer swap providers have agreed to provide their respective issuer swaps, the issuer corporate services provider has agreed to provide corporate services and the paying agents and, the agent bank have agreed to provide payment and calculation services in connection with the notes. In the event that any of these parties were to fail to perform their obligations under the respective agreements to which they are a party, you may be adversely affected.

To the extent that there are principal amounts outstanding on remarketable notes on any mandatory transfer date, the ability of the issuer to procure payment of the mandatory transfer price will be dependent upon the remarketing agent, as agent for the issuer, agreeing terms for the sale of the remarketable notes to third party purchasers on or prior to the relevant mandatory transfer date or exercising the issuer's rights under the conditional purchase agreement to require the conditional purchaser to acquire the remarketable notes. (See “– Risks related to money market notes”.)

**The issuer may be unable to pay, in full or at all, interest due on its notes if there is a revenue or principal deficiency**

If, on any Funding 1 interest payment date, there is a Funding 1 revenue deficit amount (i.e. revenue receipts available to Funding 1 (including the general reserve fund and liquidity reserve fund (if any)) and the Funding 1 liquidity facility (if established) are insufficient to pay interest on certain loan tranches and other senior expenses of Funding 1), then Funding 1 may use principal receipts on the loans received by it in the mortgages trust to make up the Funding 1 revenue deficit amount.

Funding 1 may only apply Funding 1 principal receipts towards covering a revenue shortfall on:

- AA loan tranches, to the extent that, following such application (and, for the avoidance of doubt, following the recording of losses), the debit balance of the AA principal deficiency sub-ledger is in an amount equal to or less than 100 per cent. of the outstanding principal amount of all AA loan tranches;
- A loan tranches, to the extent that, following such application (and, for the avoidance of doubt, following the recording of losses), the debit balance of the A principal deficiency sub-ledger is in an amount equal to or less than 100 per cent. of the outstanding principal amount of all A loan tranches;
- BBB loan tranches, to the extent that, following such application (and, for the avoidance of doubt, following the recording of losses), the debit balance of the BBB principal deficiency sub-ledger is in an amount equal to or less than 100 per cent. of the outstanding principal amount of all BBB loan tranches; and
- BB loan tranches, to the extent that, following such application (and, for the avoidance of doubt, following the recording of losses), the debit balance of the BB principal deficiency sub-ledger is in an amount equal to or less than 100 per cent. of the outstanding principal amount of all BB loan tranches.

Funding 1 will also be obliged to record on the same principal deficiency ledger any losses on the loans which cause a principal deficiency. Losses and Funding 1 principal receipts used to cover a Funding 1 revenue deficit amount will be debited to the principal deficiency sub-ledger of the loan tranches with the lowest loan tranche rating until the principal deficiency ledger balance is equal to the outstanding principal amount of those loan tranches. Losses and Funding 1 principal receipts used to meet Funding 1 revenue deficit amounts will thereafter be debited to the principal deficiency sub-ledger of the loan tranche with the next lowest loan tranche rating. Losses and Funding 1 principal receipts used to meet Funding 1 revenue deficit amounts will continue to be allocated in this manner until an amount is debited to the class A principal deficiency sub-ledger, at which point an asset trigger event will occur.

If Funding 1 uses Funding 1 principal receipts to help reduce a Funding 1 revenue deficit amount or if losses occur on the loans, this will reduce the amount of Funding 1 principal receipts available to repay the loan tranches.

However, it is expected that any principal deficiencies of this sort will be recouped from subsequent excess revenue receipts. The excess revenue receipts will be applied first to cover any principal deficiency in respect of the loan tranches with the highest loan tranche rating (at the initial closing date, being the AAA loan tranches), and then the loan tranches with the next highest-ranking loan tranche rating and so on down to the loan tranches with the lowest loan tranche rating.

If there are insufficient funds available because of revenue or principal deficiencies, then one or more of the following consequences may occur:

- the interest and other net income of Funding 1 may not be sufficient, after making the payments to be made in priority, to pay, in full or at all, interest due on the loan tranches;
- there may be insufficient funds to repay the principal due and payable on any of the loan tranches prior to their final repayment dates unless the other net income of Funding 1 is sufficient, after making other prior ranking payments, to reduce any principal deficiency in respect of the loan tranche;
- if the amount of principal deficiencies exceeds the outstanding principal amount of any of the relevant loan tranches (and the principal deficiencies cannot be covered by the other income of Funding 1), then the issuer may not receive the full principal amount of any or all of the relevant loan tranches and, accordingly, you may not receive the full principal amount due or payable on the relevant class of notes; and/or
- the issuer may be unable to pay, in full or at all, interest due on the notes.

For more information on income and principal deficiencies, see “**Credit structure – Principal deficiency ledger**” below.

#### **The seller share does not provide credit enhancement for your notes**

Any losses from loans included in the trust property will be allocated to the Funding companies and the seller proportionally on each distribution date in accordance with the Funding 1 share percentage, the share percentage of any further Funding companies and the seller share percentage of the trust property. Therefore, neither the seller share nor the share of any further Funding company provide credit enhancement for the notes.

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

After enforcement of the Funding 1 security as a result of delivery of an intercompany loan acceleration notice under any of the intercompany loans (as described below in “**Summary of Transaction Documents – Funding 1 deed of charge**”), the Funding 1 security trustee may, but shall not be obliged to, sell the Funding 1 share of the trust property. There is no assurance that a buyer would be found or that such a sale would realise enough money to repay amounts due and payable under the intercompany loan agreements.

None of the issuer, Funding 1 or the mortgages trustee will have recourse to the seller, other than in respect of a breach of warranty under the mortgage sale agreement.

The issuer, the mortgages trustee, Funding 1, the note trustee, the issuer security trustee and the Funding 1 security trustee will not undertake any investigations, searches or other actions on any loan or its related security and each of them will rely instead on the representations and warranties given in the mortgage sale agreement by the seller.

If any of the representations and warranties made by the seller (a) in the case of each loan in the portfolio, was materially untrue on the date that loan was sold to the mortgages trustee or (b) in the case of each new loan, is materially untrue on the date that new loan is sold to the mortgages

trustee, then the seller will be required to remedy the breach within 20 London business days of the seller becoming aware of the same or of receipt by it of a notice from the mortgages trustee.

If the seller fails to remedy the breach within 20 London business days, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and their related security on the immediately following trust calculation date at their current balance as of the date of repurchase. There can be no assurance that the seller will have the financial resources to repurchase the loan or loans under the relevant mortgage account and their related security. However, if the seller does not repurchase those loans and their related security when required, then the seller share of the trust property will be deemed to be reduced by an amount equal to the outstanding principal balance of those loans.

Other than as described here, neither you nor the issuer will have any recourse to the assets of the seller.

**There can be no assurance that a borrower will repay principal at the end of the term on an interest-only loan, which may adversely affect repayments on your notes**

Each loan in the portfolio is repayable either on a principal repayment basis or an interest-only basis or on a combination repayment and interest-only basis. For interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the borrower is required to put in place and maintain a suitable investment vehicle, such as a savings policy plan or any appropriate or suitable investment plan to ensure that funds will be available to repay the principal at the end of the term. The seller does not verify that an investment vehicle is in place and does not take security over these investment vehicles. The borrower is also recommended to take out a life insurance policy in relation to the loan but, as with investment vehicles, the seller does not take security over these life insurance policies or verify that they are in place.

The ability of a borrower to repay the principal on an interest-only loan at maturity depends on the borrower ensuring that sufficient funds are available from an investment vehicle or another source, such as ISAs, pension policies, personal equity plans or endowment policies, as well as the financial condition of the borrower, tax laws and general economic conditions at the time.

The proceeds from an investment plan or other investment vehicle may be insufficient to cover the repayment of principal of the loan. There can be no assurance that a borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the loan and a loss occurs on the loan, then this may affect repayments of principal on the notes if that loss cannot be cured by application of excess Funding 1 available revenue receipts.

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

The sale by the seller to the mortgages trustee of the English loans and the Northern Irish loans and their related security on each sale date will take effect in equity only. The sale by the seller to the mortgages trustee of the Scottish loans and their related security on the first sale date will be given effect by a Scottish declaration of trust by the seller in favour of the mortgages trustee (and any sale of Scottish loans and their related security on each subsequent sale date will be given effect by further Scottish declarations of trust) by which the beneficial interest in the relevant Scottish loans and their related security will be transferred to the mortgages trustee. In each case this means that legal title to the loans in the trust property remains with the seller, but the mortgages trustee has all the other rights and benefits relating to ownership of each loan and its related security (which rights and benefits are subject to the mortgages trust in favour of the beneficiaries). The mortgages trustee has the right to demand that the seller give it legal title to the loans and the related security in the circumstances described below in “**Summary of the transaction documents – The mortgage sale agreement – Transfer of legal title to the mortgages trustee**”. Until then no notice of the sale of the English loans and their related security, or the Northern Irish loans and their related security or the Scottish loans and their related security, will be given to any borrower or application made to the Land Registry of England and Wales or the Central Land Charges Registry of England and Wales to register or record its equitable interest in the English loans and their related security or to the Land Registry or the Registry of Deeds of



Northern Ireland to register or record its equitable interest in the Northern Irish loans and their related security or steps taken to complete or perfect its title to the Scottish loans and their related security. For more information on the Scottish loans and their related security, see “**Material legal aspects of the loans and their related security – Scottish loans**” below.

Because the mortgages trustee has not obtained legal title to the loans or their related security, there are the following risks to the trust property:

- firstly, if the seller wrongly sold a loan to another person which has already been sold to the mortgages trustee, and that person acted in good faith and did not have notice of the interests of the mortgages trustee or the beneficiaries in the loan, then she or he might obtain good title to the loan, free from the interests of the mortgages trustee and the beneficiaries. If this occurred, then the mortgages trustee 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. This may affect the ability of the issuer to make payments on the notes; and
- secondly, the rights of the mortgages trustee and the beneficiaries may be subject to the rights of the borrowers against the seller, such as the rights of set-off (see in particular “– **Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your notes**” below) which occur in relation to transactions or deposits made between some borrowers and the seller, and the rights of borrowers to redeem their mortgages by repaying the loans directly to the seller. If these rights are exercised, the mortgages trustee may receive less money than anticipated from the loans, which may affect the ability of the issuer to make payments on the notes.

However, if a borrower exercises any set-off rights, then an amount equal to the amount set off will reduce the total amount of the seller share of the trust property only, and the minimum seller share has been sized in an amount expected to cover this risk, although there can be no assurance that it will. If the minimum seller share is exhausted, then the amount of any set-offs would be applied to reduce the share of the trust property of each Funding company in accordance with its funding proportion.

Once notice has been given to borrowers of the transfer of the loans and their related security to the mortgages trustee, independent set-off rights which a borrower has against the seller will crystallise (such as, for example, set-off rights associated with borrowers holding deposits with the seller) 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.

#### **Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your notes**

As described in “– **There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above, the seller has made, and in the future may make, an equitable assignment of loans and their related security or in the case of Scottish loans, a transfer of the beneficial interest in loans and their related security, to the mortgages trustee, with legal title being retained by the seller. Therefore, the rights of the mortgages trustee may be subject to the direct rights of the borrowers against the seller, including rights of set-off existing prior to notification to the borrowers of the sale of the loans. Set-off rights (including analogous rights in Scotland and Northern Ireland) may occur if, for example, the seller fails to advance to a borrower a drawing under a flexible loan when the borrower is entitled to draw additional amounts under a flexible loan.

If the seller fails to advance the drawing, then the relevant borrower may set-off any damages claim (or analogous rights in Scotland and Northern Ireland) arising from the seller’s breach of contract against the seller’s (and, as assignee or holder of the beneficial interest in the loans and their related security, the mortgages trustee’s) claim for payment of principal and/or interest under

the 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 the claim in respect of a drawing will, in many cases, be the cost to the borrower of finding an alternative source of finance (although in the case of flexible loans which are governed by Scots law, it is possible, though regarded as unlikely, that the borrower's rights of set-off could extend to the full amount of the additional drawing). The borrower may obtain a loan elsewhere, in which case the damages would be equal to any difference in the borrowing costs together with any consequential losses, namely the associated costs of obtaining alternative funds (for example, legal fees and survey fees). If the borrower is unable to obtain an alternative loan, he or she may have a claim in respect of other 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 mortgage was taken out or which otherwise were reasonably foreseeable.

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

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

Further, there may be circumstances in which:

- a borrower might seek to argue that any loan or further advance is wholly or partly unenforceable by virtue of non-compliance with the Consumer Credit Act 1974 as amended (**CCA**); or
- security for certain drawings may rank behind security created by a borrower after the date upon which the borrower entered into its mortgage with the seller.

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

On the initial closing date, Alliance & Leicester will be appointed by the mortgages trustee and Funding 1 as servicer to service the loans in the portfolio. If the servicer breaches the terms of the servicing agreement, then the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and/or any further Funding security trustee, will be entitled to terminate the appointment of the servicer and appoint a new servicer in its place.

None of the Funding 1 security trustee, the issuer security trustee or the note trustee is obliged to or will act as servicer.

There can be no assurance that a substitute servicer with sufficient experience of administering mortgages of residential properties would be found who would be willing and able to service the loans on the terms of the servicing agreement. In addition, as described below, any substitute servicer would be required to be authorised under the FSMA as mortgage administration is a regulated activity. The ability of a substitute servicer to perform fully 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.

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

**Funding 1 may not receive the benefit of any claims made on the buildings insurance, which could adversely affect payments on your notes**

The practice of Alliance & Leicester, as originator, in relation to buildings insurance is described below under "**The loans – Characteristics of the loans – Insurance policies**". As

described in that section, no assurance can be given that Funding 1 will always receive the benefit of any claims made under any applicable insurance contracts. This could reduce the principal receipts allocated to Funding 1 according to the Funding 1 share percentage and could adversely affect the issuer's ability to redeem the notes.

## **Certain Regulatory Considerations**

### ***Consumer Credit Act and reform***

In the United Kingdom, the Office of Fair Trading (the **OFT**) is responsible for the issue of licences under, and the superintendence of the working and enforcement of, the CCA, related consumer credit regulations and other consumer protection legislation. The OFT may review businesses and operations, provide guidelines to follow and take actions when necessary with regard to the mortgage market in the United Kingdom (except to the extent of the regulation of the market by the FSA under the FSMA, as described under “– **Mortgage Regulation**” below). The licensing regime under the CCA is different from, and additional to, the regime for authorisation under the FSMA.

Currently, a credit agreement is regulated by the CCA where: (a) the borrower is or includes an individual; (b) the amount of “credit” as defined in the CCA does not exceed the financial limit, which is £25,000 for credit agreements made on or after 1 May 1998 or lower amounts for credit agreements made before that date; and (c) the credit agreement is not an exempt agreement under the CCA.

Any loan or further advance might be wholly or partly regulated by the CCA or be treated as such because of technical rules on:

- (a) determining whether any credit under the CCA arises or whether the 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 (as described under “– **Mortgage Regulation**” below)); or
- (c) changes to credit agreements.

Any credit agreement that is wholly or partly regulated by the CCA or is to be treated as such has to comply with requirements under the CCA as to licensing 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: (a) without an order of the OFT, if requirements as to licensing of lenders and brokers are not met at the relevant time; (b) totally, if the form to be signed by the borrower is not signed by the borrower personally or omits or mis-states a “prescribed term”; or (c) without a court order in other cases and, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability by the lender.

The seller will provide no representation and warranty under the mortgage sale agreement as to the enforceability in relation to any loan which relates to any flexible loan drawing and any other further advance made pursuant to an agreement regulated by the CCA which is not enforceable by virtue of the CCA. However the minimum seller share will be calculated to include an amount referable to the aggregate current balance of all cash withdrawals made by borrowers under flexible loans in the trust property and all further advances under the loans in the trust property, that are regulated by the CCA, to mitigate the risks relating to such withdrawals and other further advances being unenforceable by virtue of the CCA against the borrower without an OFT or court order or being totally unenforceable under the CCA.

A court order under Section 126 of the CCA is necessary to enforce a mortgage (including, in Scotland a standard security) securing a loan or further advance to the extent that it is regulated by the CCA or to be treated as such. In dealing with such application, the court has the power, if it

appears just to do so, to amend a loan 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: (a) the lender is liable to the borrower in relation to misrepresentation and breach of contract by a supplier in a transaction financed by the lender, where the related credit agreement is or is treated as entered into under pre-existing arrangements, or in contemplation of future arrangements, between the lender and the supplier; and (b) the lender has a statutory indemnity from the supplier against such liability, subject to any agreement between the lender and the supplier. The borrower may set-off the amount of the claim against the lender against the amount owing by the borrower under the loan or under any other loan that the borrower has taken. Any such set-off may adversely affect the issuer's ability to make payments on the notes.

In December 2003, the UK Department of Trade and Industry (the **DTI**) published a White Paper proposing amendments to the CCA and the secondary legislation made under it.

In June 2004, secondary legislation was made on: (a) amending requirements as to documentation of credit agreements, which came into force on 31 May 2005 or 31 August 2005 for agreements given to the borrower for signature but not made before 31 May 2005; (b) pre-contract disclosure, which came into force on 31 May 2005; and (c) replacing the formula for calculating the maximum amount payable on early settlement with a formula more favourable to the borrower, which came into force on 31 May 2005 for new agreements or on 31 May 2007 or 31 May 2010 (depending on the term of the agreement) for agreements existing before 31 May 2005.

The Consumer Credit Bill was introduced to Parliament on 16 December 2004, proposing to amend the CCA by, amongst other things: (a) removing the financial limit for consumer lending, while retaining the limit of £25,000 for lending for business purposes to individuals, unincorporated bodies and partnerships of up to three partners; and (b) repealing the rule that, to the extent that a credit agreement is regulated by the CCA or treated as such, it may be wholly unenforceable.

Once these changes come into force, then any credit agreement with a relevant borrower made or changed such that a new contract is entered into after this time, other than an exempt agreement under the CCA, will be regulated by the CCA. Such credit agreement will have to comply with requirements under the CCA as described above and, if it does not comply, it will be unenforceable without an order of the OFT or without a court order, as described above.

The Bill also proposed to amend the CCA by: (a) strengthening the licensing regime; (b) changing the grounds for challenging a credit agreement from "extortionate credit bargain" to "unfair credit relationship" between the lender and the borrower, with retrospective effect on certain existing agreements, and explicitly imposing liability to repay the borrower on both the originator and any assignee such as the issuer; and (c) extending the jurisdiction of the Ombudsman (as described below) to licence holders under the CCA. The Bill was enacted as the Consumer Credit Act 2006 on 30 March 2006. The resulting amendments to the CCA will come into force on such dates as the Secretary of State for Trade and Industry may appoint. Further proposals to amend the CCA and secondary legislation made under it are expected at an unspecified time.

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, then a credit agreement, 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.

Under the mortgage sale agreement, the seller will be obliged to repurchase any loan that is wholly or partly regulated or to be treated as such under the CCA if a court or other competent authority or any Ombudsman makes any determination that such loan was not originated in compliance with the CCA and in respect of which it has no jurisdiction or refuses to make an enforcement order.

## **Mortgage Regulation**

Mortgage lending in the United Kingdom became a regulated activity under the FSMA on 31 October 2004 (the date known as **N(m)**).

Certain provisions of the FSMA apply to a regulated mortgage contract. A loan contract will be a **regulated mortgage contract** under the FSMA if it is originated 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: (a) the borrower is an individual or trustee; (b) the contract provides for the obligation of the borrower to repay to be secured by a first legal mortgage (or, in Scotland, a first-ranking standard security) on land (other than timeshare accommodation) in the UK; and (c) at least 40 per cent. of that land is used, or is intended to be used, as or in connection with a dwelling by the borrower or (in the case of credit provided to trustees) by an individual who is a beneficiary of the trust or by a related person. Therefore, the FSMA does not apply to a mortgage contract that is secured by a second or subsequent legal charge (or, in Scotland, a second or subsequent ranking standard security) or is provided to a corporate body. The CCA may apply to loans entered into on or after N(m), where the loan does not satisfy the definition of a regulated mortgage contract but does fall within the criteria for regulation under the CCA as described above in this risk factor.

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 by the FSA under the FSMA. The specified activities currently are: (a) entering into a regulated mortgage contract as lender; (b) administering a regulated mortgage contract (**administering** in this context means notifying borrowers of changes in mortgage payments and/or collecting payments due under the loan); (c) advising in respect of regulated mortgage contracts; or (d) arranging in respect of regulated mortgage contracts. Agreeing to carry on any of these activities is also a regulated activity. If requirements as to, *inter alia*, 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. 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 who carries on the regulated activity of entering into a regulated mortgage contract. Failure to comply with this regime 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.

An unauthorised person who carries on a regulated mortgage-related activity of administering or advising in respect of 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 mortgages trustee does not need to be an authorised person under the FSMA in order to acquire legal or beneficial title to a regulated mortgage contract. The mortgages trustee will not carry on the regulated activity of administering in relation to regulated mortgage contracts, where such contracts are administered pursuant to an administration agreement by an entity having the required FSA authorisation and permission. If such administration agreement terminates, however, the mortgages trustee will have a period of not more than one month in which to arrange for *mortgage administration to be carried out by a replacement administrator having the required FSA authorisation and permission*. In addition, on and from N(m), no variations may be made to the loans and no further advances or product switches may be made under the loans where this would result in the mortgages trustee arranging, advising on, administering or entering into, a regulated mortgage contract or agreeing to carry on any of these activities, if the mortgages trustee would be required to be authorised under the FSMA to do so. Pursuant to the servicing agreement, the servicer administers the loans and the servicer has FSA authorisation and permission to do so.

Any credit agreement intended to be a regulated mortgage contract under the FSMA might instead be wholly or partly regulated by the CCA or treated as such, or unregulated, and any credit agreement intended to be unregulated might instead be a regulated mortgage contract under the

FSMA, because of technical rules on (a) determining whether the credit agreement or any part of it falls within the definition of regulated mortgage contract and (b) changes to credit agreements.

The FSA's Mortgage Conduct of Business Sourcebook (**MCOB**), which sets out its rules for regulated mortgage activities, came into force on 31 October 2004. These rules cover, *inter alia*, certain pre-origination matters such as financial promotion and pre-application illustrations, pre-contract and start-of-contract and post-contract disclosure, contract changes, charges and arrears and repossessions. FSA rules for prudential and authorisation requirements for mortgage firms, and for extending the appointed representatives regime to mortgages, came into force on 31 October 2004.

A borrower who is a private person is entitled to claim damages for loss suffered as a result of any contravention by an authorised person of an FSA rule, and may set-off the amount of the claim against the amount owing by the borrower under the loan or any other loan that the borrower has taken. Any such set-off may adversely affect the issuer's ability to make payments on the notes.

So as to avoid dual regulation, it is intended that regulated mortgage contracts will not be regulated by the CCA, and relevant regulations 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 changed 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, in any event necessary to enforce a land mortgage (including, in Scotland, a standard security) securing a regulated mortgage contract to the extent that it would, apart from the exemption referred to above, be regulated by the CCA or be treated as such.

It should be noted that, prior to 31 October 2004, there was only self-regulation of mortgage business in the UK under the Mortgage Code (the **CML Code**) issued by the Council of Mortgage Lenders (the **CML**). The seller subscribed to the CML Code from its inception on 1 July 1997. Membership of the CML and compliance with the CML Code were voluntary, although it was a condition of CML membership that lenders subscribed to the CML Code. The CML Code set out a minimum standard of good mortgage business practice, from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. From 30 April 1998 until 31 October 2004, lender-subscribers to the CML Code could not accept mortgage business introduced by intermediaries who were not registered with the Mortgage Code Register of Intermediaries and, subsequently, its successor, the Mortgage Code Compliance Board. Complaints relating to breach of the CML Code were dealt with by the relevant scheme, namely the Banking Ombudsman Scheme, the Mortgage Code Arbitration Scheme and the Financial Ombudsman Service, as applicable. The CML Code ceased to have effect on 31 October 2004 when the FSA assumed responsibility for the regulation of regulated mortgage contracts.

### ***Proposed Consumer Credit Directive***

In September 2002, the European Commission published a proposal for a Directive of the European Parliament and of the Council on consumer credit. The proposal as originally drafted applied to certain loan products. This proposal, and an amended proposal published in October 2004, were met with significant opposition. In July 2005, the European Commission published a Green Paper on mortgage credit, in which it announced its intention that loans secured by a mortgage on land will be excluded from the proposed Directive but will be covered by any initiatives resulting from the Green Paper process. In October 2005, the European Commission published a further amended form of the proposed Directive, which provides that (subject to certain exceptions) loans not exceeding €50,000 will be regulated, but that loans secured by a land mortgage will be excluded from the proposed Directive. The proposed Directive may be further substantially amended before it is brought into effect.

Until the final text of the Directive and of any initiatives resulting from the Green Paper process are decided and the details of the United Kingdom implementing legislation are published, it is not certain what effect the adoption and implementation of the Directive will have on the loans, the seller, the issuer and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the notes when due.

### ***Distance Marketing***

In the United Kingdom, the Financial Services (Distance Marketing) Regulations 2004 apply to, *inter alia*, credit agreements entered into on or after 31 October 2004 by means of distance communication (i.e. without any substantive simultaneous physical presence of the originator and the borrower). A regulated mortgage contract under the FSMA will not be cancellable under these regulations. Any other credit agreement 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. The borrower may send notice of cancellation under these regulations at any time before the end of the 14th day after the day on which the cancellable agreement is made 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 sending 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 in respect of the cancelled agreement.

### ***Non-Status Lending Guidelines for lenders and brokers***

On 18 July 1997, the OFT issued Non-Status Lending Guidelines for lenders and brokers, which were revised in November 1997. These guidelines apply to all residential mortgage loans made to non-status borrowers, which are defined for the purposes of these guidelines as individuals with a low or impaired credit rating. These guidelines regulate the activities of lenders in areas such as advertising and marketing, loan documentation and contract terms, the relationship between lenders and brokers, selling methods, underwriting, dual interest rates and early repayment charges. None of the loans in the provisional portfolio has been made to non-status borrowers but, in any event, the seller currently complies with these guidelines.

The actions of the lender and of any broker or other intermediary involved in marketing the lender's products can jeopardise the lender's fitness to hold a consumer credit licence. These guidelines make clear that lenders must take all reasonable steps to ensure that such brokers and other intermediaries comply with the guidelines and all relevant statutory requirements, even if the lender has no formal or informal control or influence over the broker or other intermediary.

The guidelines provide that lenders must carry on responsible lending, with all underwriting decisions being subject to a proper assessment of the borrower's ability to repay, taking into account all relevant circumstances, such as the purpose of the loan, the borrower's income, outgoings, employment and credit history. Lenders must take all reasonable steps to verify the accuracy of information provided by borrowers on or in support of the loan application, and all underwriting staff must be properly trained and supervised.

Charges payable on any early repayment (in whole or in part) are also restricted under these guidelines. Part repayments must be permitted, and any early repayment charges must do no more than cover the costs reasonably incurred by the lender in processing the payments. A formula for calculating the maximum amount payable on early settlement is prescribed by the CCA and applies to the extent that a credit agreement is regulated by the CCA or to be treated as such. These guidelines state that, for other credit agreements, the current formula prescribed by the CCA is unfair and oppressive, and that lenders must discontinue its use at the earliest opportunity.

No assurance can be given that additional regulations from the OFT, the FSA or any other regulatory authority will not arise with regard to 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 or compliance costs may have a material adverse effect on the loans, the seller, the issuer and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the notes when due.

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

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1999, as amended (the **1999 Regulations**), which, 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, provide that:

- a consumer may challenge a term in an agreement on the basis that it is “unfair” within the UTCCR and therefore not binding on the consumer; and
- the OFT and any “qualifying body” within the UTCCR (such as the FSA) may seek to enjoin or (in Scotland) interdict a business from relying on unfair terms.

The UTCCR will not generally affect “core terms” which define the main subject matter of the contract, such as the borrower’s obligation to repay the principal (provided that these terms are written in plain and intelligible language and are drawn adequately to the consumer’s attention), but may affect terms that are not considered to be core terms, such as the lender’s power to vary the interest rate.

For example, if a term permitting the lender to vary the interest rate (as the servicer will be permitted to do) is found to be unfair, the borrower will not be liable to pay 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 mortgages trustee, 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. Any such non-recovery, claim or set-off may adversely affect the issuer’s ability to make payments on the notes.

Under a new concordat agreed between the FSA and the OFT with effect from 31 July 2006, responsibility for the enforcement of the UTCCR in mortgage loan agreements was agreed to be allocated in the following manner: (a) to the FSA in relation to regulated mortgage contracts (in respect of the activities of firms authorised by the FSA) and (b) to the OFT in relation to mortgages regulated under the CCA and where entered into by persons not authorised by the FSA or their appointed representatives.

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 as unfair under the UTCCR unless the lender (a) notifies the affected borrower in writing at least 30 days before the rate change and (b) 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 seller has reviewed the guidance note and has concluded that its compliance with it will have no material adverse effect on the loans or its business. The guidance note has been withdrawn from the OFT website and is currently under review by the OFT and FSA, but may remain in effect as the OFT’s view and is a factor that the FSA may take into account.

In May 2005, the FSA issued a statement of good practice on fairness of terms in consumer contracts, which is relevant to firms authorised and regulated by the FSA in relation to products and services within the FSA’s regulatory scope. This statement provides that, for locked-in borrowers, a 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.

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

In August 2002, the Law Commission for England and Wales and the Scottish Law Commission issued a joint consultation LCCP No. 166/SLCDP 119 on proposals to rationalise the UK’s Unfair Contract Terms Act 1977 and the 1999 Regulations into a single piece of legislation,



and a final report, together with a draft bill on unfair terms, was published in February 2005. The Law Commissions have a duty under Section 3 of the UK's Law Commissions Act 1965 to keep the law under review for a number of purposes, including its simplification. The proposals are primarily to simplify the legislation on unfair terms. It is not proposed that there should be any significant increase in the extent of controls over terms in consumer contracts. Some changes are proposed, however, such as that (a) a consumer may also challenge a negotiated term in an agreement on the basis that it is "unfair" and "unreasonable" within the legislation and therefore not binding on the consumer and (b) in any challenge by a consumer (but not by the OFT or a qualifying body) of a standard term or a negotiated term, the burden of proof lies on the business to show that the term is fair and reasonable. It is too early to tell how the proposals, if enacted, will affect the loans.

No assurance can be given that changes in the 1999 Regulations, if enacted, or changes to guidance on interest variation terms, if adopted, will not have a material adverse effect on the seller, the issuer, 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 your notes**

Under the FSMA, the Financial Ombudsman Service is required to make decisions on, *inter alia*, 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 the circumstances of the case, taking into account, *inter alia*, law and guidance. Transitional provisions exist by which certain complaints relating to breach of the CML Code occurring before N(m) may be dealt with by the Financial Ombudsman Service. Complaints brought before the Financial Ombudsman Service for consideration must be decided on a case-by-case basis, with reference to the particular facts of any individual case. Each case would first be adjudicated by an adjudicator. Either party to the case may appeal against the adjudication. In the event of an appeal, the case proceeds to a final decision by the Ombudsman.

The Financial Ombudsman Service may order a money award to a borrower, which may adversely affect the value at which the loans in the portfolio could be realised and accordingly the ability of the issuer to meet its obligations under the notes.

#### **Unfair Commercial Practices Directive 2005**

On 11 May 2005, the European Parliament and the Council adopted a Directive (2005/29/EC) on unfair business-to-consumer commercial practices (the **Unfair Practices Directive**). Generally, this Directive applies full harmonisation, which means that member states may not impose more stringent provisions in the fields to which full harmonisation applies. By way of exception, this Directive permits member states to impose more stringent provisions in the fields of financial services and immovable property, such as 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. This 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 DTI published a consultation paper on implementing the Unfair Practices Directive into UK law on 14 December 2005. Member states have until 12 December 2007 in which to bring national implementing legislation into force, subject to a transitional period until 12 June 2013 for applying full harmonisation in the fields to which it applies.

It is too early to predict what effect the implementation of the Unfair Practices Directive would have on the loans and accordingly on the ability of the issuer to make payments to noteholders.

#### **Potential effects of any additional regulatory changes**

No assurance can be given that changes will not be made to the regulatory regime and developments described above in respect of the mortgage market in the United Kingdom generally,

the seller's particular section 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 mortgages trustee and/or the servicer and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full when due on the notes.

**Tax payable by Funding 1 or the issuer may adversely affect the issuer's ability to make payments on your notes**

Funding 1 and the issuer will generally be subject to UK corporation tax, currently at a rate of 30 per cent., on their taxable profits as calculated in accordance with a specific regime for "securitisation companies" (see below) or otherwise as reflected in their respective profit and loss accounts, in either case as increased by the amount of any non-deductible expenses or losses. If the tax payable by Funding 1 or the issuer is greater than expected because, for example, their taxable profit computation includes non-deductible expenses or losses and such expenses or losses are greater than expected, the funds available to make payments on the notes will be reduced and this may adversely affect the issuer's ability to make payments on the notes.

The accounts of the issuer are required to comply with new UK Financial Reporting Standards reflecting International Financial Reporting Standards (**new UK GAAP**) and they may be required to comply with International Financial Reporting Standards (**IFRS**) if the issuer chooses to adopt IFRS. Funding 1 may also choose to comply with IFRS. There is a concern that companies such as the issuer and Funding 1 might, under either IFRS or new UK GAAP, suffer timing differences that could result in profits or losses for accounting purposes, and accordingly for tax purposes (unless tax legislation provides otherwise), which bear little or no relationship to the company's cash position. However, the Finance Act 2005 (as amended by the Finance Act 2006) established an interim regime under which a "securitisation company" is required to prepare tax computations for accounting periods beginning on or after 1 January 2005 and ending before 1 January 2008 on the basis of UK GAAP as applicable up to 31 December 2004, notwithstanding the requirement to prepare statutory accounts under IFRS or new UK GAAP. The issuer and Funding 1 will each be a "securitisation company" for these purposes.

The stated policy of HM Revenue & Customs is that the tax neutrality of securitisation special purpose companies in general should not be disrupted as a result of the transition to IFRS or new UK GAAP and it is working with participants in the securitisation industry to identify appropriate means of preventing any such disruption. The Finance Act 2005 enables regulations to be made to establish a permanent regime and draft regulations were published on 13 June 2006. If they are brought into force in substantially the form as published, then, for accounting periods beginning on or after 1 January 2007, companies to which they apply will, broadly, be taxed by reference to their "retained profit". It is expected that the issuer and Funding 1 will fall within the permanent regime, but if they do not (or if such a permanent regime is not introduced) then profits or losses could arise in the issuer and/or Funding 1 as a result of the application of IFRS or new UK GAAP which could have tax effects not contemplated in the cashflows for the transaction and as such adversely affect the issuer and/or Funding 1 and consequently payments on the notes.

**Your interests may be adversely affected by a change of law in relation to UK withholding tax**

In the event that amounts due under the notes are subject to withholding or deduction for or on account of any tax, neither the issuer nor any other person will be obliged to pay additional amounts in relation thereto. The issuer may, in certain circumstances, redeem the notes (as described in **condition 5.5** of the notes). The applicability of any UK withholding tax under current English law is discussed under "**United Kingdom Taxation**" below.

Under current law, payment of interest and principal on the Funding 1 intercompany loan may be made by Funding 1 to the issuer free from UK withholding tax. However, if for example as a result of a change in law, such payments were required to be made subject to a withholding or deduction for or on account of any tax, Funding 1 would not be required, pursuant to the terms of the Funding 1 intercompany loan, to pay any additional amounts to the issuer with the result that the issuer's ability to make payments on the notes may be adversely affected. In such

circumstances, the issuer may be entitled to redeem the notes (as described in **condition 5.5** of the notes).

### **Your interests may be adversely affected if the United Kingdom joins the European Monetary Union**

If the United Kingdom joins the European Monetary Union prior to the maturity of the notes, the issuer cannot assure you that this would not adversely affect payments on the notes.

It is possible that, prior to the maturity of the notes, the United Kingdom may become a participating member state in the European Monetary Union and that the euro may become the lawful currency of the United Kingdom. In that event: (a) all amounts payable in respect of any notes denominated in sterling may become payable in euro; (b) applicable provisions of law may allow or require the issuer to re-denominate such notes into euro and take additional measures in respect of such notes; and (c) the introduction of the euro as the lawful currency of the United Kingdom may result in the disappearance of published or displayed rates for deposits in pounds sterling used to determine the rates of interest on such notes or changes in the way those rates are calculated, quoted and published or displayed. The introduction of the euro could also be accompanied by a volatile interest rate environment which could adversely affect a borrower's ability to repay its loan as well as adversely affect you. It cannot be said what effect, if any, adoption of the euro by the United Kingdom will have in relation to the notes.

### **Changes of law may adversely affect your interests**

The structure of the master trust and the ratings of the notes are based on English law, (in relation to the Scottish loans) Scots law and (in relation to the Northern Irish loans) Northern Irish law in effect as at the date of this document. The issuer cannot provide assurance as to the impact of any possible change to English law, Scots law or Northern Irish law or administrative practice in the United Kingdom after the date of this document.

### ***Insolvency Act 2000***

Significant changes to the United Kingdom insolvency regime have recently been enacted, including the Insolvency Act 2000. The Insolvency Act 2000 allows certain "small" companies to seek protection from their creditors for a period of 28 days, for the purposes of putting together a company voluntary arrangement, with the option for creditors to extend the moratorium for a further two months. A "small" company is defined as one which satisfies two or more of the following criteria: (i) its turnover is not more than £5.6 million; (ii) its balance sheet total is not more than £2.8 million; and (iii) the number of employees is not more than 50. Whether or not a company is a "small" company may change from period to period and consequently no assurance can be given that the issuer, the mortgages trustee or Funding 1 will not, at any given time, be determined to be a "small" company. The United Kingdom Secretary of State for Trade and Industry may by regulation modify the eligibility requirements for "small" companies and can make different provisions for different cases. No assurance can be given that any such modification or different provisions will not be detrimental to the interests of noteholders.

Secondary legislation has now been enacted which excludes certain special purpose companies in relation to capital markets transactions from the optional moratorium provisions. Such exceptions include: (i) a company which, at the time of filing for a moratorium, is a party to an agreement which is or forms part of a capital market arrangement (as defined in the secondary legislation) under which a party has incurred or when the agreement was entered into was expected to incur a debt of at least £10 million and which involves the issue of a capital market investment (also defined, but generally, a rated, listed or traded bond); and (ii) a company which, at the time of filing for a moratorium, has incurred a liability (including a present, future or contingent liability and a liability payable wholly or partly in foreign currency) of at least £10 million. While the issuer, the mortgages trustee and Funding 1 are expected to fall within one of the exceptions, there is no guidance as to how the legislation will be interpreted, and the Secretary of State for Trade and Industry may by regulation modify the exception. No assurance can be given that any modification of the exceptions will not be detrimental to the interests of noteholders.

Correspondingly, if any of the issuer, the mortgages trustee or Funding 1 is determined to be a "small" company and does not fall within one of the exceptions, then certain actions in respect of the issuer, the mortgages trustee and Funding 1 may, for a period, be prohibited by the imposition of a moratorium.

If the issuer and/or the mortgages trustee and/or Funding 1 is determined to be a "small" company and is determined not to fall within one of the exceptions (by reason of modification of the exceptions or otherwise), then the enforcement of the issuer security by the issuer security trustee or the enforcement of the Funding 1 security by the Funding 1 security trustee may, for a period, be prohibited by the imposition of a moratorium.

### ***Enterprise Act 2002***

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 came into force, amending certain provisions of the Insolvency Act 1986 (as amended, the **Insolvency Act**). These provisions introduced significant reforms to corporate insolvency law. In particular the reforms restrict the right of the holder of a floating charge created after 15 September 2003 to appoint an administrative receiver (unless an exception applies) and instead gives primacy to collective insolvency procedures (in particular, administration). Previously, the holder of a floating charge over the whole or substantially the whole of the assets of a company (such as the Funding 1 security trustee under the Funding 1 deed of charge) had the ability to block the appointment of an administrator by appointing an administrative receiver, who would primarily act in the interests of the floating charge holder appointing him.

The Insolvency Act contains provisions which continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the right to appoint an administrative receiver is retained for certain types of security (such as the issuer security or the Funding 1 security) that form part of a capital markets arrangement (as defined in the Insolvency Act) that involves indebtedness of at least £50 million (or, when the relevant security document was entered into (being in respect of the transactions described in this document, the issuer deed of charge and the Funding 1 deed of charge), a party to the relevant transaction (such as the issuer) was expected to incur a debt of at least £50 million) and the issue of a capital markets investment (also defined, but generally a rated, listed or traded bond). The Secretary of State for Trade and Industry may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not adversely affect payments on the notes. In addition, as the provisions of the Enterprise Act have never been considered judicially, no assurance can be given as to whether the Enterprise Act could have a detrimental effect on the transaction described in this document or on the interests of noteholders.

The Insolvency Act also contains a new out-of-court route into administration for a qualifying floating charge holder, the directors or the relevant company itself. The relevant provisions provide for a notice period during which the holder of the floating charge can either appoint an administrative receiver (if an exception applies), agree to the appointment of the administrator proposed by the directors of the company or appoint an alternative administrator, although the moratorium on enforcement of the relevant security will take effect immediately after notice is given. If the qualifying floating charge holder does not respond to the directors' or company's notice of intention to appoint, the directors', or, as the case may be, the company's appointee will automatically take office after the notice period has elapsed. Where the holder of a qualifying floating charge which was created prior to 15 September 2003 retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court-based procedure), by appointing an administrative receiver prior to the appointment of the administrator being completed.

The new administration provisions of the Insolvency Act give primary emphasis to the rescue of the company as a going concern. The purpose of realising property to make a distribution to one or more secured creditors is subordinated to the primary purposes of rescuing the company as a going concern or achieving a better result for the creditors as a whole than would be likely if the

company were wound up. No assurance can be given that the primary purposes of the new provisions will not conflict with the interests of noteholders were the issuer or Funding 1 ever subject to administration.

In addition to the introduction of a prohibition on the appointment of an administrative receiver as set out above, Section 176A of the Insolvency Act provides that any receiver (including an administrative receiver), liquidator or administrator of a company is required to make a “prescribed part” of the company’s “net property” available for the satisfaction of unsecured debts in priority to the claims of the floating charge holder. The company’s net property is defined as the amount of the chargor’s property which would be available for satisfaction of debts due to the holder(s) of any debentures secured by a floating charge and so refers to any floating charge realisations less any amounts payable to the preferential creditors or in respect of the expenses of the liquidation or administration. The prescribed part is defined in The Insolvency Act 1986 (Prescribed Part) Order 2003 (SI 2003/2097) to be an amount equal to 50 per cent. of the first £10,000 of floating charge realisations plus 20 per cent. of the floating charge realisations thereafter, provided that such amount may not exceed £600,000.

This obligation does not apply if the net property is less than a prescribed minimum and the relevant officeholder is of the view that the cost of making a distribution to unsecured creditors would be disproportionate to the benefits. The relevant officeholder may also apply to court for an order that the provisions of Section 176A of the Insolvency Act should not apply on the basis that the cost of making a distribution would be disproportionate to the benefits.

Floating charge realisations upon the enforcement of the issuer security and/or the Funding 1 security may be reduced by the operation of these ring-fencing provisions.

#### ***Insolvency Legislation in Northern Ireland***

The Insolvency Act 2000 and the corporate insolvency provisions of the Enterprise Act 2002 do not apply in Northern Ireland. The current law is contained in the Insolvency (Northern Ireland) Order 1989 (the **1989 Order**) as amended by the Insolvency (Northern Ireland) Order 2002. The 1989 Order is further amended by the provisions of the Insolvency (Northern Ireland) Order 2005 (the **2005 Order**) which came into force on 27 March 2006. The 2005 Order implemented in Northern Ireland corporate insolvency provisions which are identical to those introduced by the provisions of the Enterprise Act 2002 in England, Wales and Scotland. The changes introduced in England, Wales and Scotland by the Insolvency Act 2000 in relation to small companies are mirrored in the Insolvency (Northern Ireland) Order 2002.

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

Your beneficial ownership of the notes will only be recorded in book-entry form with DTC, Euroclear or Clearstream, Luxembourg. The global notes will not be exchanged for definitive notes except in limited circumstances as described below under “**Form of the notes – Definitive notes**”. The lack of notes in physical form could, among other things:

- result in payment delays on the notes because the issuer will be sending distributions on the notes to DTC, Euroclear or Clearstream, Luxembourg instead of directly to you;
- make it difficult for investors to pledge the notes if notes in physical form are required by the party demanding the pledge; and
- hinder your ability to resell the notes because some investors may be unwilling to buy notes that are not in physical form.

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

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

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

On 14 November 2005, the Basel Committee on Banking Supervision published an updated version of the text of new capital adequacy standards for international banks, under the title "Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework". This new framework (the **Basel II Framework**), which has recently been published in a consolidated version, substantially revises and expands the existing Basel Capital Accord first issued in 1988, includes more sophisticated approaches to applying capital requirements based on risk, addresses more types of risk including operational risk and places enhanced emphasis on market discipline and banks' internal systems and controls. The Basel II framework is not self-implementing, but rather forms the basis for national rule-making and approval processes in participating countries. The Basel Committee has released numerous discussion papers, impact studies and guidance for banking organisations in their preparations for implementing the revised capital standards. The Committee has also formed an Accord Implementation Group of bank supervisors to share information and to promote consistency as participating countries move forward with implementation of Basel II.

Within the European Union and the EEA, the Basel II Framework will be implemented through the EU Capital Requirements Directive, which makes some modifications to the framework. It is currently intended that the various approaches under the Basel II Framework and the EU Capital Requirements Directive will be implemented in stages, some from year-end 2006, the most advanced at year-end 2007.

In the United States, the federal banking regulators have proposed to require approximately the 20 largest U.S. banking organisations to use the most advanced approaches of Basel II; other U.S. banks with sophisticated systems may voluntarily elect to adopt Basel II advanced approaches subject to regulatory approval. Most U.S. banks initially would not be subject to Basel II and would continue to follow existing U.S. risk-based capital rules with certain modifications to be determined (a proposal known as "Basel I-A"). The U.S. is not adopting Basel II's simpler approaches, as the existing U.S. framework based on Basel I is not equivalent to Basel II. Implementation of Basel II in the United States is also targeted to begin on 1 January 2009, one year later than in Europe. This one year "gap" and other differences in the application or interpretation between the U.S., the EU and other jurisdictions in which the Alliance & Leicester group has operations could represent challenges for the bank in implementing Basel II.

As and when implemented, the Basel II Framework could affect the risk-based capital treatment of the notes for investors who are subject to bank capital adequacy requirements that follow the framework. Consequently, investors should consult their own advisers as to the consequences of and effect on them of the proposed implementation of the Basel II Framework. Proposals and guidelines for implementing Basel II in participating jurisdictions are still in development, and no predictions can be made as to the precise effects of potential changes on the notes, Alliance & Leicester or any investor.

### **There may be a conflict between the interests of the holders of class A notes, the holders of class B notes, the holders of class M notes, the holders of class C notes and the holders of class D notes and the interests of other classes of noteholders may prevail over your interests**

The note trust deed and the conditions of the notes will provide that in connection with the exercise of its trusts, authorities, powers and discretions under the note trust deed the note trustee is to have regard to the interests of the holders of all the classes of notes. There may be circumstances, however, where the interests of one class of the noteholders conflicts with the interests of another class or classes of the noteholders. The note trust deed will provide that where, in the sole opinion of the note trustee, there is such a conflict, then:

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

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

**There may be a conflict between the interests of the holders of each class of the class A notes, the holders of each class of the class B notes, the holders of each class of the class M notes, the holders of each class of the class C notes and the holders of each class of the class D notes and the interests of other classes of noteholders may prevail over your interests**

There may also be circumstances where the interests of a class of the class A noteholders conflict with the interests of another class of the class A noteholders. Similarly, there may be circumstances where the interests of a class of the class B noteholders conflict with the interests of another class of the class B noteholders, the interests of a class of the class M noteholders conflict with the interests of another class of the class M noteholders, the interests of a class of the class C noteholders conflict with the interests of another class of the class C noteholders or the interests of a class of the class D noteholders conflict with the interests of another class of the class D noteholders.

Unless expressly provided otherwise, the note trust deed and the terms of the notes will provide that where, in the sole opinion of the note trustee, there is such a conflict, then a resolution directing the note trustee to take any action must be passed at separate meetings of the holders of each such class of the class A notes, each such class of the class B notes, each such class of the class M notes, each such class of the class C notes or, as applicable, each such class of the class D notes. A resolution may only be passed at a single meeting of the noteholders of each class if the note trustee is, in its absolute discretion, satisfied that there is no conflict between them.

Similar provisions will apply in relation to requests in writing from holders of a specified percentage of the principal amount outstanding of the notes of each class (the principal amount outstanding being converted into sterling for the purposes of making the calculation). You should note that, as a result of repayments of principal to any series of the notes, the principal amount outstanding of each series of the notes of the issuer will change after the applicable closing date.

**You may be subject to exchange rate risks on any series of notes that are not denominated in sterling**

Investors will pay for the dollar notes in U.S. dollars, the euro notes in euro and for notes denominated in any other currency, in the specified currency, but the loan tranches to be lent by the issuer to Funding 1 and repayments of principal and payments of interest by Funding 1 under the intercompany loan will be in sterling.

To hedge the issuer's currency exchange rate exposure, including the interest rate exposure connected with that currency exposure, the issuer will enter into the issuer dollar currency swaps, the issuer euro currency swaps and currency swaps relating to any other currency that the notes may be denominated in for the applicable series of notes. See "**Summary of the transaction documents – Swap agreements – Issuer swap agreements**" below.

If the issuer fails to make timely payments of amounts due under an issuer swap, then the issuer will have defaulted under that issuer swap. Each issuer swap provider is obliged only to make payments under an issuer swap if and for so long as the issuer makes payments under the same. If an issuer swap provider is not obliged to make payments, or if it defaults in its obligations to make payments of amounts in U.S. dollars, euro or any other specified currency, as applicable,

equal to the full amount to be paid by it on the payment dates under the relevant issuer swap (which are the same dates as the interest payment dates in respect of the notes), the issuer will be exposed to changes in U.S. dollar/sterling, euro/sterling currency exchange rates or such other currency exchange rates, in the associated interest rates on these currencies and in fixed versus floating interest rates. Unless a replacement issuer swap is entered into, the issuer may have insufficient funds to make payments due on the notes of any class and any series that are then outstanding.

**Termination payments on the issuer swaps may adversely affect the funds available to make payments on your notes**

If any of the issuer swaps terminates, the issuer may as a result be obliged to make a termination payment to the relevant issuer swap provider. The amount of the termination payment will be based on the cost of entering into a replacement currency swap. Under the intercompany loan agreement, Funding 1 will be required to pay the issuer an amount equal to any termination payment due by the issuer to the relevant issuer swap provider. Funding 1 will also be obliged to pay the issuer any extra amounts which the issuer may be required to pay to enter into a replacement swap.

There is no assurance that Funding 1 will have the funds available to make that payment or that the issuer will have sufficient funds available to make any termination payment under any of the relevant issuer swaps or to make subsequent payments to you in respect of the relevant series and class of notes. Nor can the issuer give you any assurance that it will be able to enter into a replacement currency swap or, if one is entered into, that the credit rating of the replacement issuer swap provider will be sufficiently high to prevent a downgrading of the then current ratings of the notes by the rating agencies.

Except where an issuer swap provider has caused the relevant issuer swap to terminate by its own default or downgrade, any termination payment due by the issuer will rank equally not only with payments due to the holders of the series and class of notes to which the relevant issuer swap relates but also with payments due to the holders of any other series and class of notes which rank equally with the series and class of notes to which the relevant issuer swap relates. Any additional amounts required to be paid by the issuer following termination of an issuer swap (including any extra costs incurred (for example, from entering into "spot" currency transactions or interest rate swaps) if the issuer cannot immediately enter into a replacement currency swap) will also rank equally not only with payments due to the holders of the series and class of notes to which the relevant issuer swap relates but also with payments due to the holder of any other series and class of notes which rank equally with the series and class of notes to which the relevant issuer swap relates. Furthermore, any termination payment or additional payment or additional amounts required to be paid by the issuer following termination of an issuer swap will rank ahead of payments due to the holders of any series and class of notes which ranks below the series and class of notes to which the relevant issuer swap relates. Therefore, if the issuer is obliged to make a termination payment to the relevant issuer swap provider or to pay any other additional amount as a result of the termination of the relevant issuer swap, this may affect the funds which the issuer has available to make payments on the notes of any class and any series.

**The minimum denominations on the notes may adversely affect payments on the notes if issued in definitive form**

For so long as the notes are represented by global notes, and DTC, Euroclear and Clearstream, Luxembourg so permit, the Rule 144A notes will be tradeable in minimum nominal amounts of \$100,000 and in integral multiples of \$1,000 in excess thereof (or its equivalent in any other currency as at the date of the issue of the notes) and the Reg S notes will be tradeable in minimum nominal amounts of £50,000 (or, in the case of notes denominated in sterling with a minimum maturity of less than 366 days, £100,000) and in integral multiples of £1,000 in excess thereof if denominated in sterling or €50,000 and in integral multiples of €1,000 in excess thereof (or its equivalent in any other currency as at the date of the issue of the notes) if denominated in a currency other than sterling. However, if definitive notes are required to be issued in respect of the



notes represented by global notes, they will only be printed and issued in denominations of \$100,000, £50,000 (or, in the case of notes denominated in sterling with a minimum maturity of less than 366 days, £100,000), or €50,000 (or the equivalent in any other currency as at the date of the issue of the notes), as the case may be. Accordingly, if definitive notes are required to be issued in respect of such notes, a noteholder holding notes having a nominal amount which cannot be represented by a definitive note in the denomination of \$100,000, £50,000 (or, in the case of notes denominated in sterling with a minimum maturity of less than 366 days, £100,000), or €50,000 (or the equivalent in any other currency as at the date of the issue of the notes), as the case may be, will not be able to receive a definitive note in respect of such notes and will not be able to receive interest or principal in respect of such notes.

*The issuer believes that the risks described above are the principal risks inherent in the transaction for the noteholders of a series, but the inability of the borrowers to pay interest, principal or other amounts on the loans and their related security and consequently the inability of the issuer to pay interest, principal or other amounts on or in connection with the notes of a series and class may occur for other reasons, and the issuer does not represent that the above statements regarding the risk of holding the notes of a series and class are exhaustive. Although the issuer believes that the various structural elements described in this prospectus lessen some of the risks for the noteholders, there can be no assurance that these measures will be sufficient to ensure payment to the noteholders of interest, principal or any other amounts on or in connection with the notes of a series and class on a timely basis or at all.*

## SUMMARY OF THE TRANSACTION DOCUMENTS

*The following section contains a summary of the material terms of the transaction documents. The summary does not purport to be complete and is subject to the provisions of the relevant transaction document.*

### **The mortgage sale agreement**

On or about the initial closing date, the seller, Funding 1, the mortgages trustee and the Funding 1 security trustee will enter into the mortgage sale agreement.

The rights of Funding 1 in respect of the mortgage sale agreement will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

The mortgage sale agreement sets out and provides for, *inter alia*, the following:

- the sale and assignment of initial loans and their related security by the seller to the mortgages trustee on the initial closing date;
- the sale and assignment of new loans and their related security by the seller to the mortgages trustee after the initial closing date;
- the representations and warranties to be given by the seller in relation to the initial loans, new loans and their related security;
- the repurchase by the seller of loans in the portfolio and their related security where the seller has materially breached any of its representations and warranties in respect of such loans or their related security or, in certain circumstances, where such loan is the subject of a product switch or a further advance;
- the making of future drawings and the making of further advances to borrowers, with respect to loans in the trust property; and
- the circumstances for the transfer of legal title to the loans to the mortgages trustee.

In relation to Scottish loans, the mortgage sale agreement provides for the transfer of the beneficial interest in such loans and their related security sold on the initial closing date to be effected by a declaration of trust by the seller in favour of the mortgages trustee and for the transfer of the beneficial interest in any other Scottish loans and their related security to be effected by further declarations of trust (and, in relation to the Scottish loans and their related security, references in this prospectus to the **assignment** of such loans and their related security are to be read as references to the transfer of the beneficial interest therein by the making of such declarations of trust and the terms **assigned** and **assign** shall in that context be construed accordingly) (see “– **Transfer of legal title to the mortgages trustee**” below).

The terms of the mortgage sale agreement may be amended after the initial closing date, for instance as and when new issuers (if any) are established or **new loan types** (being, on any date, a type of loan which is materially different from the types of loans comprised in the portfolio) are added to the mortgages trust or further Funding companies accede and adhere to the mortgage sale agreement. The prior consent of the noteholders will not be sought in relation to any of the proposed amendments to the mortgage sale agreement, provided that (among other things) the rating agencies confirm that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a noteholder (see “**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**”).

### ***Sale of loans and their related security***

On the initial closing date, the seller will sell the initial loans and their related security comprising the portfolio to the mortgages trustee. From time to time after the initial closing date, the seller will also sell new loans and their related security to the mortgages trustee which will be

included in the portfolio. The sale of the English loans and the Northern Irish loans and their respective related security will (until transfer of legal title) take effect in equity only. The seller will (until transfer of legal title) transfer the beneficial interest only in the Scottish loans and their related security by way of a Scottish declaration of trust or Scottish declarations of trust executed on the relevant sale date. The transfer of legal title to loans and their related security may not occur or, if it does occur, will not occur until a later date (see “– **Transfer of legal title to the mortgages trustee**” below). Any references to a sale of loans and their related security in this prospectus will include references to the sale by the seller of new loans and their related security to the mortgages trustee pursuant to the mortgage sale agreement.

Each portfolio of loans and their related security so sold will form part of the trust property to be held on trust by the mortgages trustee for, as applicable, Funding 1 (as to the Funding 1 share) and the seller (as to the seller share) in accordance with the terms of the mortgages trust deed. In the future, further Funding companies and further Funding security trustees may adhere and accede to the mortgage sale agreement, although there is no certainty that such an event or events will occur. Your consent will not be sought when any further Funding companies and further Funding security trustees accede to the mortgage sale agreement provided that the rating agencies confirm in writing that the then current rating of the notes then outstanding will not be downgraded, withdrawn or qualified as a result.

The consideration for the sale of loans and their related security will consist of:

- the initial purchase price, representing a cash payment payable on the relevant sale date by the mortgages trustee to the seller for the sale and assignment to the mortgages trustee of the relevant loans and their related security;
- to the extent that the initial purchase price is less than the aggregate outstanding principal balance of the loans to be transferred on any sale date, the consideration payable for the shortfall shall give rise to a corresponding increase in the seller share of the trust property; and
- the deferred purchase price, representing a cash payment payable after the relevant sale date by the mortgages trustee to the seller as further consideration for the sale of the relevant loans and their related security in accordance with the provisions of the mortgage sale agreement and the mortgages trust deed (see further “– **Payment of purchase price**” below).

#### ***Payment of purchase price***

Payment of the initial purchase price will be made to the seller by the mortgages trustee out of funds received by the mortgages trustee from an initial contribution contributed by Funding 1 or any further Funding company pursuant to the terms of the mortgages trust deed.

Payments of the deferred purchase price will be made by the mortgages trustee out of funds received by way of deferred contributions contributed by Funding 1 or any further Funding company from time to time pursuant to the terms of the mortgages trust deed. Upon receipt of such a deferred contribution, the mortgages trustee will pay an amount equal to such deferred contribution to the seller as deferred purchase price for the sale of the loans to the mortgages trustee. Funding 1 is only required to make deferred contributions out of excess income to which it is entitled in accordance with and subject to the relevant Funding 1 priority of payments, as set out in “**The mortgages trust – Cash management of trust property – revenue receipts**” below. Any seller accrued interest amounts in respect of the loans sold on the initial closing date to the mortgages trustee will form part of the trust property and to the extent allocated and distributed to Funding 1 and excess to its revenue requirements will be paid in accordance with the relevant Funding 1 priority of payments, as deferred contributions to the mortgages trustee. The mortgages trustee will in turn pay an equivalent amount to the seller as part of the deferred purchase price due to the seller under the mortgage sale agreement.

#### ***Conditions for sale of initial loans and new loans***

The sale of initial loans, new loans and their related security to the mortgages trustee on the relevant sale date will be subject to certain conditions being satisfied (which may be varied or

waived by the mortgages trustee (subject to the prior notification by the rating agencies that the then current ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result of such variation or waiver)), including the following:

- (a) no event of default under the transaction documents (or event of default under the transaction documents of any further Funding company, where applicable) shall have occurred which is continuing as at the relevant sale date;
- (b) the principal deficiency ledger does not have a debit balance as at the most recent Funding 1 interest payment date after applying all Funding 1 available revenue receipts on that Funding 1 interest payment date (and the equivalent condition is met in relation to each further Funding company, where applicable);
- (c) the rating agencies have confirmed in writing that the proposed increase in the Funding 1 share of the trust property (or the share of the relevant Funding company of the trust property, where applicable) as a result of making the further contribution would not cause the then current ratings by the rating agencies of any notes (or any new notes, where applicable) then outstanding to be downgraded, withdrawn or qualified;
- (d) as at the relevant sale date, the seller has not received any notice that the short-term, unsecured, unguaranteed and unsubordinated debt obligations of the seller are not rated at least P-2 by Moody's, A-3 by Standard & Poor's and F2 by Fitch at the time of, and immediately following, the sale of new loans to the mortgages trustee;
- (e) in the case of a new loan, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are, at the time of, and immediately following the sale of the new loans to the mortgages trustee, either:
  - rated no lower than P-1 by Moody's; or
  - in the event that the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated lower than P-1 by Moody's but are rated no lower than P-2 by Moody's then:
    - (A) the seller has, on such sale date, delivered a solvency certificate to, *inter alios*, the mortgages trustee in form and substance satisfactory to Moody's; and
    - (B) where:
      - (I) the aggregate current balance of new loans sold to the mortgages trustee following the later of:
        - (1) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling lower than P-1 by Moody's; or
        - (2) any previous audit of new loans pursuant to this paragraph, exceeds 20 per cent. of the current balance of all loans in the mortgages trust at such time; or
      - (II) 12 months has passed since:
        - (1) the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling lower than P-1 by Moody's; or
        - (2) any previous audit of new loans pursuant to this paragraph, an audit has been performed on both (x) any new loans to be sold to the mortgages trust on such sale date and (y) all new loans which have been sold to the mortgages trust subsequent to the audit referred to in (B)(II)(2) above;
- (f) as at the relevant sale date, the aggregate current balance of loans comprising the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans comprising the trust property at that date (or such other percentage as the

rating agencies confirm is sufficient in order that the then current ratings of the notes (and any new notes, where applicable) then outstanding are not downgraded, withdrawn or qualified);

- (g) the aggregate of amounts in arrears in respect of the loans, as a percentage of the gross interest due on all loans comprising the trust property during the immediately preceding 12 months, does not at the relevant sale date exceed 2 per cent. (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the notes (and any new notes, where applicable) then outstanding are not downgraded, withdrawn or qualified);
- (h) except where Funding 1 makes an initial contribution to the mortgages trustee, the proceeds of which will be applied by the mortgages trustee to purchase new loans, the aggregate current balance (excluding accrued interest and amounts in arrears) of new loans transferred in any Funding 1 interest period must not exceed 15 per cent. of the aggregate current balance of loans (excluding accrued interest and amounts in arrears) comprising the trust property as at the beginning of that Funding 1 interest period (or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the notes (and any new notes, where applicable) then outstanding are not downgraded, withdrawn or qualified);
- (i) the product of the weighted average foreclosure frequency (**WAFF**) and weighted average loss severity (**WALS**) for the loans comprising the trust property calculated on the relevant sale date in the same way as for the initial loans comprising the mortgages trust after such purchase (or as agreed by the servicer and the rating agencies from time to time)) does not exceed the product of the WAFF and WALS for the loans constituting the trust property calculated on the most recent closing date, plus 0.25 per cent.;
- (j) the sale and assignment of new loans does not result in the Moody's portfolio variation test value of the loans comprising the trust property after such sale and assignment (calculated by applying the Moody's portfolio variation test to such loans on such sale date) exceeding the most recently determined Moody's portfolio variation test threshold value as calculated in relation to the loans in the portfolio as at the most recent date on which Moody's performed a full pool analysis on the portfolio (which must be no less frequent than annually), plus 0.30 per cent.;
- (k) the yield of the loans comprising the trust property together with the yield of the new loans to be sold to the mortgages trustee on the relevant sale date is at least 0.40 per cent. greater than LIBOR for three-month sterling deposits as at the relevant sale date, after taking into account the average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and the relevant swaps of any further Funding companies, where applicable), in each case as at the relevant sale date;
- (l) the sale of new loans on the relevant sale date does not result in the weighted average loan-to-value ratio of the loans and the new loans, after application of the LTV test on the relevant sale date, exceeding the weighted average loan-to-value ratio (based on the LTV test), as determined in relation to the loans comprising the trust property on the most recent closing date, plus 0.25 per cent.;
- (m) no sale of new loans may occur, if, as at the relevant sale date, the step-up date in respect of any class of notes (or any new notes where applicable) has been reached and the issuer (or any new issuer, where applicable) has not exercised its option to redeem the relevant class of notes (or new notes, where applicable) as at that sale date, in accordance with the conditions of that class notes (or new notes, where applicable). For the avoidance of doubt, this prohibition on the sale of new loans to the mortgages trustee shall remain in effect only for so long as any such class of notes (or new notes, where applicable) remains outstanding and, upon its redemption, the sale of new loans to the mortgages trustee may be resumed in accordance with the terms of the mortgage sale agreement;

- (n) as at the sale date, the adjusted general reserve fund level is equal to or greater than the general reserve required amount (and the equivalent condition is met in relation to each further Funding company, where applicable);
- (o) if the sale of new loans would include the sale of new loan types to the mortgages trustee, the Funding 1 security trustee (and any further Funding security trustee, where applicable) has received written confirmation from each of the rating agencies that the then current ratings of the notes (and any new notes, where applicable) will not be downgraded, withdrawn or qualified as a result of such sale of new loan types;
- (p) each new loan and its related security complies in all material respects at the relevant sale date with the representations and warranties set out in the mortgage sale agreement, which are summarised below in “– **Representations and warranties**”;
- (q) the Funding 1 swap agreement (and the relevant swap agreements of each further Funding company, where applicable) has each been modified if and as required (or, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement (or each further Funding company has entered into any new swap agreement, where applicable)) to hedge against the interest rates payable in respect of such new loans and the floating rate of interest payable on the intercompany loan (and any new intercompany loans, where applicable); and
- (r) no trigger event has occurred on or before the relevant sale date.

In the mortgage sale agreement, the seller promises to use all reasonable endeavours to offer to sell to the mortgages trustee, and the mortgages trustee promises to use all reasonable endeavours to acquire from the seller and hold in accordance with the terms of the mortgages trust deed, until the earlier of the latest step-up date stated in the applicable final terms (or such later date as may be notified by Funding 1 and any further Funding companies to the seller) and the occurrence of a trigger event, sufficient new loans and their related security so that the seller's share in the trust property does not fall below the minimum seller share. Funding 1 may notify the seller to increase the size of the trust property in order to ensure that the seller's share in the trust property does not fall below the minimum seller share. However, the seller is not obliged to sell to the mortgages trustee, and the mortgages trustee is not obliged to acquire, new loans and their related security if, in the opinion of the seller, such sale would adversely affect the business of the seller. If and when any further Funding company acquires more than a nominal interest in the trust property in accordance with the terms of the mortgages trust deed, such further Funding company may at any time with the prior written consent of the relevant further Funding security trustee and subject to written confirmation from the rating agencies that the then current ratings of notes (and any new notes, where applicable) then outstanding will not be downgraded, withheld or qualified as a result of such increase or decrease, notify the seller of any increase or decrease in the minimum seller share or any amendment to the period in which the covenant of the seller shall apply.

#### ***Representations and warranties***

The mortgage sale agreement contains representations and warranties given by the seller to the mortgages trustee, Funding 1 and the Funding 1 security trustee in relation to each loan and its related security sold to the mortgages trustee pursuant to the terms of the mortgage sale agreement. None of the mortgages trustee, Funding 1, the Funding 1 security trustee, the issuer security trustee, the note trustee or the issuer will make or will cause to be made on its behalf any enquiries, searches or investigations of a type which a prudent purchaser or mortgagee would normally be expected to carry out in respect of the loans and their related security. Instead, each is relying entirely on the representations and warranties by the seller contained in the mortgage sale agreement. The representations and warranties in relation to each loan and its related security are made on the sale date that the relevant loan (including each new loan), together with its related security, is sold to the mortgages trustee. The parties to the mortgage sale agreement may, with the prior written consent of the Funding 1 security trustee (which consent will be given if directed to do so by the issuer security trustee, which direction will be given if directed to do so by the note trustee, which direction will be given if the rating agencies confirm in writing that the then current ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result of

such waiver or amendment) or of any further Funding security trustee (where applicable), waive or amend the representations and warranties in the mortgage sale agreement. The material representations and warranties include:

- each loan was originated by the seller in pounds sterling and is denominated in pounds sterling (or was originated and is denominated in euro if the euro has been adopted as the lawful currency of the UK);
- each loan in the portfolio was made not earlier than 1 October 1994;
- the final maturity date of each loan is no later than October 2052;
- no loan has a current balance of more than £750,000;
- prior to the making of each advance under a loan, the lending criteria and all preconditions to the making of that advance were satisfied in all material respects subject only to exceptions made on a case-by-case basis as would be acceptable to a reasonable, prudent mortgage lender;
- other than with respect to monthly payments, no borrower is or has, since the date of execution of the relevant mortgage, been in material breach of any obligation owed in respect of the relevant loan or its related security and accordingly no steps have been taken by the seller to enforce any related security;
- the total amount of interest or principal in arrears, together with any fees, commissions and premiums payable at the same time as that interest payment or principal repayment, on any loan is not on the relevant sale date in respect of any loan, nor has been during the 12 months immediately preceding the relevant sale date, more than the amount of the monthly payment then due;
- all of the borrowers are natural legal persons and were aged 18 years or older at the date of execution of the mortgage;
- at least one monthly payment has been made in respect of each loan;
- the whole of the current balance on each loan is secured by the relevant mortgage;
- each loan and its related security is valid, binding and enforceable in accordance with its terms and is non-cancellable:
  - (i) except in relation to any term in any loan or in its related security, in each case which is not binding by virtue of the UTCCR; and
  - (ii) except in relation to any flexible loan drawing and any other further advance, in each case which is not enforceable by virtue of the CCA;
- to the best of the seller's knowledge, none of the terms in any loan or in its related security is not binding by virtue of it being unfair within the meaning of the UTCCR. In this warranty and the warranty in the previous bullet point, reference to any legislation shall be construed as a reference to that legislation as amended, extended or re-enacted from time to time;
- each mortgage constitutes a valid and subsisting first charge by way of legal mortgage or (in Scotland) standard security over the relevant mortgaged property, and subject only in certain appropriate cases to applications for registrations or recordings at the Land Registry of England and Wales or in the Registers of Scotland or the Registry of Deeds or Land Registry of Northern Ireland, 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;
- all of the mortgaged properties are located in England, Wales, Northern Ireland or Scotland;
- not more than 12 months prior to the execution of each mortgage (or such longer period as may be acceptable to a reasonable, prudent mortgage lender), the seller received a valuation report on the relevant mortgaged property (or another form of report concerning

the valuation of the relevant mortgaged property as would be acceptable to a reasonable, prudent mortgage lender), the contents of which were such as would be acceptable to a reasonable, prudent mortgage lender;

- the benefit of all valuation reports and certificates of title which were provided to the seller not more than two years prior to the date of the mortgage sale agreement can be validly assigned to the mortgages trustee without obtaining the consent of the relevant valuer, solicitor or licensed conveyancer or (in Scotland) qualified conveyancer;
- prior to the taking of each mortgage (other than a remortgage completed pursuant to the mortgage transfer service), the seller, (a) instructed its solicitor or licensed conveyancer or (in Scotland) qualified conveyancer to carry out an investigation of title to the relevant mortgaged property and to undertake 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 or (in Scotland) qualified conveyancer as are set out in the CML Lenders' Handbook or other comparable, predecessor or successor instructions and/or guidelines as may for the time being be in place, subject only to those variations made (i) in circumstances where a mortgage is provided by the seller on a "fees free" basis in connection with the re-mortgage of the property and provided that the relevant property is conveyed in accordance with a service agreement entered into between the seller and its solicitor or (ii) on a case by case basis as would be acceptable to a reasonable, prudent mortgage lender and (b) received a certificate of title from such solicitor or licensed conveyancer or (in Scotland) qualified conveyancer relating to such mortgaged property, the contents of which would have been acceptable to a reasonable, prudent mortgage lender at that time;
- buildings insurance cover for each mortgaged property is available under a policy arranged by the borrower, by the seller or by the relevant landlord or the properties in possession cover;
- 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 agreed to be sold by the seller to the mortgages trustee under the mortgage sale agreement;
- the seller has, since the making of each loan, kept or procured the keeping of full and proper accounts, books and records showing clearly all variations in the relevant financial terms and conditions, transactions, payments, payment holidays, receipts, proceedings and notices relating to such loan;
- there are no authorisations, approvals, licences or consents required, which have not been obtained, for the seller to enter into or to perform the obligations under the mortgage sale agreement or to make the mortgage sale agreement legal, valid, binding, enforceable and admissible in evidence;
- to the extent that any loan constitutes a regulated mortgage contract for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001, the seller has materially complied with its obligations under the FSMA (including, without limitation, MCOB) in connection with the origination and administration of such loan and has not received written notice of any allegation or claim that any of its obligations under the FSMA in connection with the origination and administration of any loan have not been made in full;
- the seller and servicer have and will maintain all necessary consents, authorisations, approvals, licences and orders, including without limitation all necessary licences under the CCA and authorisations under the FSMA to originate and administer the loans; and
- where there is any restriction on the assignment or transfer of any loan or related security relating to the advance of monies other than the loan or any further advance secured by the related security, no such monies have been advanced to the borrower since the date of completion of such loan save for where such monies have been advanced under an agreement regulated by the CCA which does not include as one of its terms that the money payable under it is secured by the relevant mortgage.



If new loan types are to be sold to the mortgages trustee, then the representations and warranties in the mortgage sale agreement will be modified as required to accommodate these new loan types. Your prior consent to the requisite amendments will not be sought, provided that the conditions for the sale of new loan types to the mortgages trustee have been satisfied.

***Repurchase of loans under a mortgage account***

Save with respect to product switches and further advances (as to which see “– **Product switches and further advances**” below), under the mortgage sale agreement, if a loan does not materially comply on the sale date with the representations and warranties made under the mortgage sale agreement:

- (i) the seller will be required to remedy the breach within 20 London business days of the mortgages trustee (acting on the directions of Funding 1 and any further Funding company and/or the Funding 1 securing trustee and any further Funding security trustee) giving written notice of the breach to the seller; or
- (ii) if the breach is not remedied within the 20 London business day period then, at the direction of Funding 1 and any further Funding companies (with the prior written consent of the Funding 1 security trustee and any further Funding security trustees), the mortgages trustee will require the seller to purchase the loan under the relevant mortgage account and its related security from the mortgages trustee on the trust calculation date immediately following the date of such notice at a price equal to its current balance as of the immediately following trust calculation date.

For so long as the seller is the servicer, it must notify the mortgages trustee, Funding 1, any further Funding companies, the Funding 1 security trustee and any further Funding security trustees in writing of any material breach of a warranty as soon as its board of directors become aware of such breach.

The seller will also be required to repurchase the loan under any mortgage account and its related security if a court or other competent authority or any ombudsman makes any determination in respect of that loan and its related security that:

- (a) any term which relates to the recovery of interest under the standard documentation applicable to that loan and its related security is unfair; or
- (b) the interest payable under that loan is to be set by reference to the seller variable rate; or
- (c) the variable margin above the Bank of England base rate under that loan must be set by the seller; or
- (d) the interest payable under that loan is to be set by reference to an interest rate other than that set or purported to be set by either the servicer or the mortgages trustee as a result of the seller having more than one variable mortgage rate.

The seller will also be required to repurchase a loan under any mortgage account that is a portable loan and its related security on the London business day following the date that the borrower transfers the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period. The seller will repurchase the portable loan under the relevant mortgage account and its related security from the mortgages trustee at a price equal to its current balance as of the London business day immediately following the transfer date.

If the seller fails to pay the consideration due for the repurchase (or otherwise fails to complete the repurchase), then (under the terms of the mortgages trust deed) the seller share of the trust property shall be deemed to be reduced by an amount equal to that consideration.

***Product switches and further advances***

A loan will be subject to a product switch if the borrower and the seller agree or the servicer (on behalf of the seller) offers a variation in the financial terms and conditions applicable to the relevant loan other than any variation:

- involving a permitted product switch (as described below);
- agreed with a borrower to control or manage arrears on the loan;
- of the maturity date of the loan unless, while the intercompany loan is outstanding, it is extended beyond October 2052;
- imposed by statute;
- of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property as calculated on the next trust calculation date as at the end of the immediately preceding trust calculation period; and/or
- in the frequency with which the interest payable in respect of the loan is charged.

A **product switch** is a variation to the financial terms and conditions of a loan other than:

- any variation agreed with a borrower to control or manage arrears on the loan;
- any variation on the maturity date of the loan unless, while the intercompany loan is outstanding, it is extended beyond October 2052;
- any variation imposed by statute;
- any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property in any Funding 1 interest period; or
- any variation in the frequency with which the interest payable in respect of the loan is calculated.

A **permitted product switch** is a variation in the financial terms and conditions of a loan in which a borrower exchanges its then current loan product for a different loan product offered by the seller, provided that:

- the relevant borrower has made at least one monthly payment on its then current loan product;
- the new loan for which the prior loan is to be exchanged is a permitted replacement loan;
- each of the conditions for the assignment of new loans and their related security (other than conditions (e) and (h)) as set forth under “– **Conditions for sale of initial loans and new loans**” above are satisfied, provided that conditions (i), (j) and (l) in that section will only be required to have been satisfied on the date of the most recent assignment of loans to the mortgages trustee; and
- the interest-only mortgages level test is satisfied if, as calculated on the most recent trust calculation date:  $A/B \times 100 \leq C$

where

A = the current balance of all interest-only loans (which, for the avoidance of doubt includes interest-only components of part-and-part loans) in the mortgages pool as at the relevant trust calculation date; B = the current balance of all loans comprising the trust property as at the relevant trust calculation date; and C = the number specified in the most recent final terms.

A **permitted replacement loan** is a loan:

- that is subject to either a fixed rate, a variable rate or a base rate-linked rate of interest;
- that has a maturity date prior to October 2052; and
- to which the purchase obligations of the seller set forth under “– **Repurchase of the loans under a mortgage account**” above shall not apply.

A mortgage will be subject to a further advance if, following a request from the borrower and the servicer (on behalf of the seller) agreeing to it, a further amount is lent to the borrower under the mortgage.

If the servicer (on behalf of the seller) agrees to any request regarding a product switch or further advance and if the loan which is the subject of the product switch or further advance is in the portfolio at such time, the seller pursuant to the terms of the mortgage sale agreement will agree that the loan will:

- as at the date of such product switch or further advance, materially comply with the representations and warranties set out in the mortgage sale agreement which are described earlier in this section under “– **Representations and warranties**”; and
- as of the next following trust calculation date, comply with each of the relevant conditions set forth below under “– **Conditions for product switches and further advances**” unless such loan is a permitted replacement loan, in which case the above condition will not apply.

If the loan, following such product switch or further advance, does not comply as required above, the seller will be required to repurchase such loan under the relevant mortgage account and its related security from the mortgages trustee at a price equal to its current balance on the date of such product switch or further advance being made.

It should be noted that, whilst the obligation on the seller to repurchase loans which no longer comply with the relevant eligibility criteria or materially with the representations and warranties is daily, reconciliation of the transfer of the related security will not occur until the next following trust calculation date. The mortgages trustee covenants in the mortgage sale agreement that it shall not deal with the related security corresponding to such ineligible loans other than on the instructions of the seller (acting through the servicer) during the period between such loan being repurchased by the seller and the legal requirements for the retransfer of the beneficial interest in its related security being completed on the next following trust calculation date.

The seller will be solely responsible for funding a further advance and the seller share of the trust property will increase by an amount equal to the advance made to the borrower. Neither the mortgages trustee nor Funding 1, nor any further Funding company if established, may themselves advance funds to the seller and/or the borrower for the purposes of funding a further advance in any circumstances.

#### ***Conditions for product switches and further advances***

In order for any loan which has been the subject of a product switch or a further advance to remain in the mortgages trust, the following conditions (which may be varied or waived by the mortgages trustee (subject to the prior notification by the rating agencies that the then current ratings of any notes (and any new notes, where applicable) will not be downgraded, withdrawn or qualified as a result of such variation or waiver)) must be complied with as of the trust calculation date immediately following the product switch or the making of the further advance:

- (a) *no event of default under the transaction documents (or event of default under the transaction documents of any further Funding company, where applicable) shall have occurred which is continuing or unwaived as at the relevant trust calculation date;*
- (b) *as at the relevant trust calculation date, the aggregate current balance of loans comprising the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans comprising the trust property at that date or such other percentage as the rating agencies confirm is sufficient in order that the then current ratings of the notes (and any new notes, where applicable) then outstanding are not downgraded, withdrawn or qualified;*
- (c) *the aggregate of amounts in arrears in respect of the loans comprising the mortgages trust, as a percentage of the gross interest due on all loans comprising the mortgages trust during the immediately preceding 12 months, does not exceed 2 per cent. or such other percentage that the rating agencies confirm is sufficient in order that the then current ratings of the notes (and any new notes, where applicable) then outstanding are not downgraded, withdrawn or qualified;*

- (d) as at the relevant trust calculation date, the adjusted general reserve fund level is equal to or greater than the general reserve required amount (and the equivalent condition is met in relation to each further Funding company, where applicable);
- (e) the mortgages trustee is not aware that the then current ratings of the notes (and any new notes, where applicable) then outstanding would be downgraded, withdrawn or qualified as a result of the relevant product switch and/or further advance remaining in the mortgages trust;
- (f) each loan and its related security which is the subject of a product switch and/or a further advance materially complies at the date of such product switch and/or further advance with the representations and warranties set out in the mortgage sale agreement, which are described earlier in this section in “– **Representations and warranties**”;
- (g) as a result of the relevant product switch and/or further advance remaining in the mortgages trust, on the relevant trust calculation date, the product of the WAFF and WALs for the loans comprising the trust property after such product switch and/or further advance calculated on such trust calculation date (in the same way as for the initial loans comprising the mortgages trust as at the initial closing date (or as agreed by the servicer and the rating agencies from time to time)) will not exceed the product of the WAFF and WALs for the loans comprising the trust property calculated on the initial closing date, plus 0.25 per cent.;
- (h) the yield of the loans in the trust property on the relevant trust calculation date is at least 0.40 per cent. greater than Sterling-LIBOR for three-month sterling deposits calculated on the immediately preceding Funding 1 interest payment date (in respect of the then current interest period), after taking into account the average yield on the loans which are variable rate loans, base rate loans and fixed rate loans and the margins on the Funding 1 swap(s) (and any relevant swap agreements of each further Funding company, where applicable), in each case as at the relevant trust calculation date;
- (i) as a result of the relevant product switch and/or further advance remaining in the trust property, on the relevant trust calculation date, the weighted average loan-to-value ratio of the loans, after application of the LTV test on the relevant trust calculation date, does not exceed the weighted average loan-to-value ratio (based on the LTV test), as determined in relation to the loans comprising the trust property on the initial closing date, plus 0.25 per cent.;
- (j) if the making of a product switch and/or further advance would result in a new loan type being included in the mortgages trust, then the Funding 1 security trustee (and any further Funding security trustee, where applicable) has previously received written confirmation from each of the rating agencies that the then current ratings of the notes (and any new notes, where applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of the loans which were subject to a product switch and/or further advance remaining in the trust property;
- (k) the Funding 1 swap agreement (and any swap agreement of each further Funding company, where applicable) has been modified if and as required (and, if appropriate, Funding 1 has entered into a new Funding 1 swap agreement or each further Funding company have entered into any new swap agreements) to hedge against the interest rates payable in respect of such product switches and/or further advances and the floating rate of interest payable on the intercompany loan; and
- (l) no trigger event has occurred on or before the relevant trust calculation date.

#### ***Transfer of legal title to the mortgages trustee***

Each sale of English loans and the Northern Irish loans and their respective related security to the mortgages trustee will be made by way of equitable assignment. Each sale of Scottish loans and their related security to the mortgages trustee will be made by way of Scottish declarations of trust under which the beneficial interest in such Scottish loans will be transferred to the mortgages trustee. Until the mortgages trustee has confirmed that it has received the requisite licence under

the CCA, the seller will hold such loans and their related security as are regulated by the CCA on trust absolutely for the mortgages trustee and the beneficiaries, following which they will be assigned to the mortgages trustee. This means that legal title to the loans and their related security will remain with the seller, until legal assignments or (in Scotland) assignations are delivered by the seller to the mortgages trustee and registered or recorded (as applicable) at the Land Registry of England and Wales or the Registers of Scotland or the Land Registry or the Registry of Deeds of Northern Ireland and notice of such assignments or assignations is given to the borrowers. Legal assignment or assignation of the loans and their related security (including, where appropriate, their registration or recording in the relevant property register) to the mortgages trustee will be deferred and will only take place, if at all, in the limited circumstances described below. See also “**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above.

Legal assignment or assignation of the loans and their related security to the mortgages trustee will be completed within 20 London business days of receipt of written notice from the mortgages trustee (as directed by Funding 1 and any further Funding companies and/or the Funding 1 security trustee and any further Funding security trustee) requesting that the seller take such actions. The mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee will each undertake that they will not make such a request unless any of the following events occur:

- (a) the service of an intercompany loan acceleration notice in relation to the intercompany loan or a note acceleration notice in relation to the notes (or equivalent events in relation to any new intercompany loans or new notes, where applicable);
- (b) the seller being required to perfect the mortgages trustee's legal title to the mortgages, by an order of a court of competent jurisdiction, or by a regulatory authority of which the seller is a member of any organisation whose members comprise but are not necessarily limited to mortgage lenders with whose instructions it is customary for the seller to comply;
- (c) it becoming necessary by law to take actions to perfect legal title to the mortgages;
- (d) the Funding 1 security (or the security granted to any further Funding security trustee, where applicable) or any material part of such security being, in the reasonable opinion of the Funding 1 security trustee (or such further Funding security trustee, where applicable) in jeopardy and the Funding 1 security trustee (or such further Funding security trustee, where applicable) deciding to take action to reduce materially that jeopardy;
- (e) the termination of the seller's role as servicer under the servicing agreement unless the rating agencies provide prior confirmation that the then current ratings of the notes (and any new notes, where applicable) will not be downgraded, withdrawn or qualified as a result of such termination;
- (f) the seller requesting perfection by serving notice on the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustees;
- (g) the occurrence of an insolvency event in relation to the seller; and
- (h) the latest final repayment date of the outstanding loan tranches under the intercompany loan (and any outstanding new loan tranches under any new intercompany loans, where applicable).

Pending completion of the transfer, the right of the mortgages trustee to exercise the powers of the legal owner of the mortgages is secured or, in relation to Scottish loans, supported by an irrevocable power of attorney granted by the seller in favour of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee.

If the seller ceases to have a long-term, unsecured, unsubordinated and unguaranteed credit rating by Fitch of at least BBB- and by Moody's of at least Baa3, or ceases to have a short-term, unsecured, unsubordinated and unguaranteed credit rating by Standard & Poor's of at least A-3 (unless Fitch, Moody's and Standard & Poor's confirm in writing to the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding company, any further Funding security trustee, the issuer and any new issuer that the then current ratings of the notes (and any new notes, where applicable) will not be downgraded, withdrawn or qualified), the seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the loans to the borrowers but will not be required to complete any other steps necessary to perfect legal title to the loans in favour of the mortgages trustee.

The title deeds (to the extent retained by the seller) and customer files relating to the loans are currently held by or to the order of the seller or by solicitors or licensed conveyancers or (in Scotland) qualified conveyancers acting for the seller in connection with the creation of the loans and their related security. The seller has undertaken that as of the initial closing date, all the title deeds (to the extent retained by the seller) and customer files relating to the loans in the portfolio which are at any time in its possession or under its control or held to its order will be held to the order of the mortgages trustee.

#### ***Reasonable, prudent mortgage lender***

Reference in the documents to the seller and/or the servicer acting to the standard of a **reasonable, prudent mortgage lender** means the seller and/or the servicer, as applicable, acting in accordance with the standards of a reasonably prudent residential mortgage lender lending to borrowers in England, Wales, Northern Ireland and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital.

#### ***Governing law***

The mortgage sale agreement is principally governed by English law, but contains certain Scots law and Northern Irish law provisions. The Scottish declarations of trust are and will be governed by Scots law.

#### ***The intercompany loan agreement***

On or about the initial closing date, the issuer, Funding 1, the issuer security trustee, the Funding 1 security trustee and the agent bank will enter into an intercompany loan agreement. The rights of Funding 1 in respect of the intercompany loan agreement will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge. The rights of the issuer in respect of the intercompany loan agreement will be assigned by way of security (and, to the extent not assignable, charged) to the issuer security trustee under the issuer deed of charge.

#### ***The facility***

Pursuant to the terms of the intercompany loan agreement, the issuer will lend to Funding 1 from time to time on the relevant closing date for each series and class of notes an aggregate amount in sterling equal to the proceeds of issue of such notes. Each such advance of funds will be a separate loan tranche under the intercompany loan agreement. Each loan tranche will relate to a particular series and class of notes. The loan tranche supplement to the intercompany loan agreement will contain the terms of each loan tranche. Funding 1 will use the proceeds of each loan tranche to:

- make an initial contribution to the mortgages trustee (which the mortgages trustee will use to pay the seller part of the consideration for loans (together with their related security) sold to the mortgages trustee in connection with the issuance of notes by the issuer, which will result in a corresponding increase in Funding 1's share of the trust property); or

- make a further contribution to the mortgages trustee (which the mortgages trustee will pay to a further Funding company (a **refinancing distribution**) or the seller (a **special distribution**), as the case may be, which will result in a corresponding decrease of such further Funding company's or the seller's share of the trust property, as the case may be, and a corresponding increase in Funding 1's share of the trust property); or
- fund or replenish the general reserve fund; or
- refinance an existing loan tranche or a new loan tranche (if any) made available to Funding 1.

#### ***Ratings designations of the loan tranches***

The designated loan tranche ratings of the loan tranches will be set out in the applicable loan tranche supplement. The designated loan tranche ratings of the AAA loan tranches will reflect the ratings expected to be assigned to any corresponding class A notes by the rating agencies on the relevant closing date except that money market notes will have different short-term ratings. The designated loan tranche ratings of the AA loan tranches will reflect the ratings expected to be assigned to any corresponding class B notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the A loan tranches will reflect the ratings expected to be assigned to any corresponding class M notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the BBB loan tranches will reflect the ratings expected to be assigned to any corresponding class C notes by the rating agencies on the relevant closing date. The designated loan tranche ratings of the BB loan tranches will reflect the ratings expected to be assigned to any corresponding class D notes by the rating agencies on the relevant closing date. The foregoing ratings assigned to a loan tranche are collectively referred to as the **loan tranche ratings**. If, after any closing date, the rating agencies change the rating assigned to a series and class of notes, this will not affect the loan tranche ratings of the related loan tranche under the intercompany loan agreement.

#### ***Issuance of loan tranches***

The issuer may advance loan tranches to Funding 1 and issue corresponding series and classes of notes from time to time without obtaining the consent of existing noteholders. The issuer will not be obliged to advance loan tranches to Funding 1 unless on the applicable closing date certain conditions have been met, including:

- that the related series and class of notes have been issued and the proceeds received by or on behalf of the issuer;
- that Funding 1 has delivered a certificate to the issuer and the issuer security trustee certifying that it is solvent;
- that each of the applicable transaction documents has been duly executed by the relevant parties to it;
- one or more deeds of accession relating to the Funding 1 deed of charge have been executed by or on behalf of the parties to the Funding 1 deed of charge; and
- one or more deeds of accession relating to the issuer deed of charge have been executed by or on behalf of the parties to the issuer deed of charge.

#### ***Representations and covenants***

Funding 1 will make several representations to the issuer in the intercompany loan agreement including representations that Funding 1 has been duly incorporated and that it has the requisite corporate power and authority to enter into the transaction documents to which it is a party.

In addition, Funding 1 will agree that:

- it will not create or permit to subsist any encumbrance, unless arising by operation of law, or other security interest over any of its assets other than pursuant to the transaction documents;

- it will not carry on any business or engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the transaction documents provide or envisage that Funding 1 will engage;
- it will not have any subsidiaries, any subsidiary undertakings, both as defined in the Companies Act 1985 as amended, or any employees or premises;
- it will not transfer, sell, lend, part with or otherwise dispose of all or any of its assets, properties or undertakings or any interest, estate, right, title or benefit therein other than as contemplated in the transaction documents;
- it will not pay any dividend or make any other distribution to its shareholders, other than in accordance with the Funding 1 deed of charge, and it will not issue any new shares;
- it will not incur any indebtedness in respect of any borrowed money or give any guarantee in respect of any indebtedness or of any obligation of any person whatsoever other than indebtedness contemplated by the transaction documents; and
- it will not enter into any amalgamation, demerger, merger or reconstruction, nor acquire any assets or business nor make any investments other than as contemplated in the transaction documents.

### ***Payments of interest***

Payment of interest and fees on each loan tranche will be made only from and to the extent of distributions by the mortgages trustee of amounts constituted from revenue receipts to Funding 1 in respect of the Funding 1 share of the trust property. Such payments of interest and fees will be made on Funding 1 interest payment dates in the priorities set forth in “**Cashflows**” below.

The interest rates applicable to the loan tranches from time to time will be determined by reference to LIBOR for three-month sterling deposits or, for some loan tranches, such other sterling LIBOR rate as may be specified in the applicable loan tranche supplement (other than, in each case, in respect of the first interest period) plus or minus, in each case, a margin which may differ for each separate loan tranche. The Funding 1 interest payment dates and the corresponding interest periods applicable to loan tranches will be quarterly for so long as the notes (other than the monthly payment notes) issued by the issuer have quarterly interest payment dates corresponding to the quarterly interest payment dates of the notes (other than the monthly payment notes) issued on the initial closing date. Thereafter, the Funding 1 interest payment dates and the corresponding interest periods will be monthly, although the interest rates applicable to the loan tranches will only be re-set quarterly on the Funding 1 interest payment date corresponding with the interest payment date on the corresponding series and class of the notes. The issuer will be required to hold any such monthly interest payments in the issuer GIC account to be held with the issuer account bank to be established by the issuer in such circumstances until the next interest payment date in respect of the corresponding class of notes. The loan tranche supplement for each loan tranche and the accompanying final terms sets out details relating to the Funding 1 interest payment dates and payment of interest on the loan tranches related to the corresponding series and class of notes issued.

Notwithstanding the foregoing, following the occurrence of a pass-through trigger event the interest rate applicable to the relevant loan tranche will be determined by reference to LIBOR for one-month sterling deposits plus or minus the applicable margin.

In addition, prior to enforcement of the Funding 1 security, Funding 1 will agree to pay an additional fee to the issuer on each Funding 1 interest payment date or otherwise when required. The fee on each Funding 1 interest payment date will be equal to the amount needed by the issuer to pay or provide for other amounts falling due, if any, to be paid to its creditors (other than amounts of interest and principal due on the notes and tax that can be met out of the issuer's profits) and a sum (in an amount up to 0.01 per cent. of the interest amount paid by Funding 1 to the issuer on the loan tranches on a Funding 1 interest payment date) to be retained by the issuer as profit. The fee will be paid by Funding 1 out of the Funding 1 available revenue receipts.



### ***Repayment of principal on the loan tranches***

Repayment of a loan tranche may be by way of bullet repayment, scheduled amortisation or on a pass-through basis. A loan tranche with a bullet repayment date is a loan tranche that is scheduled to be repaid in full on one Funding 1 interest payment date (a **bullet loan tranche**). A loan tranche with scheduled amortisation is a loan tranche that is scheduled to be repaid in instalments (each a **scheduled amortisation instalment**) on more than one Funding 1 interest payment date (a **scheduled amortisation loan tranche**). A loan tranche with pass-through repayment is a loan tranche that has no scheduled repayment date other than its final repayment date (a **pass-through loan tranche**). Loan tranches with pass-through repayment will be repaid on or after the Funding 1 interest payment date on which the loan tranches with the same series designation and a higher rating designation in respect of the series have been fully repaid.

Repayment of principal on the loan tranches will only be made from and to the extent of distributions by the mortgages trustee of amounts constituted from principal receipts to Funding 1 in respect of the Funding 1 share of the trust property.

The loan tranche supplement for each loan tranche and the accompanying final terms will set forth (i) the bullet repayment dates, (ii) the scheduled repayment dates or (iii) the final repayment date on which a pass-through loan tranche is scheduled to be paid, as applicable. Each such date will be the same as the equivalent dates for the corresponding series and class of notes.

A loan tranche (or part thereof) will become due on the earliest to occur of:

- any date specified in relation to such loan tranche in the applicable loan tranche supplement and accompanying final terms;
- the date upon which a trigger event occurs;
- the date upon which a note acceleration notice is served on the issuer under the notes;
- the date upon which an intercompany loan acceleration notice is served on Funding 1 under the Funding 1 deed of charge; and
- the date upon which a step-up date, if any, occurs in relation to the relevant loan tranche as specified in the applicable loan tranche supplement and accompanying final terms,

in each case subject to the applicable Funding 1 principal priority of payments.

In each case, when a loan tranche becomes due, it shall continue to be due until it is fully repaid. If there are insufficient funds available to repay a loan tranche on a Funding 1 interest payment date upon which that loan tranche has become or remains due, then the shortfall will be repaid on subsequent Funding 1 interest payment dates from Funding 1 available principal receipts until that loan tranche is fully repaid. You should note that in certain other circumstances payments on the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches will be deferred. See "**Cashflows – Distribution of Funding 1 available principal receipts**" below.

Funding 1 may, as a general matter, make a repayment of principal on a loan tranche if, following such repayment, each tier of loan tranches then outstanding retains its required amount of subordination. This general requirement is expressed in the repayment tests set out below in "**Cashflows – Distribution of Funding 1 available principal receipts**" which must be satisfied in respect of any repayment of principal on a loan tranche.

### ***Limited recourse***

Funding 1 will only be obliged to pay amounts to the issuer in respect of any loan tranche to the extent that it has funds to do so after making payments ranking in priority to amounts due on such loan tranches (including amounts due on loan tranches of a more senior ranking).

If, on or prior to the final repayment date of a loan tranche outstanding under the intercompany loan agreement, there is a shortfall between the amount of interest and/or principal due on that loan tranche and the amount available to Funding 1 to make that payment, then that shortfall shall not be due and payable to the issuer until the time (if ever) when Funding 1 has enough money available to pay the shortfall on that loan tranche (after making any other payments due that rank higher in priority to that loan tranche).

Following enforcement of the Funding 1 security and distribution of all proceeds of such enforcement in accordance with the terms of the Funding 1 deed of charge, all outstanding claims of the issuer and the Funding 1 security trustee against Funding 1 in respect of the intercompany loan will be extinguished.

#### ***Funding 1 intercompany loan events of default***

The intercompany loan agreement will contain events of default (each a **Funding 1 intercompany loan event of default**), which will include, among other things, the following events:

- a default by Funding 1 for a period of five London business days in the payment of any amount payable under the intercompany loan agreement (but subject to the limited recourse provisions described in this section);
- Funding 1 does not comply in any material respect with its obligations under any of the transaction documents (other than non-payment as set out in the preceding paragraph) and that non-compliance, if capable of remedy, is not remedied promptly and in any event within 20 London business days of Funding 1 becoming aware of its non-compliance or of receipt of written notice from the Funding 1 security trustee requiring Funding 1's non-compliance to be remedied; or
- an insolvency event occurs in relation to Funding 1 or it is, or becomes, unlawful for Funding 1 to perform its obligations under any of the transaction documents.

Investors should note that, as described in “– **Repayment of principal on the loan tranches**” and “– **Limited recourse**” above, it will not be an event of default under the intercompany loan agreement if default is made by Funding 1 in paying amounts due under the intercompany loan agreement where Funding 1 does not have the money available to make the relevant payment or where the repayment tests are not satisfied. The ability of the issuer to repay each series and class of notes will depend, among other things, upon payments received by the issuer from Funding 1 under the related loan tranches pursuant to the intercompany loan agreement. See “**Risk factors – Funding 1 is not obliged to make payments on the loan tranches if it does not have enough money to do so, which could adversely affect payments on the notes**” above.

If a Funding 1 intercompany loan event of default occurs and is continuing under the intercompany loan agreement, then the Funding 1 security trustee (subject to the terms of the Funding 1 deed of charge and to the Funding 1 security trustee being indemnified and/or secured to its satisfaction) will be entitled to deliver an acceleration notice to Funding 1 stating that the Funding 1 intercompany loan event of default has occurred and directing that all loan tranches outstanding under the intercompany loan agreement become immediately due and payable and/or that all loan tranches outstanding under the intercompany loan agreement become due and payable on the demand of the Funding 1 security trustee. Upon the service of an acceleration notice the Funding 1 security trustee may enforce the security created under the Funding 1 deed of charge (subject to the terms of the Funding 1 deed of charge).

#### ***New intercompany loan agreements***

New issuers may be established by Holdings for the purpose of issuing new notes to investors and using the proceeds thereof to make new intercompany loans to Funding 1 and/or further Funding companies. The issuance of such notes by any such new issuers and the making of the related new intercompany loans will only be permitted if certain conditions precedent are satisfied, including, among other things, that the ratings of the notes then outstanding issued by the issuer will not be reduced, withdrawn or qualified at the time of the issuance of such new notes by the new issuer. See “**Risk factors – If Funding 1 enters into new intercompany loans, such new intercompany loans and accompanying notes may be repaid prior to the intercompany loan and the notes**” and “**Risk factors – Other creditors may share in the same security granted by Funding 1 to the Funding 1 security trustee, and this may adversely affect payments on the notes**” above.

### **Governing law**

The intercompany loan agreement will be governed by English law.

### **Servicing agreement**

On the initial closing date, the servicer will be appointed by the mortgages trustee (on the direction of the seller and Funding 1) pursuant to the terms of the servicing agreement to administer the loans and their related security in the portfolio. The rights of Funding 1 in respect of the servicing agreement will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

In the future, further Funding companies and relevant Funding security trustees may adhere and accede to the servicing agreement, although there is no certainty that such an event or events will occur. Your consent will not be sought when any further Funding companies and relevant further Funding security trustees accede to the servicing agreement provided that the rating agencies confirm in writing that the current ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result.

The servicer will undertake that in its role as servicer it will comply with any proper directions and instructions that the mortgages trustee (as directed by the beneficiaries) may from time to time give to it in accordance with the provisions of the servicing agreement. The servicer is required to administer the loans and their related security in the following manner:

- in accordance with the servicing agreement; and
- as if the loans and mortgages had not been sold to the mortgages trustee but remained with the seller and in accordance with the seller's procedures and administration and enforcement policies as they apply to those loans from time to time.

The servicer's actions in servicing the loans in accordance with its procedures are binding on the mortgages trustee, Funding 1, the issuer, the Funding 1 secured creditors and the issuer secured creditors.

### **Powers**

Subject to the guidelines for servicing set forth in the preceding section, the servicer has the power, *inter alia*:

- to exercise the rights, powers and discretions of the mortgages trustee, the seller and Funding 1 in relation to the loans and their related security and to perform their duties in relation to the administration of the loans and their related security; and
- to do or cause to be done any and all other things which it reasonably considers necessary or convenient or incidental to the administration of the loans and their related security or the exercise of such rights, powers and discretions.

### **Undertakings by the servicer**

The servicer will undertake, *inter alia*, the following:

- (a) to maintain approvals, authorisations, permissions, consents, notifications and licences required in order properly to service the loans and their related security and to perform or comply with its obligations under the servicing agreement, and to prepare and submit all necessary applications and requests for any further approvals, authorisations, permissions, consents, notifications and licences required in connection with the provision of services under the servicing agreement, and in particular any necessary registrations under the Data Protection Act 1998, licences under the CCA and permissions under the FSMA;
- (b) to determine and set the variable rate, differential rate and any discretionary rate or margin applicable in relation to any loan in relation to the loans comprising the trust property except in the limited circumstances described in this paragraph (b) when the

mortgages trustee will be entitled to do so. It will not at any time, without the prior consent of the mortgages trustee, Funding 1 and any further Funding companies, set or maintain:

- (i) the variable rate at a rate which is higher than (although it may be lower than or equal to) the seller variable rate in relation to loans of a particular type beneficially owned by the seller outside the portfolio;
- (ii) the differential rate at a rate which is higher than (although it may be lower than or equal to) the seller differential rate in relation to loans of a particular type beneficially owned by the seller outside the portfolio; and
- (iii) any other discretionary rate or margin in respect of any other loan which is higher than (although it may be lower or equal to) the rate or margin which would then be set in accordance with the seller's policy from time to time in relation to that type of loan beneficially owned by the seller outside the portfolio except in certain circumstances.

In particular, the servicer shall also determine on each trust calculation date immediately preceding each Funding 1 interest payment date, having regard to the aggregate of:

- (A) the revenue which Funding 1 would expect to receive during the next succeeding Funding 1 interest period;
- (B) the variable rate, differential rate and any other discretionary rates or margins applicable in respect of the loans which the servicer proposes to set under the servicing agreement; and
- (C) the other resources available to Funding 1 (including the Funding 1 swap agreement, the general reserve fund, the liquidity reserve fund (if applicable) and the Funding 1 liquidity facility (if established)),

whether Funding 1 would receive an amount of revenue during the related Funding 1 interest period which when aggregated with the funds otherwise available to Funding 1 is less than the amount which is the aggregate of the amount of interest which will be payable by Funding 1 in respect of all AAA loan tranches and all amounts ranking higher in priority to such amounts on the Funding 1 interest payment date falling at the end of the related Funding 1 interest period.

If the servicer determines that there will be a shortfall in the foregoing amounts, it will give written notice to the mortgages trustee, the Funding 1 security trustee, any Funding companies and any further Funding security trustee, within two London business days of such determination, of the amount of the shortfall and the variable rate and/or the differential rate and/or any other discretionary rates or margins which would, in the servicer's reasonable opinion, need to be set in order for no shortfall to arise, having regard to the date(s) on which the change to the variable rate, the differential rate and any discretionary rates or margins would take effect and at all times acting in accordance with the standards of a reasonable, prudent mortgage lender as regards the competing interests of borrowers with variable rate loans, differential rate loans and other relevant loans. If the mortgages trustee and/or Funding 1 and/or the Funding 1 security trustee notify the servicer that, having regard to the obligations of Funding 1, the variable rate and/or the differential rate and/or any discretionary rates or margins should be increased, the servicer will take all steps which are necessary to increase the variable rate and/or the differential rate and/or any discretionary rates or margins including publishing any notice which is required in accordance with the mortgage terms. In these circumstances, the servicer will have the right to set the variable rate and/or the differential rate and/or any discretionary rates or margins.

The mortgages trustee, Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee, may terminate the authority of the servicer to determine and set the variable rate, the differential rate and any discretionary rates or margins on or after the occurrence of a servicer termination event,

as described below in “– **Termination of appointment of the servicer**”, in which case the mortgages trustee will set the variable rate, the differential rate and any discretionary rates or margins itself in accordance with this paragraph (b);

- (c) to the extent so required by the relevant mortgage terms and applicable law, to notify borrowers of any change in interest rates, whether due to a change in the variable rate, the differential rate and any discretionary rate or margin applicable to any other relevant loan or as a consequence of any provisions of the mortgage conditions or the offer conditions. It will also notify the mortgages trustee, the seller, Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee and of any change in the variable rate and/or the differential rate and/or any discretionary rate or margins;
- (d) to act as collection agent for the mortgages trustee and the beneficiaries for the purpose of collecting amounts due from borrowers under the loans and their related security. It will deliver to the bankers automated clearing system or to the mortgages trustee account bank such instructions as may be necessary for the debit of the account of each borrower in respect of which there is a direct debit mandate with the monthly payment due from such borrower and for the amount of such monthly payment to be credited to the mortgages trustee GIC account. Under certain circumstances, the alternative payment arrangements that ensure timely payment of monthly payments due from the borrower to the mortgages trustee may be agreed between the servicer and the borrower;
- (e) to execute all documents on behalf of the mortgages trustee, the seller, Funding 1 and any further Funding companies which are necessary or desirable for the efficient provision of services under the servicing agreement, including (but not limited to) documents relating to the discharge of mortgages comprised in the trust property;
- (f) to keep records and accounts on behalf of the mortgages trustee in relation to the loans and their related security;
- (g) to keep the customer files and title deeds (to the extent they are retained by the seller) in safe custody and maintain records necessary to enforce each mortgage. It will ensure that each title deed is capable of identification and retrieval and that each title deed is distinguishable from information held by the servicer for other persons. If the servicer's short-term, unsecured, unsubordinated and unguaranteed debt is rated lower than A-2 by Standard & Poor's, P-2 by Moody's and F2 by Fitch, it will use reasonable endeavours to ensure the customer files and title deeds are identified as distinct from customer files and title deeds which relate to loans held outside the trust property;
- (h) to provide the mortgages trustee, Funding 1 and any further Funding companies (and their auditors) and (if requested) the Funding 1 security trustee and any further Funding security trustee and any other person nominated by the beneficiaries with access to the title deeds and other records relating to the administration of the loans and mortgages;
- (i) to assist the cash manager in the preparation of a quarterly report substantially in the form set out in the cash management agreement which will include, *inter alia*, information on the loans and payments in arrears;
- (j) to take all reasonable steps, in accordance with the usual procedures undertaken by a reasonable, prudent mortgage lender, to recover all sums due to the mortgages trustee, in respect of the loans;
- (k) to enforce any loan which is in default in accordance with its enforcement procedures or, to the extent that the enforcement procedures are not applicable having regard to the nature of the default in question, with the usual procedures undertaken by a reasonable, prudent mortgage lender on behalf of the mortgages trustee;
- (l) to provide such other information to the Funding 1 security trustee, any further Funding security trustee and the mortgages trustee as reasonably requested by the Funding 1 security trustee, any further Funding security trustee or the mortgages trustee; and

- (m) not knowingly to fail to comply with any legal requirements in the performance of its obligations under the servicing agreement.

The requirement for any action to be taken according to the standards of a reasonable, prudent mortgage lender is as defined below in the "**Glossary**". For the avoidance of doubt, any action taken by the servicer to set variable rates, the differential rates and any applicable discretionary rates or margins which are the same or lower than that of the competitors of the seller will be deemed to be in accordance with the standards of a reasonable, prudent mortgage lender.

#### ***Compensation of the servicer***

The mortgages trustee will pay to the servicer an administration fee of 0.08 per cent. per annum (inclusive of any amounts in respect of VAT) on the aggregate amount of the trust property as determined on the trust calculation date in respect of the immediately preceding trust calculation period. The fee will be payable in arrear on each distribution date. Any unpaid balance will be carried forward until the next distribution date and, if not paid earlier, will be payable on the latest occurring final repayment date of a loan tranche outstanding under the intercompany loan or any latest occurring final repayment date of any new loan tranche under any new intercompany loan.

#### ***Resignation of the servicer***

Subject to the fulfilment of a number of conditions (including the appointment of a substitute servicer), the servicer may voluntarily resign by giving not less than 12 months' notice to the Funding 1 security trustee, any further Funding security trustee, the mortgages trustee and the beneficiaries. The substitute servicer is required to have experience in administering mortgages in the United Kingdom and must hold all approvals, authorisations, permissions, consents and licences required in connection with the provision of services under the servicing agreement and, in particular any necessary registrations under the Data Protection Act 1998, licence under the Consumer Credit Act 1974 and permissions under the FSMA. The substitute servicer must enter into a servicing agreement with the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustee substantially on the same terms as the relevant provisions of the servicing agreement (which shall, without limitation, include providing the same services as those provided by the servicer under the servicing agreement at the same (or a lesser) level of fees, costs and expenses as set out in the servicing agreement. It will be a further condition precedent to the resignation of the servicer that the then current ratings of the notes (and any new notes, where applicable) will not be downgraded, withdrawn or qualified as a result of the resignation, unless the noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution.

Neither the Funding 1 security trustee nor (where applicable) any further Funding security trustee, although party to the servicing agreement, will be obliged to or will act as servicer.

#### ***Termination of appointment of the servicer***

The mortgages trustee, Funding 1 and/or any further Funding company (in respect of Funding 1, with the consent of the Funding 1 security trustee and, in respect of any further Funding company, with the consent of the relevant further Funding security trustee) may, upon written notice to the servicer, terminate the servicer's rights and obligations immediately if any of the following events, each a **servicer termination event**, occurs:

- the servicer defaults in the payment of any amount due under the servicing agreement and fails to remedy that default for a period of five London business days after the earlier of becoming aware of the default and receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the default to be remedied;
- the servicer fails in the performance or observance of any of its other covenants or obligations under the servicing agreement which the Funding 1 security trustee and any further Funding security trustees have been directed by the respective issuer security trustees and the issuer security trustees have been directed by the respective note

trustees is, in the reasonable opinion of the note trustees, materially prejudicial to the noteholders and new noteholders and does not remedy that failure within 20 London business days after becoming aware of the failure or of receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding companies and/or the Funding 1 security trustee and further Funding security trustees requiring the servicer's non-compliance to be remedied; or

- an insolvency event occurs in relation to the servicer.

If the appointment of the servicer is terminated or the servicer resigns, the servicer must deliver the title deeds (to the extent retained by the seller) and customer files relating to the loans to, or at the direction of, the mortgages trustee. The servicing agreement will terminate when Funding 1 and each further Funding company has no interest in the trust property and the intercompany loan and/or any new intercompany loans made to Funding 1 and/or any new intercompany loans made to further Funding companies have been repaid in full.

#### ***Right of delegation by the servicer***

The servicer may sub-contract or delegate the performance of all or any of its powers and obligations under the servicing agreement, provided that it meets certain conditions as set out in the servicing agreement (including the prior written consent of Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee) and provided that the servicer is not released or discharged from any liability therefore and remains liable for the performance or non-performance or breach by any sub-contractor or delegate of the duties so sub-contracted or delegated under the servicing agreement.

The consent of Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee referred to in this prospectus will not be required in respect of any delegation to a wholly-owned subsidiary of Alliance & Leicester from time to time or to persons such as receivers, lawyers or other relevant professionals. None of the note trustee, the issuer security trustee, the Funding 1 security trustee, the mortgages trustee or Funding 1 will be obliged to act as servicer in any circumstances.

#### ***Liability of the servicer***

The servicer will indemnify the mortgages trustee and the beneficiaries against all losses, liabilities, claims, expenses or damages incurred as a result of fraud, negligence or wilful default by the servicer or any of its subcontractors in carrying out its functions under the servicing agreement or any other transaction document or as a result of a breach of the terms of the servicing agreement. If the servicer does breach the terms of the servicing agreement and thereby causes loss to the beneficiaries, then, for so long as the servicer is also the seller, the seller share of the trust property will be reduced by an amount equal to the loss.

#### ***Governing law***

The servicing agreement will be governed by English law.

#### ***Cash management agreement***

On the initial closing date, the cash manager, the mortgages trustee, the seller, Funding 1 and the Funding 1 security trustee will enter into a cash management agreement. The rights of Funding 1 in respect of the cash management agreement will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

The cash management agreement will make provision for the accession and adherence of any further Funding companies and the relevant further Funding security trustees, although there is no guarantee that any such event may occur. Your consent will not be sought when any further Funding company and the relevant further Funding security trustee accedes to the cash management agreement provided that the rating agencies confirm in writing that the then current ratings of the notes then outstanding will not be downgraded, qualified or withdrawn.

### ***Cash management services provided in relation to the mortgages trust***

The cash manager's duties in relation to the mortgages trust will include but are not limited to:

- (a) determining the current shares of Funding 1, each further Funding company and the seller in the trust property (including the weighted average Funding 1 share percentage, each further Funding company weighted average share percentage and the seller weighted average share percentage) in accordance with the terms of the mortgages trust deed;
- (b) maintaining the following ledgers on behalf of the mortgages trustee:
  - the Funding 1 share ledger, each further Funding company share ledger and the seller share ledger, which record the current shares of, Funding 1, each further Funding company and the seller, respectively, in the trust property;
  - the losses ledger, which records losses on the loans;
  - the principal ledger, which records principal receipts on the loans received by the mortgages trustee and payments of principal from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller;
  - the revenue ledger, which records revenue receipts on the loans received by the mortgages trustee and payments of revenue receipts from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller; and
  - a ledger which will record any further contribution made by a beneficiary to the mortgages trustee, whether or not such further contribution is in whole or part a refinancing contribution, and any special distribution or refinancing distribution made by the mortgages trustee following receipt of such further contribution or refinancing contribution;
- (c) calculating and distributing the mortgages trust available revenue receipts and the mortgages trust available principal receipts to Funding 1, each further Funding company and the seller in accordance with the terms of the mortgages trust deed;
- (d) arranging for payment of all sums (including costs and expenses) required or permitted to be paid by the mortgages trustee under any of the transaction documents;
- (e) providing the mortgages trustee, Funding 1, each further Funding company, the Seller, the rating agencies and (if requested) the Funding 1 security trustee and each further Funding security trustee with a quarterly report in relation to the mortgages trustee; and
- (f) investing amounts standing to the credit of the mortgages trustee GIC account and any other mortgages trustee account in authorised investments.

### ***Cash management services provided to Funding 1***

The cash manager's duties in relation to Funding 1 will include but are not limited to:

- (a) notifying the Funding 1 swap provider of the notional amount of the Funding 1 swap for the immediately previous trust calculation period no later than the trust calculation date;
- (b) four London business days before each Funding 1 interest payment date, determining:
  - the amount of Funding 1 available revenue receipts to be applied on the following Funding 1 interest payment date in accordance with the Funding 1 pre-acceleration revenue priority of payments;
  - the amount of Funding 1 available principal receipts to be applied on the following Funding 1 interest payment date in accordance with the Funding 1 pre-acceleration principal priority of payments;
  - the amount of any Funding 1 revenue deficit amount; and
  - the Funding 1 anticipated cash accumulation period;
- (c) if required, directing Funding 1 to make drawings under the liquidity reserve fund (if established) and/or the Funding 1 liquidity facility (if established);



- (d) maintaining the following ledgers on behalf of Funding 1:
- the Funding 1 principal ledger, which records the amount of Funding 1 principal receipts received by Funding 1 on each distribution date;
  - the Funding 1 revenue ledger, which records all other amounts received by Funding 1 on each distribution date;
  - the general reserve ledger, which records the amount credited to the general reserve fund from a portion of the proceeds of: (i) a Funding 1 start-up loan on a closing date; (ii) other amounts standing to the credit of the general reserve fund (but not exceeding the general reserve fund required amount); and (iii) all deposits and other credits in respect of the general reserve fund;
  - the principal deficiency ledger, which records principal deficiencies arising from losses on the loans which have been allocated to the Funding 1 share of the trust property or the use of Funding 1's principal receipts to cover any Funding 1 revenue deficit amount;
  - the intercompany loan ledger, which records payments of interest and repayments of principal made on each of the loan tranches under the intercompany loan;
  - the cash accumulation ledger, which records the amount accumulated by Funding 1 from time to time to pay the amounts due on bullet loan tranches and scheduled amortisation instalments;
  - the liquidity reserve ledger, which will record the amounts credited to the liquidity reserve fund from Funding 1 available revenue receipts and from Funding 1 available principal receipts up to the liquidity reserve fund required amount and drawings made under the liquidity reserve fund; and
  - a ledger in respect of the Funding 1 liquidity facility agreement (if established), which will record payments in accordance with the terms agreed in the Funding 1 liquidity facility agreement;
- (e) arranging for the payment of all sums (including costs and expenses) required or permitted to be paid by Funding 1 under any of the transaction documents;
- (f) investing amounts standing to the credit of the Funding 1 GIC account in authorised investments as determined by Funding 1, the cash manager and the Funding 1 security trustee;
- (g) making withdrawals from the general reserve fund as and when required;
- (h) applying the Funding 1 available revenue receipts and Funding 1 available principal receipts in accordance with the relevant Funding 1 priority of payments contained in the Funding 1 deed of charge; and
- (i) providing Funding 1, the mortgages trustee, the issuer, the issuer security trustee, the rating agencies and (if requested) the Funding 1 security trustee and each further Funding Security trustee with a quarterly report in relation to Funding 1.

***Compensation of cash manager***

The cash manager will be paid a fee as agreed from time to time with the mortgages trustee, the Funding 1 security trustee and Funding 1, which at the date of the cash management agreement shall be of 0.01 per cent. per annum of the aggregate outstanding principal amount of the intercompany loan (prior to any repayment of principal on its due date) for its services and will be paid by Funding 1 and/or the mortgages trustee in four instalments quarterly in arrears on each Funding 1 interest payment date occurring in January, April, July and October in each year in accordance with the Funding 1 deed of charge. The fee will be inclusive of any amounts in respect of VAT, and the aggregate amount payable in respect of such service will not be adjusted in the event of any change in the rate of VAT.

In addition, the cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The cash manager will be paid by the

mortgages trustee prior to distributions to Funding 1 and by Funding 1 prior to amounts due under the intercompany loan.

***Resignation of cash manager***

The cash manager may resign only on giving 12 months' written notice to Funding 1, the Funding 1 security trustee, any further Funding company, any further Funding security trustee and the mortgages trustee and provided:

- a substitute cash manager has been appointed and a new cash management agreement is entered into on substantially the same terms as the cash management agreement and satisfactory to the Funding 1 security trustee;
- such substitute cash manager has management experience and is approved by Funding 1, the Funding 1 security trustee, any further Funding company and any further Funding security trustee; and
- the then current ratings of the notes (and any new notes, where applicable) would not be downgraded, withdrawn or qualified as a result of that replacement (unless the relevant classes of noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution).

***Termination of appointment of cash manager***

Funding 1 and any further Funding company and/or the seller (with the prior written consent of the Funding 1 security trustee and any further Funding security trustee) may, upon written notice to the cash manager, terminate the cash manager's rights and obligations immediately if any of the following events occurs:

- the cash manager defaults in the payment of any amount due and fails to remedy the default for a period of five London business days after the earlier of becoming aware of the default or receipt of written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the default to be remedied;
- the cash manager fails to comply with any of its other obligations under the cash management agreement which, in the reasonable opinion of the note trustees, is materially prejudicial to the noteholders and any new noteholders and (if capable of remedy) does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure or receiving a written notice from the mortgages trustee and/or Funding 1 and any further Funding company and/or the Funding 1 security trustee and any further Funding security trustee requiring the cash manager's non-compliance to be remedied; or
- the cash manager suffers an insolvency event.

Upon termination of the appointment of the cash manager, Funding 1, any further Funding companies and/or the seller (with the prior written consent of the Funding 1 security trustee and any further Funding security trustees) will agree to use their reasonable endeavours to appoint a substitute cash manager. Any such substitute cash manager will be required to enter into a cash management agreement on substantially the same terms as the cash management agreement and the appointment of such substitute cash manager and all other documentation is conditional upon the rating agencies having previously confirmed in writing to the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies and any further Funding security trustees that the then current ratings of the notes (and any new notes, where applicable) will not be downgraded, withdrawn or qualified, as a result of the appointment (unless the noteholders (and any new noteholders, where applicable) otherwise agree by an extraordinary resolution).

If the appointment of the cash manager is terminated or it resigns, the cash manager must deliver its books of account (and any other information reasonably requested by the Funding 1 security trustee or any further Funding security trustee) relating to the loans and/or any monies held on behalf of the mortgages trustee, Funding 1, the Funding 1 security trustee, any further Funding companies or any further Funding security trustees to or at the direction of the mortgages trustee,

Funding 1, the Funding 1 security trustee, any further Funding company or any further Funding security trustee, as the case may be. The cash management agreement will terminate automatically when Funding 1 and/or any further Funding company have no further interest in the trust property and the intercompany loan and any new intercompany loans have been repaid or otherwise discharged.

### ***Governing law***

The cash management agreement will be governed by English law.

### ***Issuer cash management agreement***

The issuer cash manager will be appointed on the initial closing date by the issuer and the issuer security trustee to provide cash management services to the issuer pursuant to the issuer cash management agreement. The rights of the issuer in respect of the issuer cash management agreement will be assigned by way of security (and, to the extent not assignable, charged) to the issuer security trustee pursuant to the issuer deed of charge.

### ***Cash management services to be provided to the issuer***

The issuer cash manager's duties will include but are not limited to:

- (a) four London business days before each interest payment date, determining:
  - the amount of issuer revenue receipts to be applied to pay interest on the notes on the following interest payment date and to pay amounts due to other issuer secured creditors;
  - the amount of issuer principal receipts to be applied to repay the notes on the following interest payment date; and
  - such other amounts as are expressed to be calculations and determinations made by the issuer cash manager in accordance with the conditions of the notes;
- (b) applying issuer revenue receipts and issuer principal receipts in accordance with the relevant issuer priority of payments set out in the issuer cash management agreement or, as applicable, the issuer deed of charge;
- (c) providing the issuer, the issuer security trustee and the rating agencies with quarterly reports in relation to the issuer;
- (d) arranging payment of all fees to the London Stock Exchange or, as applicable, the FSA;
- (e) if necessary, performing all currency and interest rate conversions (whether it be a conversion from sterling to dollars or vice versa, sterling to euro or vice versa or sterling to another specified currency or vice versa or from floating rates of interest to fixed rates of interest or vice versa) free of charge, cost or expense at the relevant exchange rate; and
- (f) investing amounts standing to the credit of the issuer transaction account and the issuer share capital account and (if established) the issuer GIC account in authorised investments.

### ***Compensation of issuer cash manager***

The issuer cash manager will be paid a fee of 0.01 per cent. per annum of the sterling principal amount outstanding of the notes for its services which will be paid in four instalments quarterly in arrear on each interest payment date occurring in January, April, July and October in each year. The fee is inclusive of any amounts in respect of VAT, and the aggregate amount payable in respect of such service will not be adjusted in the event of any change in the rate of VAT.

In addition, the issuer cash manager will be entitled to be reimbursed for any expenses or other amounts properly incurred by it in carrying out its duties. The issuer cash manager will be paid by the issuer prior to amounts due on the notes.

### **Resignation of issuer cash manager**

The issuer cash manager may resign only on giving 12 months' written notice to the issuer security trustee and the issuer and provided the following conditions, *inter alia*, are met:

- the issuer and the issuer security trustee consent in writing to such termination;
- a substitute issuer cash manager has been appointed and a new issuer cash management agreement is entered into on substantially the same terms as the issuer cash management agreement and satisfactory to the issuer security trustee; and
- the ratings of the notes then outstanding would not be downgraded, withdrawn or qualified as a result of that replacement.

### **Termination of appointment of issuer cash manager**

The issuer or the issuer security trustee may, upon written notice to the issuer cash manager, terminate the issuer cash manager's rights and obligations immediately if any of the following events occurs:

- the issuer cash manager defaults in the payment of any amount due and fails to remedy the default for a period of five London business days after the earlier of the issuer cash manager becoming aware of the default or receipt by the issuer cash manager of written notice from the issuer and/or the issuer security trustee requiring the default to be remedied;
- the issuer cash manager fails to comply with any of its other obligations under the issuer cash management agreement which in the reasonable opinion of the note trustee, is materially prejudicial to the noteholders and does not remedy that failure within 20 London business days after the earlier of becoming aware of the failure or receiving a written notice from the issuer and/or the issuer security trustee requiring the issuer cash manager's non-compliance to be remedied; or
- the issuer cash manager suffers an insolvency event.

Upon termination of the appointment of the issuer cash manager, the issuer will agree to use its reasonable endeavours to appoint a substitute issuer cash manager. Any such substitute issuer cash manager will be required to enter into an issuer cash management agreement on substantially the same terms as the provisions of the issuer cash management agreement and the appointment of such substitute issuer cash manager and all other documentation is conditional upon the rating agencies having previously confirmed in writing to the issuer and the issuer security trustee that the then current ratings of the notes then outstanding will not be downgraded, withdrawn or qualified.

If the appointment of the issuer cash manager is terminated or it resigns, the issuer cash manager must deliver its books of account relating to the notes to or at the direction of the issuer security trustee. The issuer cash management agreement will terminate automatically when the notes have been fully redeemed.

### **Governing law**

The issuer cash management agreement will be governed by English law.

### **Funding 1 bank account agreement**

Pursuant to the terms of the Funding 1 bank account agreement to be entered into on the initial closing date between Funding 1, the Funding 1 account bank, the cash manager and the Funding 1 security trustee, Funding 1 will agree to maintain two bank accounts in England in its name with the Funding 1 account bank. These are:

- (a) the Funding 1 GIC account: the general reserve fund is credited to this account and on each distribution date the Funding 1 share of the mortgages trust available revenue receipts, any distribution of Funding 1 principal receipts to Funding 1 under the mortgages trust and any balance remaining in the Funding 1 cash accumulation ledger

are initially deposited in this account. On any date upon which payment is due, amounts required to meet Funding 1's obligations to its various creditors (including the issuer) are transferred to the Funding 1 transaction account; and

- (b) the Funding 1 transaction account: on each Funding 1 interest payment date, monies standing to the credit of the Funding 1 GIC account are, with the consent of the Funding 1 security trustee, transferred to the Funding 1 transaction account and applied by the cash manager in accordance with the relevant order for priority of payments of Funding 1. Amounts representing Funding 1's profits are retained in the Funding 1 transaction account.

If the Funding 1 account bank ceases to have the Funding 1 account bank ratings then either:

- the Funding 1 transaction account and the Funding 1 GIC account will be closed and all amounts standing to the credit thereof shall within 30 days of such occurrence be transferred to accounts held with a financial institution: (i) whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by Standard & Poor's, P-1 by Moody's and F1 by Fitch; and (ii) which is an authorised person under the FSMA unless the rating agencies then rating the notes confirm that the then current ratings of the notes then outstanding would not be downgraded, withdrawn or qualified; or
- the Funding 1 account bank will obtain a guarantee of its obligations under the Funding 1 bank account agreement from a financial institution whose short-term, unsecured, unsubordinated and unguaranteed debt obligations are rated at least A-1+ by Standard & Poor's, P-1 by Moody's and F1 by Fitch and the rating agencies then rating the notes confirm that the then current ratings of the notes then outstanding would not be downgraded, withdrawn or qualified.

The rights, benefit and interest of Funding 1 in respect of the Funding 1 bank account agreement will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

**The Funding 1 account bank ratings** means the short-term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1+ by Standard & Poor's, P-1 by Moody's and F1 by Fitch (provided that, if the aggregate amount on deposit in any account opened in the name of Funding 1 with the Funding 1 account bank, in the name of the mortgages trustee with the mortgages trustee account bank and in the name of the issuer with the issuer account bank is either less than 20 per cent. of the aggregate principal amount outstanding of the notes or, should such amount, be equal to or exceed 20 per cent. of such amount, the excess over such amount is held in such account for 30 days or less, then the short-term, unsecured, unsubordinated and unguaranteed ratings of the Funding 1 account bank required by Standard & Poor's shall be at least A-1).

Under the terms of the Funding 1 bank account agreement, the Funding 1 account bank has agreed to pay interest on the monies standing to the credit of the Funding 1 GIC account at a variable rate of interest of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

#### ***Governing law***

The Funding 1 bank account agreement will be governed by English law.

#### **Mortgages trustee bank account agreement**

The mortgages trustee will enter into the mortgages trustee bank account agreement with the mortgages trustee account bank, the cash manager, Funding 1 and the Funding 1 security trustee on substantially the same terms as the Funding 1 bank account agreement in relation to the mortgages trustee GIC account.

#### **Issuer bank account agreement**

On the initial closing date, the issuer will enter into the issuer bank account agreement with the issuer account bank, the issuer cash manager and the issuer security trustee on substantially

the same terms as the Funding 1 bank account agreement in relation to the issuer transaction account and the issuer share capital account. The issuer will be required to establish the issuer GIC account as a condition precedent to the issue of any notes with quarterly interest payment dates which do not correspond to the quarterly interest payment dates of the notes (other than the monthly payment notes) issued on the initial closing date, which will be subject of the issuer bank account agreement and be on similar terms to the Funding 1 GIC account. The rights, benefits and interests of the issuer under the issuer bank account agreement will be assigned by way of security (and, to the extent not assignable, charged) to the issuer security trustee under the issuer deed of charge. The issuer may, with the prior written consent of the issuer security trustee, open additional or replacement bank accounts.

### **Funding 1 start-up loan agreements**

On the initial closing date, Alliance & Leicester as the Funding 1 start-up loan provider will make available a Funding 1 start-up loan to Funding 1 under a Funding 1 start-up loan agreement. This will be a subordinated loan facility available in tranches in the amount set out in the applicable final terms accompanying this prospectus, which will be used for: (i) crediting the general reserve fund on the initial closing date by an amount specified in the applicable final terms accompanying this prospectus; (ii) meeting the costs and expenses incurred by Funding 1 in connection with its payment to the mortgages trustee in respect of the Funding 1 share of the trust property on the initial closing date; and (iii) paying the fees under the intercompany loan agreement which relate to the costs of issue in respect of the establishment of the programme and the issue of the notes on the initial closing date. The Funding 1 start-up loan provider will agree to be bound by any calculations and determinations made by the cash manager, the Funding 1 security trustee or the mortgages trustee, respectively. At any time after the initial closing date, additional Funding 1 start-up loan agreements may be entered into including in circumstances where further Funding companies are established.

The rights, benefit and interest of Funding 1 in respect of the Funding 1 start-up loan agreements will be assigned by way of security (and, to the extent not assignable, charged) to the Funding 1 security trustee under the Funding 1 deed of charge.

### ***Interest on the Funding 1 start-up loans***

Each Funding 1 start-up loan will bear interest at the variable rates of interest specified in the applicable final terms accompanying this prospectus. Any unpaid interest will be added to the principal amount owed on the Funding 1 start-up loan and will bear interest. Interest is payable by Funding 1 on each Funding 1 interest payment date.

### ***Repayment of the Funding 1 start-up loans***

Funding 1 will repay the Funding 1 start-up loans, but only to the extent that it has Funding 1 available revenue receipts after making higher ranking payments in the relevant Funding 1 priorities of payments (see further “– **Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments**” and “– **Funding 1 deed of charge – Funding 1 post-acceleration priority of payments**” below). Amounts due to the Funding 1 start-up loan provider are payable after amounts due on the loan tranches are repaid to the issuer. After Funding 1 has repaid the Funding 1 start-up loans, it will have no further recourse to the Funding 1 start-up loan provider.

### ***Event of default***

It will be an event of default under the Funding 1 start-up loan agreements if Funding 1 has Funding 1 available revenue receipts to pay amounts due to the Funding 1 start-up loan provider and it does not pay them.

The occurrence of an event of default under the Funding 1 start-up loan agreements may constitute an intercompany loan event of default as set out above in “– **The Intercompany loan agreement –Funding 1 intercompany loan events of default**”.

### ***Acceleration***

If any intercompany loan acceleration notice is served or if notice is given that the security granted by Funding 1 under the Funding 1 deed of charge is to be enforced, then the Funding 1 start-up loans will become immediately due and payable.

### ***Governing law***

The Funding 1 start-up loan agreements will be governed by English law.

### ***Funding 1 deed of charge***

Funding 1 will grant security for its obligations under the intercompany loan agreement, the Funding 1 start-up loan agreements, the Funding 1 swap agreement and the other transaction documents to which it is a party by entering into the Funding 1 deed of charge with the Funding 1 secured creditors on the initial closing date.

The Funding 1 deed of charge will have seven primary functions:

- it sets out the covenants of Funding 1;
- it creates security interests in favour of the Funding 1 security trustee which the Funding 1 security trustee then holds on trust for each of the Funding 1 secured creditors (including Funding 1 secured creditors that accede to the Funding 1 deed of charge in connection with further loan tranches under the intercompany loan or new loan tranches under new intercompany loans);
- it sets out the order in which the cash manager applies money received by Funding 1 prior to enforcement of the security;
- it sets out the enforcement procedures relating to a default by Funding 1 on its covenants under the transaction documents (including provisions relating to the appointment of a receiver);
- it sets out the order in which the Funding 1 security trustee applies money received by Funding 1 after the service of an intercompany loan acceleration notice on Funding 1;
- it sets out the appointment of the Funding 1 security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- it sets out how new creditors of Funding 1 can accede to the terms of the Funding 1 deed of charge.

If Funding 1 enters into new intercompany loan agreements with new issuers, then the new issuers (together with any new Funding 1 start-up loan providers and any new Funding 1 swap providers) will enter into deeds of accession in relation to the Funding 1 deed of charge which may, depending on the type of notes to be issued, require amendments, amongst other things, to any of the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments and the Funding 1 post-acceleration priority of payments. Any such new issuers which accede to the Funding 1 deed of charge will share in the security granted by Funding 1. This means that any other applicable creditors of Funding 1 will share in the security granted by Funding 1 under the Funding 1 deed of charge with the Funding 1 secured creditors existing as at the initial closing date. Consent of existing Funding 1 secured creditors and issuer secured creditors will not be sought in relation to the accession of any new issuer and/or other applicable creditors of Funding 1.

### ***Covenants of Funding 1***

The Funding 1 deed of charge contains covenants made by Funding 1 in favour of the Funding 1 security trustee on trust for the benefit of itself, any receiver of Funding 1 and the Funding 1 secured creditors.

### ***Funding 1 security***

Under the Funding 1 deed of charge, Funding 1 will create the following security interests in favour of the Funding 1 security trustee for and on behalf of the Funding 1 secured creditors (the

**Funding 1 security**) in respect of its obligations under the intercompany loan agreement, the start-up loan agreements, the Funding 1 swap agreement and the other transaction documents to which it is a party:

- an assignment by way of security of or, to the extent not assignable, a charge over (which is likely to take effect as a floating charge) the Funding 1 share of the trust property;
- an assignment by way of security of or, to the extent not assignable, a charge over (which is likely to take effect as a floating charge) all of its rights in the transaction documents to which Funding 1 is a party from time to time;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of any amount standing to the credit of the Funding 1 accounts and all interest paid or payable in respect of those amounts and all debts represented by those amounts;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of its rights in respect of all authorised investments made by or on behalf of Funding 1 using moneys standing to the credit of the Funding 1 accounts and all interest, moneys and proceeds paid or payable in relation to those authorised investments; and
- a first floating charge over all of Funding 1's undertaking and all its property and assets (including, without limitation, its uncalled capital) not otherwise effectively charged or assigned (but extending over any property, assets and undertaking of Funding 1 situated in Scotland or the rights to which are governed by Scots law).

#### ***Nature of security – fixed charge***

Whether a fixed security interest expressed to be created by the Funding 1 deed of charge will be upheld under English law and Northern Irish law as a fixed security interest rather than floating security will depend, among other things, on whether the Funding 1 security trustee has the requisite degree of control over the chargors' ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Funding 1 security trustee in practice. However, it is likely that the Funding 1 security trustee does not exert sufficient control over the accounts of Funding 1 for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised as a floating charge if the proceeds thereof are paid into a bank account over which the Funding 1 security trustee is not deemed to have sufficient control. Such is likely to be the case in respect of the security (other than the floating charge) referred to in this section. Under Scots law there is no equivalent concept of fixed charges taking effect as floating charges.

#### ***Nature of security – floating charge***

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing Funding 1 to deal with those assets and to give third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of Funding 1's business. Any of Funding 1's assets acquired after the initial closing date (including assets acquired as a result of the disposition of any other asset of Funding 1), which are not subject to the fixed charges mentioned in this section will also be subject to the floating charge.

The existence of the floating charge will allow the Funding 1 security trustee to appoint an administrative receiver of Funding 1 as long as the capital markets exemption is available. The main advantage of the Funding 1 security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of Funding 1 by one of Funding 1's other creditors which allows the Funding 1 security trustee to control proceedings in the event Funding 1's other creditors seek such action.



The interest of the Funding 1 secured creditors in property and assets over which there is a floating charge only will rank behind the expenses of any liquidation or any administration and the claims of certain preferential creditors on enforcement of the Funding 1 security. This means that the expenses of any liquidation or any administration and preferential creditors will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the issuer under the intercompany loan agreement. Section 250 of the Enterprise Act and Section 6 of the Insolvency (Northern Ireland) Order 2005 abolishes crown preference in relation to all insolvencies (and thus reduces the categories of preferential debts that are to be paid in priority to the debts due to the holder of a floating charge). For a description of the nature of floating charges created after 15 September 2003, in particular the ranking of creditors see “– **Issuer deed of charge – Nature of security – floating charge**” below.

The floating charge created by the Funding 1 deed of charge may “crystallise” and become a fixed charge over the relevant class of assets owned by Funding 1 at the time of crystallisation. Crystallisation will occur automatically following the occurrence of specific events set out in the Funding 1 deed of charge, including, among other events, notice to Funding 1 from the Funding 1 security trustee following an intercompany loan event of default, except in relation to Funding 1’s Scottish assets where crystallisation will occur only on the appointment of an administrative receiver or on the commencement of the winding-up of Funding 1. A crystallised floating charge will rank ahead of the claims of unsecured creditors but will continue to rank behind the expenses of any liquidation or any administration and the claims of preferential creditors (as referred to in this section) on enforcement of the Funding 1 security.

#### ***Funding 1 pre-acceleration priority of payments***

The Funding 1 deed of charge will set out the priority of distribution by the cash manager, as at the initial closing date and prior to the service of an intercompany loan acceleration notice on Funding 1, of amounts standing to the credit of the Funding 1 transaction account on each Funding 1 interest payment date. This priority is described below in “**Cashflows – distribution of Funding 1 available revenue receipts**” and “**Cashflows – distribution of Funding 1 available principal receipts**”.

#### ***Following the creation of new intercompany loan agreements***

Where new issuers make new loan tranches available to Funding 1, those new issuers (together with any new Funding 1 start-up loan providers and any new Funding 1 swap providers) will enter into deeds of accession in relation to the Funding 1 deed of charge which will amend the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments (including those priorities of payments applying if a trigger event occurs or if a note acceleration notice is served on one or more of the issuers) and the Funding 1 post-acceleration priority of payments to reflect the amounts due to the new issuer, any new Funding 1 start-up loan provider and any new Funding 1 swap provider. The ranking of those new amounts due will be as follows:

- subject to the rules regarding the application of Funding 1 principal receipts by Funding 1 (see “**Cashflows – Distribution of Funding 1 available principal receipts – The rules**” below), all amounts due and payable to the issuer and any new issuers will be paid, subject to their relevant repayment dates, in descending order of the respective ratings of the loan tranches and new loan tranches with the highest loan tranche rating will be paid first and the loan tranches and new loan tranches with the lowest loan tranche rating will be paid last;
- all Funding 1 swap providers will rank *pari passu* and *pro rata* to the respective amounts due to them; and
- all Funding 1 start-up loan providers will rank *pari passu* and *pro rata* to the respective amounts due to them.

Other creditors of Funding 1 may from time to time become Funding 1 secured creditors by signing a deed of accession. The prior consent of the noteholders, Funding 1 secured creditors existing at that time and the other issuer secured creditors will not be sought in relation to the

accession of a new issuer or other relevant creditor to the Funding 1 deed of charge. The Funding 1 deed of charge directs the Funding 1 security trustee to execute any deed of accession for and on behalf of the Funding 1 secured creditors, provided that the new issuer shall have certified in writing to the Funding 1 security trustee that the conditions precedent to the creation of a new intercompany loan have been satisfied.

### ***Enforcement***

The Funding 1 deed of charge will set out the general procedures by which the Funding 1 security trustee may take steps to enforce the Funding 1 security so that the Funding 1 security trustee can protect the interests of each of the Funding 1 secured creditors.

The Funding 1 deed of charge will provide that, when exercising its powers, trusts, authorities, duties and discretions (including acceleration of the intercompany loan and/or enforcement of the security), the Funding 1 security trustee shall act only at the request or direction of the issuer security trustee and if it is indemnified or secured to its satisfaction. The issuer security trustee will only act at the request or direction of the note trustee and if it is indemnified and/or secured to its satisfaction.

The Funding 1 security will become enforceable upon the service of an intercompany loan acceleration notice under the intercompany loan, provided that, if the Funding 1 security has become enforceable otherwise than by reason of a default in payment of any amount due in respect of the AAA loan tranches, the Funding 1 security trustee will not be entitled to dispose of all or part of the assets comprised in the Funding 1 security unless either:

- it is advised by an investment bank that a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding 1; or
- the Funding 1 security trustee is of the sole opinion that the cashflow expected to be received by Funding 1 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 Funding 1, to discharge in full over time all amounts owing in respect of all AAA loan tranches and all prior ranking amounts due by Funding 1.

Each of the Funding 1 secured creditors will agree under the Funding 1 deed of charge that they will not take steps directly against Funding 1 for any amounts owing to them, unless the Funding 1 security trustee has become bound to enforce the Funding 1 security but has failed to do so within 30 days of becoming so bound.

### ***Funding 1 post-acceleration priority of payments***

The Funding 1 deed of charge will set out the priority of distribution as at the initial closing date by the cash manager, following service of an intercompany loan acceleration notice, of amounts standing to the credit of the Funding 1 transaction account on any interest payment date and by the Funding 1 security trustee, following enforcement of the Funding 1 security, of amounts received or recovered by the Funding 1 security trustee or a receiver appointed on its behalf on any date. This priority is described in "**Cashflows – distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**" below.

### ***Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee***

The Funding 1 security trustee will be appointed to act as security trustee on behalf of the Funding 1 secured creditors on the terms and conditions of the Funding 1 deed of charge. It will hold the benefit of the Funding 1 security on trust for each of the Funding 1 secured creditors in accordance with the terms and conditions of the Funding 1 deed of charge.

The Funding 1 security trustee may, without the consent or sanction of the other Funding 1 secured creditors (save where they are party to the transaction document which is the subject of such modification where their actual consent shall be required), concur with any person in making or sanctioning any modifications to the transaction documents if directed or requested by the issuer security trustee, which in turn is directed or requested by the note trustee, provided that:

- the note trustee is of the opinion acting reasonably that such modification will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion in relation to any class of the noteholders or the modification is a basic terms modification, it has been directed or requested by an extraordinary resolution of such class of the noteholders; or
- the note trustee is of the opinion that such modification is made to correct a manifest or proven error or an error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee will be entitled to assume that the exercise of its discretions will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the notes then outstanding would not be downgraded, withdrawn or qualified by such exercise.

In addition, the note trustee will give its consent to any modifications to any transaction document, that are requested by Funding 1 (or the cash manager, on its behalf) or the issuer (or the issuer cash manager on its behalf) provided that Funding 1 (or the cash manager on its behalf) or the issuer (or the issuer cash manager on its behalf) certifies to the note trustee in writing that such modifications are required in order to accommodate (among other things):

- (i) any loan tranches to be advanced to Funding 1 under the intercompany loan and/or the issue of any notes by the issuer;
- (ii) new intercompany loan agreements of Funding 1 or any further Funding companies and/or the issue of new notes by the issuer or any new issuer;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);
- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the general reserve required amount and/or any additional amounts for the purposes of an arrears or step-up trigger event and/or the liquidity reserve fund required amount and/or the manner in which each of such amounts are funded;
- (viii) the establishment of the Funding 1 liquidity facility; and/or
- (ix) changes to the asset trigger events and non-asset trigger events;

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (ix) above, the note trustee has received written confirmation from each of the rating agencies that as a result of the relevant modifications the then current ratings of the notes will not be downgraded, withdrawn or qualified.

#### ***Funding 1 security trustee's fees and expenses***

Funding 1 shall reimburse the Funding 1 security trustee for all its costs and expenses properly incurred in acting as security trustee pursuant to the Funding 1 deed of charge. The Funding 1 security trustee shall be entitled to a fee payable annually in the amount agreed from time to time by the Funding 1 security trustee and Funding 1. Funding 1 will agree to indemnify the Funding 1 security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or

- the Funding 1 security trustee's engagement as security trustee pursuant to the Funding 1 deed of charge,

which it or any of its officers, employees or advisers may suffer as a result of Funding 1 failing to perform any of its obligations.

Funding 1 will not be responsible under the Funding 1 deed of charge for any liabilities, losses, damages, costs or expenses resulting from fraud, negligence or wilful default by the Funding 1 security trustee or any of its officers, employees or advisers or breach by them of the terms of the Funding 1 deed of charge.

#### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the Funding 1 security trustee may retire after giving three months' notice in writing to Funding 1. In order to be eligible to act as *Funding 1 security trustee, such successor security trustee must agree to be bound by the terms of the Funding 1 deed of charge and must meet the applicable eligibility requirements under the Funding 1 deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set forth in the Investment Company Act.* If within 60 days of having given notice of its intention to retire, Funding 1 has failed to appoint a replacement security trustee, the outgoing Funding 1 security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the Funding 1 deed of charge, and further provided that such rating agencies confirm that the then current ratings of the notes then outstanding shall not be downgraded, withdrawn or qualified as a result of such appointment).

Funding 1 may remove the Funding 1 security trustee at any time provided that it has the consent of the issuer security trustee which in turn has the consent of the note trustee, which must not be unreasonably withheld or delayed, to the removal.

In addition, the Funding 1 security trustee may, subject to conditions specified in the Funding 1 deed of charge, appoint a co-trustee to act jointly with it.

#### ***Additional provisions of the Funding 1 deed of charge***

The Funding 1 deed of charge will contain a range of provisions regulating the scope of the Funding 1 security trustee's duties and liabilities. These will include the following:

- the Funding 1 security trustee is not responsible for the adequacy or enforceability of the Funding 1 deed of charge or the security interests created thereby or any other transaction document;
- the Funding 1 security trustee is not required to exercise its powers under the Funding 1 deed of charge without being directed to do so by the issuer security trustee;
- the Funding 1 security trustee may rely (without investigation or further inquiry) on documents provided by the mortgages trustee, Funding 1 and the cash manager, the ratings agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reference;
- the Funding 1 security trustee is not required to monitor compliance by Funding 1 with the transaction documents or whether an intercompany loan event of default under the intercompany loan has occurred;
- the Funding 1 security trustee will be taken not to have knowledge of the occurrence of an intercompany loan event of default under the intercompany loan unless the Funding 1 security trustee has received written notice from a Funding 1 secured creditor stating that an intercompany loan event of default has occurred and describing that intercompany loan event of default;
- any action taken by the Funding 1 security trustee under the Funding 1 deed of charge or any transaction document binds all of the Funding 1 secured creditors;
- each Funding 1 secured creditor must make its own independent investigations, without reliance on the Funding 1 security trustee, as to the affairs of Funding 1;

- the Funding 1 security trustee generally has no liability under or in connection with the Funding 1 deed of charge or any other transaction document, whether to a Funding 1 secured creditor or otherwise, other than to the extent to which (1) the liability is able to be satisfied in accordance with the Funding 1 deed of charge out of the property held by it on trust under the Funding 1 deed of charge and (2) it is actually indemnified for the liability, unless the liability has arisen due to the Funding 1 security trustee's or any of its officers', employees' or advisers' fraud, negligence or wilful misconduct or breach of the terms of the Funding 1 deed of charge; and
- the Funding 1 security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of Funding 1 security.

The Funding 1 security trustee has had no involvement in the preparation of any part of this prospectus, other than any particular reference to the Funding 1 security trustee. The Funding 1 security trustee expressly disclaims and takes no responsibility for any other part of this prospectus. The Funding 1 security trustee makes no statement or representation in this prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The Funding 1 security trustee does not guarantee the performance of the notes or the payment of principal or interest on the notes.

### ***Governing law***

The Funding 1 deed of charge will be governed by English law, provided that any terms which are particular to Northern Irish law or Scots law shall be construed in accordance with the laws of Northern Ireland and Scotland respectively.

### ***Issuer deed of charge***

The issuer will provide security for its obligations by entering into the issuer deed of charge with the issuer secured creditors.

The issuer deed of charge will have five primary functions:

- it sets out covenants of the issuer;
- it creates security interests in favour of the issuer security trustee which the issuer security trustee then holds on trust for each of the issuer secured creditors;
- it sets out the enforcement procedures relating to a default by the issuer of its covenants under the transaction documents (including the appointment of a receiver);
- it sets out the order in which the issuer security trustee applies monies standing to the credit of the issuer accounts following the service of a note acceleration notice on the issuer; and
- it sets out the appointment of the issuer security trustee, its powers and responsibilities and the limitations on those responsibilities.

### ***Covenants of the issuer***

The issuer deed of charge will contain covenants made by the issuer in favour of the issuer security trustee on trust for the benefit of itself, any receiver of the issuer and the issuer secured creditors.

### ***Issuer security***

Under the issuer deed of charge, the issuer will create the following security interests in favour of the issuer security trustee for and on behalf of the issuer secured creditors in respect of its obligations:

- an assignment by way of security of or, to the extent not assignable, a charge over (which is likely to take effect as a floating charge) all of the issuer's rights under the transaction documents to which it is a party, including the intercompany loan agreement, the Funding 1 deed of charge, the issuer swap agreements, any issuer swap guarantees, the paying agent and agent bank agreement, the programme agreement, any subscription agreement(s), the issuer corporate services agreement, the issuer bank account agreement, the issuer cash management agreement and the note trust deed;

- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of issuer's rights in respect of any amount standing to the credit of the issuer accounts and all interest paid or payable in respect of those amounts and all debts represented by those amounts;
- a first ranking fixed charge (which is likely to take effect as a floating charge) over all of the issuer's rights in respect of all authorised investments made by or on behalf of the issuer using moneys standing to the credit of the issuer accounts and all interest, moneys and proceeds paid or payable in relation to those authorised investments; and
- a first floating charge over all of the issuer's undertaking and all its property and assets (including, without limitation, its uncalled capital) not otherwise effectively charged or assigned (but extending over all of the issuer's property, assets and undertaking situated in Scotland or the rights to which are governed by Scots law).

#### ***Nature of security – fixed charge***

Whether a fixed security interest expressed to be created by the issuer deed of charge will be upheld under English law and Northern Irish law as a fixed security interest rather than floating security will depend, among other things, on whether the issuer security trustee has the requisite degree of control over the chargors' ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the issuer security trustee in practice. However, it is likely that the issuer security trustee does not exert sufficient control over the accounts of the issuer for the charges over those accounts to take effect as fixed charges. In addition, any assignment, charge or security granted over an asset which is expressed to be a fixed charge may be characterised a floating charge if the proceeds thereof are paid into a bank account over which the issuer security trustee is not deemed to have sufficient control. Such may be the case in respect of the security (other than the floating charge) referred to in this section. Under Scots law there is no equivalent concept of fixed charges taking effect as floating charges.

#### ***Nature of security – floating charge***

Unlike the fixed charges, the floating charge does not attach to specific assets but instead "floats" over a class of assets which may change from time to time, allowing the issuer to deal with those assets and to give third parties title to those assets free from any encumbrance in the event of sale, discharge or modification, provided those dealings and transfers of title are in the ordinary course of the issuer's business. Any assets acquired by the issuer after the initial closing date (including assets acquired as a result of the disposition of any other assets of the issuer) which are not subject to fixed charges mentioned in this section (including all of the issuer's Scottish assets) will also be subject to the floating charge.

The existence of the floating charge will allow the issuer security trustee to appoint an administrative receiver of the issuer as long as the capital markets exemption is available. The main advantage of the issuer security trustee being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator of the issuer by one of the issuer's other creditors which allows the issuer security trustee to control proceedings in the event the issuer's other creditors seek such action. However, see "**Risk factors – Changes of law may adversely affect your interests**" above relating to the appointment of administrative receivers.

The interest of the issuer secured creditors in property and assets over which there is a floating charge will rank behind the expenses of any liquidation or administration and the claims of certain preferential creditors on enforcement of the issuer security. This means that the expenses of any liquidation or any administration and the claims of preferential creditors will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to the noteholders. Section 250 of the Enterprise Act (and the equivalent Section 6 of the Insolvency (Northern Ireland) Order 2005) 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 a new Section 176A of the Insolvency Act (as inserted by Section 251 of the Enterprise Act and the equivalent Section 7 of the Insolvency (Northern Ireland) Order 2005) 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 liquidation or 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.

The floating charge created by the issuer 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. Except in relation to the issuer's Scottish assets, crystallisation will occur automatically following the occurrence of specific events set out in the issuer deed of charge, including, among other events, service of a note acceleration notice. In relation to the issuer's Scottish assets, crystallisation will occur only on the appointment of an administrative receiver or on the commencement of the winding-up of the issuer. A crystallised floating charge will rank ahead of the claims of unsecured creditors which are in excess of the prescribed part, but will rank behind the expenses of any liquidation or administration, the claims of preferential creditors (as referred to in this section) and the beneficiaries of the prescribed part on enforcement of the issuer security.

### **Enforcement**

If at any time the issuer security becomes enforceable, the note trustee may (for so long as any notes remain outstanding) instruct the issuer security trustee to take such steps as it may think fit to enforce the issuer security. The issuer security trustee is not bound to take such steps unless it is so directed by the note trustee (for so long as any notes remain outstanding) and indemnified and/or secured to its satisfaction.

The issuer security will become enforceable at any time following the service of a note acceleration notice on the issuer or, if there are no notes outstanding, following a default in payment of any other secured obligation of the issuer, provided that, if a note acceleration notice is served on the issuer other than due to a default in payment of any amount due on the notes, the issuer security trustee will not be entitled to dispose of all or part of the assets comprised in the issuer security unless either:

- a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of the class A notes or, if the class A notes have been fully repaid, the class B notes or, if the class B notes have been fully repaid, the class M notes or, if the class M notes have been fully repaid, the class C notes or, if the class C notes have been fully repaid, the class D notes; or
- the issuer security trustee is of the sole opinion that the cashflow expected to be received 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 over time all amounts owing in respect of the class A notes or, if the class A notes have been fully repaid, the class B notes or, if the class B notes have been fully repaid, the class M notes or, if the class M notes have been fully repaid, the class C notes or, if the class C notes have been fully repaid, the class D notes and all prior ranking amounts due by the issuer.

Each of the issuer secured creditors (other than the noteholders, the note trustee acting on behalf of the noteholders and the issuer security trustee) will agree under the issuer deed of charge that they will not take steps directly against the issuer (other than in accordance with the transaction documents) for any amounts owing to them, unless the issuer security trustee has become bound to enforce the issuer security but has failed to do so within 30 business days of becoming so bound.

### ***Issuer post-acceleration priority of payments and issuer priority of payments following an intercompany loan acceleration notice***

The issuer deed of charge will set out the priority of distribution by the issuer cash manager, following service of a note acceleration notice and/or an intercompany loan acceleration notice, of amounts standing to the credit of the issuer transaction account and (if established) the issuer GIC account or, as the case may be, by the issuer security trustee, following enforcement of the issuer security, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf). These orders of priority are described in "**Cashflows**" below.

***Appointment, powers, responsibilities and liabilities of the issuer security trustee***

The issuer security trustee will be appointed to act as security trustee on behalf of the issuer secured creditors on the terms and conditions of the issuer deed of charge. It will hold the benefit of the security created by the issuer deed of charge on trust for each of the issuer secured creditors in accordance with the terms and conditions of the issuer deed of charge.

The issuer security trustee may concur or direct the Funding 1 security trustee to concur with any person in making any modifications to the transaction documents only if so directed or requested by the note trustee, provided that:

- the note trustee is of the opinion that such modification will not be materially prejudicial to the interests of the noteholders or, if it is not of that opinion in relation to any class of the noteholders or the modification is a basic terms modification, it has been directed or requested by an extraordinary resolution of such class of the noteholders; or
- the note trustee is of the opinion that such modification is being made to correct a manifest or proven error established as such to the satisfaction of the note trustee or is of a formal, minor or technical nature.

The note trustee will be entitled to assume that the exercise of its rights, powers, duties and discretions will not be materially prejudicial to the interests of the noteholders if each of the rating agencies has confirmed that the then current rating by it of the notes then outstanding would not be downgraded, withdrawn or qualified by such exercise.

In addition, the note trustee will give its consent to any modifications to any transaction document, that are requested by Funding 1 (or the cash manager, on its behalf) or the issuer (or the issuer cash manager on its behalf) provided that Funding 1 (or the cash manager on its behalf) or the issuer (or the issuer cash manager on its behalf) certifies to the note trustee in writing that such modifications are required in order to accommodate (among other things):

- (i) any loan tranches to be advanced to Funding 1 under the intercompany loan and/or the issue of any notes by the issuer;
- (ii) new intercompany loan agreements of Funding 1 or any further Funding companies and/or the issue of new notes by the issuer or any new issuer;
- (iii) the addition of other relevant secured creditors of the issuer, Funding 1, any new issuer or any further Funding company;
- (iv) the accession of further Funding companies as beneficiaries to the mortgages trust deed;
- (v) the issue (directly or indirectly) of debt by Funding 1 and/or any further Funding company (other than as referred to in paragraphs (i) and (ii) above);
- (vi) the sale of new types of loans to the mortgages trustee;
- (vii) changes to the general reserve required amount and/or any additional amounts for the purposes of an arrears or step-up trigger event and/or the liquidity reserve fund required amount and/or the manner in which each of such amounts are funded;
- (viii) the establishment of the Funding 1 liquidity facility; and/or
- (ix) changes to the asset trigger events and non-asset trigger events;

and provided further that:

- in respect of the matters listed in paragraphs (i), (iv) and (vi) above, Funding 1, the cash manager, the issuer and/or the issuer cash manager certify to the note trustee in writing that the relevant conditions precedent have been satisfied; and
- in respect of the matters listed in paragraphs (i) to (ix) above, the note trustee has received written confirmation from each of the rating agencies that as a result of the relevant modifications the then current ratings of the notes will not be downgraded, withdrawn or qualified.

***Issuer security trustee's fees and expenses***

The issuer will reimburse the issuer security trustee for all its costs and expenses properly incurred in acting as issuer security trustee. The issuer security trustee shall be entitled to a fee payable on such dates and in the amount agreed from time to time by the issuer security trustee



and the issuer. The issuer has agreed to indemnify the issuer security trustee and each of its officers, employees and advisers from and against all claims, actions, proceedings, demands, liabilities, losses, damages, costs and expenses arising out of or in connection with:

- the transaction documents; or
- the issuer security trustee's engagement as security trustee pursuant to the issuer deed of charge,

which it or any of its officers, employees or advisers may suffer as a result of the issuer failing to perform any of its obligations.

The issuer will not be responsible under the issuer deed of charge for any liabilities, losses, damages, costs or expenses resulting from the fraud, negligence or wilful default on the part of the issuer security trustee or any of its officers, employees and advisers or breach by them of the terms of the issuer deed of charge.

### ***Retirement and removal***

Subject to the appointment of a successor security trustee, the issuer security trustee may retire after giving three months' notice in writing to the issuer. In order to be eligible to act as issuer security trustee, such successor security trustee must agree to be bound by the terms of the issuer deed of charge and must meet the applicable eligibility requirements under the issuer deed of charge, including the requirement that it satisfies the minimum capitalisation and other applicable conditions in regards to trustee eligibility set out in the Investment Company Act. If, within 60 days of having given notice of its intention to retire, the issuer has failed to appoint a replacement security trustee, the outgoing issuer security trustee will be entitled to appoint its successor (provided that such successor is acceptable to the rating agencies and agrees to be bound by the terms of the issuer deed of charge, and further provided that rating agencies confirm that the then current ratings of the notes then outstanding shall not be either downgraded, withdrawn or qualified as a result of such appointment).

The issuer may remove the issuer security trustee at any time providing that it has the consent, which must not be unreasonably withheld or delayed, of the note trustee to the removal.

In addition, the issuer security trustee may, subject to the conditions specified in the issuer deed of charge, appoint a co-trustee to act jointly with it.

### ***Additional provisions of the issuer deed of charge***

The issuer deed of charge will contain a range of provisions regulating the scope of the issuer security trustee's duties and liability. These will include the following:

- the issuer security trustee will, if reasonably practicable, give prior written notification to the seller of the issuer security trustee's intention to enforce the issuer security (although any failure to so notify will not prejudice the ability of the issuer security trustee to enforce the issuer security);
- the issuer security trustee is not responsible for the adequacy or enforceability of the issuer deed of charge or the security interests created thereby or any other transaction document;
- the issuer security trustee is not required to exercise its powers under the issuer deed of charge or the transaction documents unless:
  - (i) whilst the notes are outstanding, it has been directed or requested to do so by the note trustee in accordance with **condition 10** (see "**Terms and conditions of the notes**" below); or
  - (ii) following the redemption of the notes, it has been directed to do so by any other issuer secured creditor;

provided that, in each case, it is indemnified and/or secured to its satisfaction;

- the issuer security trustee may rely (without investigation or further inquiry) on documents provided by the issuer, the issuer cash manager, the issuer swap providers, the agent bank, the paying agents, the registrar, the exchange rate agent, the transfer agent, the

issuer account bank, the issuer corporate services provider, the rating agencies and the advice of consultants and advisers and shall not be liable for any loss or damage arising as a result of such reliance;

- the issuer security trustee is not required to monitor whether a note event of default has occurred or compliance by the issuer with the transaction documents;
- the issuer security trustee will be taken not to have knowledge of the occurrence of a note event of default unless the issuer security trustee has received written notice stating that a note event of default has occurred;
- the issuer security trustee may rely (without investigation or further inquiry) on any instructions or directions given to it by the note trustee as being given on behalf of the relevant class of noteholders without inquiry about compliance with the note trust deed and shall not be liable for any loss or damage arising as a result of such reliance;
- the issuer security trustee has no duties or responsibilities except those expressly set out in the issuer deed of charge or the transaction documents;
- any action taken by the issuer security trustee under the issuer deed of charge or any of the transaction documents binds all of the issuer secured creditors;
- each issuer secured creditor must make its own independent investigations, without reliance on the issuer security trustee, as to the affairs of the issuer and whether or not to request that the issuer security trustee take any particular course of action under any transaction document;
- the issuer security trustee in a capacity other than as issuer security trustee can exercise its rights and powers as such as if it were not acting as the issuer security trustee;
- the issuer security trustee and its affiliates may engage in any kind of business with the issuer or any of the issuer secured creditors as if it were not the issuer security trustee and may receive consideration for services in connection with any transaction document or otherwise without having to account to the issuer secured creditors;
- the issuer security trustee has no liability under or in connection with the issuer deed of charge or any other transaction document, whether to an issuer secured creditor or otherwise, (1) other than to the extent to which the liability is able to be satisfied in accordance with the issuer deed of charge out of the property held by it on trust under the issuer deed of charge and (2) it is actually indemnified for the liability, unless such liability has arisen due to its or any of its officers', employees' or advisers' fraud, negligence, wilful misconduct or breach of the terms of the issuer deed of charge; and
- the issuer security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of issuer security.

The issuer security trustee has had no involvement in the preparation of any part of this prospectus, other than any particular reference to the issuer security trustee. The issuer security trustee expressly disclaims and takes no responsibility for any other part of this prospectus. The issuer security trustee makes no statement or representation in this prospectus, has not authorised or caused the issue of any part of it and takes no responsibility for any part of it. The issuer security trustee does not guarantee the success of the notes or the payment of principal or interest on the notes.

### ***Governing law***

The issuer deed of charge will be governed by English law, provided that any terms which are particular to Northern Irish or Scots law shall be construed in accordance with the laws of Northern Ireland and Scotland respectively.

### ***Swap agreements***

Funding 1 will, on the initial closing date, enter into the Funding 1 swap agreement with Alliance & Leicester (as the Funding 1 swap provider). The issuer will enter into issuer swaps with the issuer swap providers. In general, the swaps are designed to do the following:

- Funding 1 swap: to hedge against the possible variance between the mortgages trustee variable rate in respect of the variable rate loans, the Bank of England base rate in respect of the base rate loans and the fixed rates of interest payable on the fixed rate loans on the one hand and a LIBOR-based rate for three-month sterling deposits on the other hand;
- issuer dollar currency swaps: to protect the issuer against changes in the sterling to U.S. dollar exchange rate following the relevant closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and either (i) a LIBOR-based rate for one-month dollar deposits applicable to the relevant class of notes, (ii) a LIBOR-based rate for three-month dollar deposits applicable to the relevant class of notes or (iii) a LIBOR-based rate for such other period of dollar deposits applicable to the relevant class of notes, in each case as specified in the accompanying final terms, and to address the difference in timing between the interest payment dates in respect of loan tranches under the intercompany loan, which may occur monthly or quarterly, and the interest payment dates in respect of a particular class of notes which may occur monthly, quarterly or otherwise, in each case as specified in the accompanying final terms;
- issuer euro currency swaps: to protect the issuer against changes in the sterling to euro exchange rate following the relevant closing date and the possible variance between a LIBOR-based rate for three-month sterling deposits and either (i) a EURIBOR-based rate for one-month euro deposits applicable to the relevant class of notes, (ii) a EURIBOR-based rate for three-month euro deposits applicable to a class of notes or (iii) a EURIBOR-based rate for such other period of euro deposits applicable to the relevant class of notes, in each case as specified in the accompanying final terms, and to address the difference in timing between the interest payment dates in respect of loan tranches under the intercompany loan which may occur monthly or quarterly, and the interest payment dates in respect of the relevant class of notes which may occur monthly, quarterly or otherwise, in each case as specified in the accompanying final terms;
- other currency swaps: to protect the issuer following the relevant closing date against changes in the sterling to the specified currency exchange rate (if not euro or dollars) and the possible variance between a LIBOR-based rate for three-month sterling deposits and a rate for three-month deposits relating to such currency, and to address the difference in timing between the interest payment dates in respect of loan tranches under the intercompany loan, which may occur monthly or quarterly, and the interest payment dates in respect of a particular class of notes which may occur monthly, quarterly or otherwise, in each case as specified in the accompanying final terms; and
- issuer interest rate swap agreements: in addition to the issuer currency swaps outlined in the bullet points above, if the issuer issues sterling notes which are fixed rate notes from time to time, it will enter into issuer interest rate swap transactions in order to hedge its exposure to potential mismatches between the floating rate of interest payable under the Funding 1 intercompany loan and the fixed rates of interest payable by the issuer under those notes.

#### ***Funding 1 swap agreement***

Some of the loans in the portfolio pay a variable rate of interest for a period of time which may be linked to the mortgages trustee variable rate, a variable interest rate other than the mortgages trustee variable rate or such as a rate set by reference to the Bank of England base rate. Other loans pay a fixed rate of interest for a period of time and may pay a differential rate. However, the interest rate payable by Funding 1 with respect to the loan tranches under the intercompany loan agreement is calculated as a margin over LIBOR for three-month sterling deposits. To provide a hedge against the possible variance between:

- (a) the mortgages trustee variable rate in respect of the variable rate loans (including discount loans and stepped discount loans), the Bank of England base rate in respect of the base rate loans and the fixed rates of interest payable on the fixed rate loans; and
- (b) a LIBOR-based rate for three-month sterling deposits,

Funding 1, the Funding 1 swap provider and the Funding 1 security trustee will enter into the Funding 1 swap agreement on the initial closing date (and may amend and restate such Funding 1 swap agreement on each subsequent closing date), such that the Funding 1 swap will:

- have a notional amount that is sized to hedge against any potential interest rate mismatches in relation to the notes which remain outstanding; and
- provide for the notional amount to be increased as appropriate to hedge against similar potential interest rate mismatches in relation to any new series and class of notes.

The Funding 1 swap does not provide a hedge against the actual rates on the variable rate loans or base rate loans, since the Funding 1 swap is intended to hedge against the possible variance between the underlying basis of calculation of the variable rate loans and base rate loans (without taking into account any discounts applied to such basis) on the one hand and a LIBOR-based rate for three-month sterling deposits on the other hand. Accordingly, the issuer remains exposed to the level of discount applied to the variable rate loans and base rate loans.

Under the Funding 1 swap, on each trust calculation date the following amounts will be calculated:

- the amount produced by applying LIBOR for three-month sterling deposits (as determined in respect of the corresponding interest period under the loan tranches) plus a blended spread for the immediately preceding trust calculation period to the notional amount of the Funding 1 swap (known as the **trust calculation period swap provider amount**) (such spread being the sum of the spreads applicable to fixed rate loans, variable rate loans and base rate loans and including certain upfront fees that have been paid by the borrowers to the originator when the mortgages were first originated); and
- the amount produced by applying a rate equal to the weighted average of:
  - (i) the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans as published from time to time, after excluding the highest and the lowest rate, of Abbey National plc, Barclays Bank PLC, Halifax plc, Lloyds TSB Bank plc, National Westminster Bank Plc, Nationwide Building Society and Northern Rock plc (and where those banks have more than one standard variable rate, the highest of those rates);
  - (ii) the Bank of England base rate for the base rate loans; and
  - (iii) the rates of interest payable on the fixed rate loans;

for the immediately preceding trust calculation period to the notional amount of the Funding 1 swap (known as the **trust calculation period Funding 1 amount**).

On each Funding 1 interest payment date the following amounts will be calculated:

- the sum of each of the trust calculation period swap provider amounts calculated during the preceding interest period; and
- the sum of each of the trust calculation period Funding 1 amounts calculated during the preceding interest period.

After these two amounts are calculated in relation to a Funding 1 interest payment date, the following payments will be made on that Funding 1 interest payment date:

- if the first amount is greater than the second amount, then the Funding 1 swap provider will pay the difference to Funding 1;
- if the second amount is greater than the first amount, then Funding 1 will pay the difference to the Funding 1 swap provider; and
- if the two amounts are equal, neither party will make a payment to the other.

If a payment is to be made by the Funding 1 swap provider, that payment will be included in the Funding 1 available revenue receipts and will be applied on the relevant Funding 1 interest payment date according to the relevant priority of payments of Funding 1. If a payment is to be made by Funding 1, it will be made according to the relevant priority of payments of Funding 1.

The **notional amount of the Funding 1 swap** in respect of a trust calculation period will be an amount in sterling equal to:

- the aggregate principal amount outstanding of all loan tranches under the intercompany loan agreement during the relevant trust calculation period, less
- the balance of the principal deficiency ledger attributable to all loan tranches during the relevant trust calculation period, less
- the amount of the principal receipts in the Funding 1 GIC account attributable to all loan tranches during the relevant trust calculation period.

In the event that the Funding 1 swap is terminated prior to the service of an intercompany loan acceleration notice or the latest occurring final repayment date of any loan tranche advanced under the intercompany loan, Funding 1 shall enter into a replacement Funding 1 swap on terms acceptable to the rating agencies, with the Funding 1 security trustee and with a swap provider whom the rating agencies have previously confirmed in writing to Funding 1, the Funding 1 security trustee, the issuer and the issuer security trustee will not cause the then current ratings of the notes then outstanding to be downgraded, withdrawn or qualified. If Funding 1 is unable to enter into a replacement Funding 1 swap on terms acceptable to the rating agencies, this may affect amounts available to pay interest on the loan tranches under the intercompany loan agreement.

### ***Issuer swap agreements***

#### ***Issuer currency swap agreements***

The loan tranches under the intercompany loan agreement will be denominated in sterling and interest payable by Funding 1 to the issuer under the loan tranches is calculated as a margin over LIBOR for three-month sterling deposits. However, some of the notes will be denominated in U.S. dollars and will accrue interest at either a USD LIBOR-based rate for one-month U.S. dollar deposits, a USD LIBOR-based rate for three-month U.S. dollar deposits or such other rate specified in the accompanying final terms. Other notes will be denominated in euro and will accrue interest at either a EURIBOR-based rate for one-month euro deposits, a EURIBOR-based rate for three-month euro deposits or such other rate specified in the accompanying final terms. Other notes will be denominated in another currency (other than sterling, U.S. dollars or euro) as specified in the accompanying final terms and will accrue interest at such rate specified in the accompanying final terms. To deal with the potential currency mismatch between (i) its receipts and liabilities in respect of the loan tranches and (ii) its receipts and liabilities under the notes, the issuer will, pursuant to the terms of the issuer swap agreements in respect of each series, swap its receipts and liabilities in respect of the relevant loan tranches on terms that match the issuer's obligations under the relevant series of notes.

On the issue date of any series of notes, the issuer will pay to the relevant issuer swap provider the issue proceeds of any U.S. dollar notes, euro notes or notes denominated in any other specified currency (other than sterling) and the relevant issuer swap provider will pay to the issuer the equivalent amount in sterling, converted by reference to the dollar currency exchange rate or euro current exchange rate or such other currency exchange rate, as applicable.

The currency amount of each issuer swap will be the principal amount outstanding under the series of notes to which the relevant issuer swap relates. Subject, in the case of the issuer's obligations under certain classes of notes, to certain deferral of interest provisions that will apply when payment of interest under the corresponding notes is deferred in accordance with the terms and conditions of such notes, the issuer swap providers will pay to the issuer amounts in U.S. dollars, euro or such other relevant specified currency, as applicable, that are equal to the amounts of interest to be paid on each of the classes of the notes of the relevant series and the issuer will pay to the issuer swap providers the sterling interest amounts received on the loan tranches corresponding to the classes of notes of the relevant series. In order to allow for the effective currency amount of each issuer swap to amortise at the same rate as the relevant series and class of notes, each issuer swap agreement will provide that, as and when the notes amortise, a corresponding portion of the currency amount of the relevant issuer swap will amortise. Pursuant to each issuer swap agreement, any portion of issuer swap so amortised will be swapped from sterling into U.S. dollars at the relevant U.S. dollar currency exchange rate, into euro at the euro currency exchange rate or into such other relevant specified currency at the relevant specified currency exchange rate, as applicable.

On the final maturity date of each class of notes or, if earlier, the date on which such notes are redeemed in full (other than pursuant to **condition 5.6** under "**Terms and conditions of the**

notes" below), the relevant issuer swap provider will pay to the issuer an amount in U.S. dollars, euro or such other relevant specified currency, as applicable, equal to the principal amount outstanding under the relevant notes and the issuer will pay to the relevant issuer swap provider an equivalent amount in sterling, converted by reference to the dollar currency exchange rate, euro currency exchange rate or such other relevant specified currency exchange rate, as applicable. If the issuer does not have sufficient principal available pursuant to the issuer cash management agreement to pay such amount in full on such date and accordingly pays only a part of such amount to the relevant issuer swap provider, the relevant issuer swap provider will be obliged on such date to pay only the equivalent of such partial amount in U.S. dollars, euro or such other relevant specified currency, as applicable, in each case converted by reference to the dollar currency exchange rate, euro currency exchange rate or such other relevant specified currency exchange rate, as applicable.

In the event that any issuer currency swap is terminated prior to the service of a note acceleration notice or the final redemption of the relevant series of U.S. dollar denominated, euro denominated notes or such other specified currency denominated notes, as applicable, the issuer shall enter into a replacement currency swap in respect of that class and series of notes. Any replacement currency swap must be entered into on terms acceptable to the rating agencies, the issuer and the issuer security trustee and with a replacement issuer swap provider whom the rating agencies have previously confirmed in writing to the issuer and the issuer security trustee will not cause the then current ratings of the notes then outstanding of the relevant series to be downgraded, withdrawn or qualified. If the issuer is unable to enter into any replacement currency swaps on terms acceptable to the rating agencies, this may affect amounts available to pay amounts due under the notes.

If an issuer swap agreement is terminated and the issuer is unable to enter into a replacement swap as described above, then any payments received by the issuer from Funding 1 on each Funding 1 interest payment date shall be deposited in the issuer bank account (or such other account opened for this purpose) and applied by the issuer to repay the notes on each interest payment date after exchanging at the "spot" rate the relevant proceeds from sterling into U.S. dollars, euros or such other relevant specified currency as required.

#### *Issuer interest rate swap agreements*

Interest payable by Funding 1 to the issuer under the loan tranches under the intercompany loan agreement is calculated as a margin over LIBOR for three-month sterling deposits. However, some of the sterling notes will accrue interest at a fixed rate of interest. To deal with the potential interest rate mismatch between (i) its receipts and liabilities in respect of the loan tranches and (ii) its receipts and liabilities under the sterling fixed rate notes, the issuer will, pursuant to the terms of the issuer swap agreements in respect of each series of sterling fixed rate notes, swap its receipts and liabilities in respect of the relevant loan tranches on terms that match the issuer's obligations under the relevant series of notes.

The notional amount of each issuer interest rate swap will be the principal amount outstanding under the series of notes to which the relevant issuer interest rate swap relates. Subject, in the case of the issuer's obligations under certain classes of notes, to certain deferral of interest provisions that will apply when payment of interest under the corresponding notes is deferred in accordance with the terms and conditions of such notes, on each interest payment date in respect of the notes the following amounts will be calculated:

- (a) the amount produced by applying LIBOR for three-month sterling deposits to the notional amount; and
- (b) the amount produced by applying the fixed rate payable in respect of the sterling fixed rate notes to the notional amount.

After these amounts are calculated in respect of each interest rate swap and an interest payment date, the following payments will be made on that interest payment date:

- (i) if the amount determined under paragraph (a) above is greater than the amount determined under paragraph (b), then the issuer will pay the difference to the relevant issuer interest rate swap provider;

- (ii) if the amount determined under paragraph (b) above is greater than the amount determined under paragraph (a), then the relevant issuer interest rate swap provider will pay the difference to the issuer; or
- (iii) if the amount determined under paragraph (a) above is equal to the amount determined under paragraph (b), then neither party will make a payment to the other.

In the event that any issuer interest rate swap is terminated prior to the service of a note acceleration notice or the final redemption of the relevant series of notes, the issuer shall enter into a replacement interest rate swap in respect of that class and series of notes. Any replacement interest rate swap must be entered into on terms acceptable to the rating agencies, the issuer and the issuer security trustee and with a replacement interest rate swap provider whom the rating agencies have previously confirmed in writing to the issuer and the issuer security trustee will not cause the then current ratings of the notes of the relevant series to be downgraded, withdrawn or qualified. If the issuer is unable to enter into any replacement interest rate swaps on terms acceptable to the rating agencies, this may affect amounts available to pay amounts due under the notes.

#### ***Ratings downgrade of swap providers***

Under each of the swap agreements, in the event that the relevant rating(s) of a swap provider, or its respective guarantor, as applicable, is or are, as applicable, downgraded by a rating agency below the rating(s) specified in the relevant swap agreement (in accordance with the requirements of the rating agencies) for such swap provider, and, if applicable, as a result of the downgrade, the then current ratings of the notes, in respect of the Funding 1 swap, or the notes corresponding to the relevant issuer swap, in respect of the relevant issuer swap, would or may, as applicable, be adversely affected, the relevant swap provider will, in accordance with the Funding 1 swap or the relevant issuer swap, as applicable, be required to take certain remedial measures which may include providing collateral for its obligations under the relevant swap, arranging for its obligations under the relevant swap to be transferred to an entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency), procuring another entity with rating(s) required by the relevant rating agency as specified in the relevant swap agreement (in accordance with the requirements of the relevant rating agency) to become co-obligor or guarantor, as applicable, in respect of its obligations under the relevant swap or taking such other action as it may agree with the relevant rating agency.

#### ***Termination of the swaps***

Any swap agreement may also be terminated in certain other circumstances, including the following, each referred to as a **swap early termination event**:

- at the option of one party to the swap agreement, if there is a failure by the other party to pay any amounts due under that swap agreement and any applicable grace period has expired;
- in respect of the issuer swaps, at the option of the relevant issuer swap provider, if an event of default under the notes occurs and the note trustee serves a note acceleration notice;
- in respect of the Funding 1 swap, at the option of the Funding 1 swap provider, if an event of default under the intercompany loan occurs and the Funding 1 security trustee serves an intercompany loan acceleration notice;
- in respect of the issuer swaps, at the option of either party, if a redemption or purchase of the relevant series and class of notes occurs pursuant to **conditions 5.5 and 5.6** under "**Terms and conditions of the notes**" below;
- at the option of the issuer (in the case of an issuer swap), if certain tax representations by the relevant issuer swap provider respectively prove to have been incorrect or misleading in any material respect;
- at the option of the Funding 1 swap provider or relevant issuer swap provider, if certain insolvency events occur with respect to the issuer (in the case of an issuer swap) or Funding 1 (in the case of the Funding 1 swap);

- at the option of the issuer (in the case of an issuer swap) or Funding 1 (in the case of the Funding 1 swap), upon the occurrence of an insolvency of the Funding 1 swap provider or the relevant issuer swap provider (or, where the relevant issuer swap provider is located in a jurisdiction in which counsel recommend that the swap terminates automatically, without the option of the issuer to elect for termination), or its guarantor, or the merger of the Funding 1 swap provider or the relevant issuer swap provider without an assumption of its obligations under the relevant swap agreement, or if a material misrepresentation is made by the Funding 1 swap provider or the relevant issuer swap provider under the relevant swap agreement, or if the Funding 1 swap provider or relevant issuer swap provider defaults under an over-the-counter derivatives transaction under another agreement between the Funding 1 and the Funding 1 swap provider or the issuer and such relevant issuer swap provider, or if a breach of a provision of the relevant swap agreement by the Funding 1 swap provider or the relevant issuer swap provider is not remedied within the applicable grace period, or, if applicable, if the guarantor of the Funding 1 swap provider or the relevant issuer swap provider fails to comply with its obligations under the guarantee;
- if a change in law results in the obligations of one of the parties becoming illegal;
- at the option of the relevant issuer swap provider but subject to obtaining the consent of the issuer security trustee, if a deduction or withholding for or on account of any taxes is imposed on payments made by the issuer swap provider under the issuer swap due to a change in law; and
- if the Funding 1 swap provider or the relevant issuer swap provider or its guarantor, as applicable, is downgraded and fails to comply with the requirements of the ratings downgrade provision contained in the relevant swap agreement and described above under “– **Ratings downgrade of swap providers**”.

Upon the occurrence of a swap early termination event, the issuer or the relevant issuer swap provider may be liable to make a termination payment to the other (in the case of an issuer swap) and/or Funding 1 or the Funding 1 swap provider may be liable to make a termination payment to the other (in the case of the Funding 1 swap). 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 as determined on the basis of quotations sought from leading dealers and managers as to the cost of entering into a swap with the same terms and conditions that would have the effect of preserving the economic equivalent of the respective full payment obligations of the parties (or based upon a good faith determination of total losses and costs (or gains) if an insufficient number of quotations can be obtained or if basing the valuation on quotations would not produce a commercially reasonable result) and will include any unpaid amounts that became due and payable prior to the date of termination. Any such termination payment could be substantial.

If any issuer swap is terminated early and a termination payment is due by the issuer to an issuer swap provider, then, pursuant to its obligations under the intercompany loan, Funding 1 shall pay to the issuer an amount equal to the termination payment due to the relevant issuer swap provider less any amount received by the issuer under any replacement issuer swap agreement. These payments will be made by Funding 1 only after paying interest amounts due on the loan tranches and after providing for any debit balance on the principal deficiency ledger. The issuer shall apply amounts received from Funding 1 under the intercompany loan in accordance with the issuer pre-acceleration revenue priority of payments or, as the case may be, the issuer post-acceleration priority of payments. The application by the issuer of termination payments due to an issuer swap provider may affect the funds available to pay amounts due to the noteholders (see further “**Risk factors – You may be subject to exchange rate risks on the notes**” above).

If the issuer receives a termination payment from an issuer swap provider, then the issuer shall use those funds towards meeting its costs in effecting currency exchanges at the applicable spot rate of exchange until a replacement issuer swap is entered into and/or a replacement issuer swap is acquired.

Noteholders will not receive extra amounts (over and above interest and principal payable on the notes) as a result of the issuer receiving a termination payment.



### ***Transfer of the swaps***

Each swap provider may, subject to certain conditions specified in the relevant swap agreement, including (without limitation) the satisfaction of certain requirements of the rating agencies, transfer its obligations under any of the swaps to another entity.

### ***Taxation***

Neither Funding 1 nor the issuer is obliged under any of the swaps to gross up payments made by them if a withholding or deduction for or on account of tax is imposed on payments made under the Funding 1 swap or the issuer swaps.

Each swap provider will generally be obliged to gross up payments made by it to Funding 1 or the issuer, as appropriate, if a withholding or deduction for or on account of tax is imposed on payments made under the Funding 1 swap or the issuer swaps. However, if an issuer swap provider is required to gross up a payment under an issuer swap due to a change in law, the relevant issuer swap provider may, subject to obtaining the consent of the issuer security trustee, terminate the relevant issuer swaps.

### ***Governing law***

The Funding 1 swap agreement and the issuer swap agreements will be governed by English law.

### ***Post-enforcement call option agreement***

The post-enforcement call option agreement will be entered into between the note trustee, (as trustee for and on behalf of the class A noteholders, the class B noteholders, the class M noteholders, the class C noteholders and the Class D noteholders without liability to any person or warranty as to due authority), the issuer and the post-enforcement call option holder. The terms of the option will require, upon exercise of the option by the post-enforcement call option holder following the enforcement and distribution of the issuer security pursuant to the issuer deed of charge, the transfer to the post-enforcement call option holder of all of the class A notes and/or all of the class B notes and/or all of the class M notes and/or all of the class C notes and/or all of the class D notes, as the case may be. The class A noteholders, the class B noteholders, the class M noteholders, the class C noteholders and the class D noteholders will be bound by the terms of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes, respectively, to transfer the notes to the post-enforcement call option holder in these circumstances. The class A noteholders, the class B noteholders, the class M noteholders, the class C noteholders and the class D noteholders will be paid a nominal amount only for that transfer.

### ***Corporate services agreements***

Each of Funding 1, any further Funding company, the mortgages trustee, the post-enforcement call option holder and Holdings will enter into corporate services agreements with the relevant corporate services provider by no later than the initial closing date (or the relevant closing date in respect of each further Funding company). The issuer will enter into a corporate services agreement with the issuer corporate services provider on the initial closing date. The post-enforcement call option holder will enter into a corporate services agreement with the PECOH corporate services provider by no later than the initial closing date. The mortgages trustee will enter into a corporate services agreement with the mortgages trustee corporate services provider no later than the initial closing date. Funding 1 and Holdings will enter into a corporate services agreement with the corporate services provider no later than the initial closing date. Pursuant to each corporate services agreement, the relevant corporate services provider has agreed or will agree to provide corporate services to each of the entities.

The corporate services agreements are or will be governed by either English or (in the case of the mortgages trustee corporate services agreement) Jersey law.

### ***The remarketing agreement***

If money market notes are designated as remarketable notes in the relevant final terms, the issuer will enter into an agreement (the **remarketing agreement**) pursuant to which it will appoint the remarketing agent specified in the final terms to act as its agent and to use its reasonable

efforts to identify third party purchasers for such remarketable notes on each mandatory transfer date prior to the occurrence of a mandatory transfer termination event. Any amounts paid to the remarketing agent by any third party or the conditional purchaser for the remarketable notes as part of the mandatory transfer will be held by the remarketing agent as fiduciary for the relevant purchaser.

To facilitate the transfer of interests in the remarketable notes as part of the mandatory transfer, the remarketing agent may appoint a tender agent (the **tender agent**) specified in the final terms for the purpose of arranging delivery and payment by and to holders of the remarketable notes on the relevant mandatory transfer date. No further action will be required by such noteholders for the transfer of the remarketable notes to or for the account of the remarketing agent.

Prior to each mandatory transfer date prior to the occurrence of a mandatory transfer termination event, subject to the occurrence of a remarketing termination event (as defined below) then outstanding, the remarketing agent will approach potential investors with a view to procuring purchasers for the remarketable notes on the relevant mandatory transfer date. The remarketing agent will seek bids from investors for the margin to apply to the remarketable notes from the relevant mandatory transfer date. If there is one or more third parties willing to purchase in aggregate all the outstanding remarketable notes of the relevant series and class, the margin on all the remarketable notes of that series and class will be reset to an amount (not greater than the maximum reset margin) (the **reset margin**) being the lowest margin at which all such remarketable notes will be purchased by third parties as determined by the remarketing agent. If all of such remarketable notes cannot be placed with third parties, the margin will be reset to the maximum reset margin. The conditional purchaser will be obliged to purchase any such remarketable notes not otherwise purchased by third parties. If a remarketing termination event occurs, the reset margin will equal the maximum reset margin.

The issuer may terminate the remarketing agreement in certain circumstances, including where the remarketing agent becomes insolvent, no longer has the requisite authority or ability to act in accordance with the terms of the remarketing agreement or a material breach of warranty or covenant remains outstanding under the remarketing agreement.

The remarketing agent will have the right to terminate the remarketing agreement and will have no further obligations thereunder in certain circumstances, including where a note event of default has occurred and is continuing, there has been an event beyond the control of the remarketing agent or the issuer as a result of which the remarketing agent is unable to perform its obligations under the remarketing agreement or which in the reasonable opinion of the remarketing agent represents a material market change affecting the relevant remarketable note, the issuer is in material breach of any representations and warranties given by it in the conditional purchase agreement as at the issue date of the relevant remarketable notes, the requirements of Rule 2a-7 under the Investment Company Act in respect of the eligibility of such remarketable notes have changed since the issue date of such notes or a mandatory transfer termination event occurs. The occurrence of any of these events or a termination by the issuer pursuant to the previous paragraph where an alternative remarketing agent has not yet been appointed upon delivery of a notice from the remarketing agent to the issuer and the principal paying agent giving notice of termination is a **remarketing termination event**. The occurrence of a remarketing termination event does not affect the obligations of the conditional purchaser under the conditional purchase agreement (unless there has been a mandatory transfer termination event or a note event of default that is continuing).

A **mandatory transfer termination event** will occur if the conditional purchaser has purchased all the relevant remarketable notes under the terms of a mandatory transfer and the remarketing agent has confirmed such purchase or the tender agent has confirmed the interest in such remarketable notes has been transferred to the name or account of, or on behalf of, the conditional purchaser (either being a **conditional purchaser confirmation**), the confirmation in either case being given in writing to the issuer and the principal paying agent. If a conditional purchaser confirmation has been given with respect to any remarketable notes, the issuer will not be obliged to procure any subsequent purchasers of such remarketable notes and the remarketing agent will not be obliged to further remarket such notes.

## THE MORTGAGES TRUST

The following section contains a summary of the material terms of the mortgages trust deed. The summary does not purport to be complete and is subject to the provisions of the mortgages trust deed.

### General legal structure

This section describes the material terms of the mortgages trust, including how money is distributed from the mortgages trust to Funding 1, each further Funding company (if any) and the seller.

The mortgages trust will be a bare trust constituted under English law, with the mortgages trustee as trustee, for the benefit of the seller, Funding 1 and each further Funding company (if any) as beneficiaries. The mortgages trust will be constituted for the programme described in this prospectus and for the possibility of future financings (directly or indirectly) by any further Funding companies.

The terms of the mortgages trust deed may be amended as and when new issuers are established or new loan types are added to the mortgages trust or when further Funding companies acquire an interest in the trust property. Such amendments may affect the timing of payments on the notes. The prior consent of noteholders will not be sought in relation to any of the proposed amendments to the mortgages trust deed, provided (*inter alia*) that the rating agencies confirm that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result of such amendments. There can be no assurance, however, that the effect of any such amendments will not ultimately adversely affect your interests as a noteholder (see “**Risk factors – The Funding 1 security trustee, the issuer security trustee and/or the note trustee may agree modifications to the transaction documents without your prior consent, which may adversely affect your interests**” above).

### The trust property

Under the terms of the mortgages trust deed, the mortgages trustee will agree to hold all of the trust property on trust absolutely for the benefit of Funding 1 (as to the Funding 1 share), for each further Funding company (as to its respective further Funding company share) and for the seller (as to the seller share). The **trust property** will be:

- the sum of £100 settled by the Jersey share trustee on trust on the date of the mortgages trust deed;
- the portfolio of loans and their related security sold to the mortgages trustee by the seller on the initial closing date;
- any new loans and their related security sold to the mortgages trustee by the seller after the initial closing date;
- any increase in the outstanding principal balance of a loan due to a borrower making underpayments or taking payment holidays or making drawings under a flexible loan or the seller making a further advance under a loan or the capitalisation of arrears in respect of any loan;
- any revenue receipts and principal receipts on the loans in the portfolio;
- any contribution paid by Funding 1, any further Funding company or the seller to the mortgages trustee, for application in accordance with the terms of the mortgages trust deed, but only until such contributions have ceased to be trust property having been applied by the mortgages trustee in accordance with the terms of the mortgages trust deed;
- any other amounts received under or in respect of the loans and their related security on or after the relevant sale date (excluding third party amounts), including the proceeds of any sale of the loans and their related security and any other proceeds of sale of any other trust property;

- any authorised investments made by or on behalf of the mortgages trustee;
- rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of; and
- amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account,

less

- any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described in paragraph (a) of “– **Adjustments to trust property**” below;
- distributions of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust; and
- refinancing distributions and/or special distributions made from time to time to the beneficiaries of the mortgages trust.

No beneficiary is entitled to particular loans and their related security separately from any other beneficiary. Instead each of the beneficiaries has an undivided interest in all of the loans and their related security forming part of the trust property. The beneficial interest of Funding 1, any further Funding company and the seller represent *pro rata* interests in the trust property.

The accompanying final terms will set out the approximate Funding 1 share, seller share and each further Funding company share (if any) of the trust property as at the relevant closing date.

#### **Fluctuation of share in the trust property**

The shares of Funding 1, each further Funding company (if any) and the seller in the trust property will fluctuate depending on a number of factors, including:

- the allocation of principal receipts on the loans to Funding 1, each further Funding company and/or the seller;
- losses arising on the loans;
- if new loans and their related security are sold to the mortgages trustee;
- any of the beneficiaries increasing its beneficial interest in, and hence its share of, the trust property by making contributions (excluding, in respect of the Funding companies, deferred contributions) to the mortgages trustee in accordance with the mortgages trust deed;
- the mortgages trustee making a special distribution or a refinancing distribution to any beneficiary on a distribution date;
- if a borrower makes underpayments or takes payment holidays under a flexible loan;
- if a borrower makes a drawing under a flexible loan;
- if the seller makes a further advance to a borrower under a loan; and
- the capitalisation of arrears in respect of any loan.

Neither the Funding 1 share nor any further Funding company share of the trust property may be reduced below zero. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until the Funding 1 share and any further Funding company share of the trust property have been reduced to zero or following the occurrence of an asset trigger event.

#### **Contributions to the mortgages trust**

Pursuant to the terms of the mortgages trust deed, each of the beneficiaries may from time to time contribute certain assets to the mortgages trust (each a **contribution**). A contribution may be made to the mortgages trust by way of an initial contribution, a refinancing contribution, a further contribution, a seller contribution or a deferred contribution.

An **initial contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company in respect of any trust

property sold to the mortgages trustee at the time of such contribution for the purposes of enabling the mortgages trustee to fund the payment of the initial purchase price owed by the mortgages trustee to the seller, pursuant to the terms of the mortgage sale agreement, in respect of any loans and their related security sold by the seller to the mortgages trustee at such time.

A **refinancing contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by a beneficiary to the mortgages trustee. A refinancing contribution made by a beneficiary will increase the share of that beneficiary in the trust property by a corresponding amount. The mortgages trustee will allocate and pay amounts received as a refinancing contribution on a further contribution date to make a refinancing distribution to Funding 1 or any further Funding company (as applicable) specified by the beneficiary that made the refinancing contribution on such further contribution date. The recipient's share in the trust property will be reduced accordingly (see further "**Refinancing distributions**" below). A refinancing contribution can be made by any one of the beneficiaries while any indebtedness of any of Funding 1 or the further Funding companies is outstanding where such beneficiary elects, in its sole discretion, to designate all or part of that contribution as a refinancing contribution in relation to the recipient Funding company. The amount of any refinancing contribution cannot exceed the aggregate principal amount of all debt obligations of the Funding companies then outstanding.

A **seller contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by the seller to the mortgages trustee to increase the share of the seller in the trust property. A seller contribution will be in an amount equal to the unpaid interest element otherwise due under any flexible loan which is subject to an authorised underpayment or payment holiday.

A **deferred contribution** is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company and in respect of the share of that Funding company in the trust property for the purposes of enabling the mortgages trustee to fund the payment of the deferred purchase price owed by the mortgages trustee, pursuant to the terms of the mortgage sale agreement, to the seller in respect of the portfolio.

A **further contribution** is a contribution (excluding any initial contribution or deferred contribution, but including a refinancing contribution and a seller contribution) by way of cash payable pursuant to the terms of the mortgages trust deed by a beneficiary to the mortgages trustee to increase the share of that beneficiary in the trust property. Upon receipt of a further contribution (other than in respect of a further contribution which is also a refinancing contribution or a seller contribution) made by Funding 1 or any further Funding company on a further contribution date, the mortgages trustee will pay an amount equal to such further contribution to the seller on such further contribution date (whether or not such date is a distribution date) by way of a special distribution (and the payment of such special distribution will decrease the seller share of the trust property by an equal amount).

#### **Dates for recalculation of the share of each beneficiary**

The cash manager will calculate the then current share of each of the beneficiaries in the trust property on the following dates based on the aggregate outstanding principal balance of the loans constituting the trust property (as adjusted from time to time) as at the close of business on the last day of the immediately preceding trust calculation period or, as the case may be, interim trust calculation period:

- (a) the initial closing date, the London business day following the last day of each calendar month and the day on which the mortgages trust is terminated (each such date, a **trust calculation date**). The period from (and including) the first day of each calendar month (or, as applicable, the initial closing date) to (and including) the last day of that calendar month or, as applicable, the date of termination of the mortgages trust shall be a **trust calculation period**;
- (b) the day on which there is a sale of any new loans to the mortgages trustee (each such date, a **sale date**); and

- (c) the day on which any of the beneficiaries makes a further contribution to the mortgages trust (each such date, a **further contribution date**).

The reason for the recalculation of the share of each beneficiary on a sale date or further contribution date is so as to determine the percentage share of each beneficiary in the trust property which will reflect the addition of new loans and their related security or a further contribution (as the case may be) to the trust property. When the cash manager recalculates the relevant shares and share percentages of each beneficiary on a trust calculation date, that recalculation will apply for the then current trust calculation period (commencing on the first day of the calendar month in which such trust calculation date occurs). However, if during such trust calculation period the seller sells new loans to the mortgages trustee or a further contribution (excluding a seller contribution) is made, the recalculation made by the cash manager on that sale date or further contribution date (as applicable) (each an **interim trust calculation date**) will only apply from (and including) that sale date or further contribution date to (and including in the case of (a) and excluding in the case of (b)) the earlier to occur of (a) the end of that then current trust calculation period and (b) the next occurring sale date or further contribution date (which shall be (a), in the case that (a) and (b) occur on the same date). The portion of a trust calculation period that is less than a full trust calculation period is called an **interim trust calculation period**.

The percentage share that each beneficiary has in the trust property will determine that beneficiary's entitlement to revenue receipts and principal receipts from the loans in the trust property and also the allocation of losses or capitalised arrears arising on the loans for the then current trust calculation period or interim trust calculation period, as applicable. The method of determining those percentage shares is as set out below.

**Distribution date** means the day falling four London business days after the immediately preceding trust calculation date, being the date that the mortgages trustee will distribute principal receipts and revenue receipts to the beneficiaries.

#### **Funding 1 share of trust property – trust calculation date recalculation**

On each trust calculation date (also referred to in this section as the **relevant trust calculation date**), the interest of Funding 1 in the trust property (the **Funding 1 share**) is recalculated to take effect for the then current trust calculation period (commencing on the first day of the calendar month in which such trust calculation date occurs) or the relevant interim trust calculation period (as applicable) in accordance with the following formulae:

- The Funding 1 share of the trust property will be an amount equal to:

$$A - B - C + D + E + F$$

- The percentage share of Funding 1 (the **Funding 1 share percentage**) in the trust property will be an amount equal to:

$$\frac{A - B - C + D + E + F}{G} \times 100$$

in the latter case, expressed as a percentage and rounded upwards to five decimal places,

where:

- A = the amount of the Funding 1 share of the trust property as determined on the immediately preceding trust calculation date or, as the case may be, the initial closing date;
- B = the sum of (i) the amount of any principal receipts on the loans to be distributed to Funding 1 on the distribution date immediately following the relevant trust calculation date and (ii) any refinancing distribution made to Funding 1 in the immediately preceding trust calculation period;

- C = the amount of losses sustained on the loans in the immediately preceding trust calculation period and the amount of any reductions occurring in respect of the loans as described in paragraph (a) to (d) in “– **Adjustments to trust property**” below, in each case allocated to Funding 1 in the immediately preceding trust calculation period;
- D = the amount of any initial contribution paid by Funding 1 to the mortgages trustee during the immediately preceding trust calculation period in respect of the Funding 1 share of any new loans sold by the seller to the mortgages trustee during such trust calculation period (the **new trust property**);
- E = the amount of any further contribution paid by Funding 1 to the mortgages trustee during the immediately preceding trust calculation period to increase the Funding 1 share of the trust property;
- F = the aggregate amount of any interest which is overdue in respect of the loans which the seller has agreed to capitalise and which has been capitalised and added in the accounts of the seller to the outstanding principal balance of a loan (**capitalised arrears**) which have been allocated to Funding 1 in the immediately preceding trust calculation period;
- G = the aggregate outstanding principal balance of all the loans in the trust property as at the last day of the immediately preceding trust calculation period after making or provisioning for the distributions, allocations and additions referred to in B, C, D, E and F above and after taking account of (without double counting any amounts referred to in B, C, D, E and F above):
- the sale, if any, of new trust property during the immediately preceding trust calculation period;
  - any distribution of principal receipts to any of the beneficiaries on the distribution date immediately following the relevant trust calculation date;
  - any contributions by any beneficiaries in the immediately preceding trust calculation period;
  - any distributions to any beneficiaries in the immediately preceding trust calculation period;
  - the amount of any losses or capitalised arrears to be allocated to the beneficiaries in the immediately preceding trust calculation period;
  - the amount of any increase in the outstanding principal balances due to capitalisation of insurance premiums due by borrowers during the immediately preceding trust calculation period;
  - the adjustments referred to in paragraphs (a) to (d) in “– **Adjustments to trust property**” below; and
  - the amount of any other additions to or subtractions from the outstanding principal balance of loans comprising the trust property (including any subtractions made from the outstanding principal balance resulting from overpayments made by borrowers and/or any additions to the outstanding principal balance resulting from borrowers making cash withdrawals or underpayments or taking payment holidays under a flexible loan or the seller making further advances to a borrower or a borrower making further drawdowns under a loan during the immediately preceding trust calculation period, as described below in “– **additions to and reductions in the trust property**”).

#### **Further Funding company’s share of trust property**

The share of each further Funding company in the trust property (a **further Funding company share**) and the percentage share of each further Funding company in the trust property (the **further Funding company share percentage**) will be recalculated on each trust calculation

date in the same way that the Funding 1 share and the Funding 1 share percentage are recalculated in the above section (“– **Funding 1 share of trust property – trust calculation date recalculation**”), except that references to Funding 1 are to be read as references to the relevant Funding company.

**Funding 1 share of trust property – sale date and further contribution date recalculations**

On each interim trust calculation date, the Funding 1 share in the trust property will be recalculated for the related interim trust calculation period, for the sole purpose of calculating the distributions to be made from the trust property on the immediately succeeding distribution date, in accordance with the following formula:

- (a) the then current Funding 1 share of the trust property will be an amount equal to:

$$A - B + D$$

- (b) the current Funding 1 share percentage of the trust property will be an amount equal to:

$$\frac{A - B + D}{G} \times 100$$

expressed as a percentage and rounded upwards to five decimal places,

where:

- A = the size of the Funding 1 share of the trust property as determined on the later of the trust calculation date, or interim trust calculation date (as applicable) immediately preceding the relevant trust calculation date, or interim trust calculation date (as applicable);
- B = the actual amount of any refinancing distribution paid to Funding 1 on such interim trust calculation date;
- D = (a) the amount of any initial contribution paid by Funding 1 to the mortgages trustee on such interim trust calculation date which is a sale date in respect of the Funding 1 share of any new loans sold by the seller to the mortgages trustee or, as the case may be, (b) an amount equal to the further contribution paid by Funding 1 to the mortgages trustee on such interim trust calculation date which is a further contribution date; and
- G = the sum of:
- (i) the aggregate outstanding principal balance of all of the loans in the trust property as at the immediately preceding trust calculation date or the interim trust calculation date (as applicable); and
  - (ii) the aggregate outstanding principal balance of the new loans sold to the mortgages trustee after the immediately preceding trust calculation date or the interim trust calculation date (as applicable), including the new trust property sold to the mortgages trustee on such interim trust calculation date which is a sale date.

**Each further Funding company**

Each further Funding company share of the trust property and each further Funding company share percentage in the trust property will be recalculated on each trust calculation date and, if applicable, each interim trust calculation date occurring during the then current trust calculation period in the same way that the Funding 1 share and the Funding 1 share percentage are recalculated in the above section (“– **Funding 1 share of trust property – Sale date and further contribution date recalculations**”), except that references to Funding 1 are to be read as references to the relevant further Funding company.



### Adjustments to trust property

If any of the following events occurs during a trust calculation period or, as applicable, interim trust period immediately preceding the relevant trust calculation date, or as applicable, relevant interim trust calculation date, then the aggregate outstanding principal balance of the loans in the trust property will be reduced or deemed to be reduced for the purposes of the calculation of **G** above:

- (a) any borrower exercises a right of set-off so that the amount of principal and interest owing under a loan is reduced but no corresponding payment is received by the mortgages trustee. In this event, the aggregate outstanding principal balance of the loans constituting the trust property will be reduced by an amount equal to the amount of that set-off; and/or
- (b) a loan or its related security (i) does not materially comply with the representations and warranties contained in the mortgage sale agreement, (ii) is the subject of a product switch or a further advance, which does not comply with the relevant conditions for remaining in the trust property (and, in each case, the seller fails to repurchase the loan or loans under the relevant mortgage account and their related security to the extent required by the terms of the mortgage sale agreement) or (iii) if the seller accepts an application from a borrower to transfer a portable loan to a new property. In this event, the aggregate outstanding principal balance of the loans constituting the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the outstanding principal balance of the relevant loan or loans under the relevant mortgage account; and/or
- (c) the seller would be required to repurchase a loan and its related security as required by the terms of the mortgage sale agreement, but the loan and its related security is not capable of being repurchased. In this event, the aggregate outstanding principal balance of the loans constituting the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the outstanding principal balance of the relevant loan or loans under the relevant mortgage account; and/or
- (d) the seller breaches any other material warranty under the mortgage sale agreement and/or (for so long as the seller is the servicer) the servicing agreement, which will also be grounds for terminating the appointment of the servicer. In this event, the aggregate outstanding principal balance of the loans constituting the trust property will be deemed to be reduced for the purposes of the calculation of **G** by an amount equal to the resulting loss (if any) incurred by the beneficiaries.

The reductions or deemed reductions set out in paragraphs (a) to (d) above will be made on each London business day, but only aggregated and accounted for on the next following relevant trust calculation date, sale date or further contribution date (as applicable), first to the seller's share (including the minimum seller share) of the trust property and, thereafter will be made to each Funding 1 share and any further Funding company share, *pro rata* according to the then current Funding 1 share and the then current further Funding company share thereof.

Any sums that are subsequently recovered by the mortgages trustee in connection with a reduction or deemed reduction of the trust property under paragraphs (a) to (d) above will constitute a revenue receipt under the relevant loan. Such revenue receipt will be allocated to Funding 1 and any further Funding companies according to the then current Funding 1 share and the current further Funding company share (but only if and to the extent that the related reductions were applied against the Funding 1 share and the further Funding company's share of the trust property) and thereafter will belong to the seller.

### The weighted average share percentages

On any trust calculation date where the seller has sold new loans to the mortgages trustee (the date on which such sale occurs being a **sale date**) or a beneficiary has made a further contribution (the date on which such further contribution is made being a **further contribution date**) during the immediately preceding trust calculation period, the cash manager will calculate (for

the sole purpose of making the distributions to be made on the immediately succeeding distribution date) the weighted average of the current Funding 1 share percentage, each further Funding company share percentage and seller share percentage in respect of each interim trust calculation period occurring in that immediately preceding trust calculation period. The calculation will be based on the amount of the revenue receipts and principal receipts received and the losses sustained during each of the preceding interim trust calculation periods.

#### **The weighted average Funding 1 share percentage**

The **weighted average Funding 1 share percentage** for any such trust calculation date will be equal to:

- (a) in respect of the distribution of revenue receipts to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (revenue) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
  - (i) for each interim trust calculation period during that trust calculation period, the product of:
    - (A) the related Funding 1 share percentage for that interim trust calculation period;  
and
    - (B) the amount of all revenue receipts received by the mortgages trustee during that interim trust calculation period;divided by:
  - (ii) the aggregate of all revenue receipts received by the mortgages trustee during the trust calculation period immediately preceding that trust calculation date;
- (b) in respect of the distribution of principal receipts to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (principal) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
  - (i) for each interim trust calculation period during that trust calculation period, the product of:
    - (A) the related Funding 1 share percentage for that interim trust calculation period;  
and
    - (B) the amount of all principal receipts received by the mortgages trustee during that interim trust calculation period;divided by:
  - (ii) the aggregate of all principal receipts received by the mortgages trustee during the trust calculation period immediately preceding that trust calculation date; and
- (c) in respect of the allocation of losses to be made on the immediately succeeding distribution date (the **weighted average Funding 1 share (losses) percentage**), the sum, in respect of all interim trust calculation periods during the trust calculation period immediately preceding the relevant trust calculation date, of:
  - (i) for each interim trust calculation period during that trust calculation period, the product of:
    - (A) the related Funding 1 share percentage for that interim trust calculation period;  
and
    - (B) the amount of all losses sustained on the loans during that interim trust calculation period;divided by:
  - (ii) the aggregate of all losses sustained on the loans during the trust calculation period immediately preceding that trust calculation date.

### **The weighted average share percentage of each further Funding company and the weighted average Funding 1 share percentage**

The **weighted average further Funding company share percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (revenue) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (revenue) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (principal) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (principal) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

The **weighted average further Funding company share (losses) percentage** of each further Funding company will be calculated in the same way as the weighted average Funding 1 share (losses) percentage, except that references to Funding 1 are to be read as references to the relevant further Funding company.

### **Seller share of trust property – trust calculation date recalculation**

On each trust calculation date, the interest of the seller in the trust property will be recalculated for the relevant trust calculation period or related interim trust calculation period in accordance with the following formulae:

The **seller share** in the trust property will be an amount equal to:

- the aggregate outstanding principal balance of the loans constituting the trust property as at the last day of the trust calculation period immediately preceding the relevant trust calculation date *minus* the Funding 1 share and each further Funding company share as calculated on the relevant trust calculation date.

The percentage share of the seller in the trust property will be an amount equal to:

- 100 per cent. *minus* the Funding 1 share percentage and each further Funding company share percentage as calculated on the relevant trust calculation date.

None of the Funding 1 share, each further Funding company share or the seller share of the trust property may be reduced to or below zero, regardless of the requirements in relation to the minimum seller share.

### **The weighted average seller share percentage**

On any trust calculation date in respect of which the seller has sold new loans to the mortgages trustee or a beneficiary has made a further contribution during the immediately preceding trust calculation period, the cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately succeeding distribution date) the weighted average of the current seller share percentages that were calculated previously in respect of each interim trust calculation period occurring in that immediately preceding trust calculation period. The calculation will be based on the amount of the revenue receipts and the principal receipts received and the losses sustained during each of the preceding interim trust calculation periods.

The **weighted average seller share percentage** for any such trust calculation date will be equal to:

- (a) in respect of the distribution of revenue receipts to be made on the immediately succeeding distribution date (the **weighted average seller share (revenue) percentage**), the sum based on the following formula:  
100 per cent. *minus* (the then current weighted average Funding 1 share (revenue) percentage *plus* the then current weighted average further Funding company share (revenue) percentage);

- (b) in respect of the distribution of principal receipts to be made on the immediately succeeding distribution date (the **weighted average seller share (principal) percentage**), the sum based on the following formula:  
 100 per cent. *minus* (the then current weighted average Funding 1 share (principal) percentage *plus* the then current weighted average further Funding company share (principal) percentage);
- (c) in respect of the allocation of losses to be made on the immediately succeeding distribution date (the **weighted average seller share (losses) percentage**), the sum based on the following formula:  
 100 per cent. *minus* (the then current weighted average Funding 1 share (losses) percentage *plus* the then current weighted average further Funding company share (losses) percentage).

### Minimum seller share

The seller share of the trust property includes an amount known as the **minimum seller share**. The amount of the minimum seller share will fluctuate depending on changes to the characteristics of the loans in the trust property. The seller will not be entitled to receive principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until:

- each of the Funding 1 share and any further Funding company share of the trust property is in an amount equal to zero; or
- an asset trigger event occurs.

The minimum seller share will be the amount determined on each trust calculation date (after any sale of loans to the mortgages trustee on that trust calculation date) in accordance with the following formula:

$$X + Y + Z$$

where:

X = 3 per cent. of the aggregate current balance of loans in the trust property, as calculated on the relevant trust calculation date (as at the end of the immediately preceding trust calculation period) or, if the long-term, unguaranteed, unsecured and unsubordinated rating of Alliance & Leicester is less than Baa3 by Moody's, BBB- by Standard & Poor's or BBB- by Fitch, the amount of deposits held by Alliance & Leicester as at the date of notification to the borrowers of the sale of the loans to the mortgages trustee if greater than such amount;

Y = the product of:  $p \times q \times r$

where:

p = 8 per cent.;

q = the **flexible draw capacity**, being an amount equal to the maximum amount of cash withdrawal that borrowers may draw under flexible loans included in the trust property as at the end of the immediately preceding trust calculation period; and

r = 3; and

Z = the aggregate current balance of all cash withdrawals made by borrowers under flexible loans in the trust property and the aggregate current balance of all further advances under the loans in the trust property, in each case as at the end of the immediately preceding trust calculation period pursuant to loans that are regulated by the CCA that are not represented to be enforceable.

The purpose of X is to mitigate the risks relating to certain set-off risks relating to the loans. The amount of X may be reduced from time to time at the request of any of the beneficiaries (acting reasonably) provided that the Funding 1 security trustee and any further Funding security

trustee has previously received written confirmation from the rating agencies that the then current ratings of the notes (and any new notes, where applicable) then outstanding as a result thereof will not be downgraded, withdrawn or qualified.

The purpose of the calculation in Y is to mitigate the risk of the seller failing to fund cash withdrawals (which borrowers are entitled to draw) under flexible loans in the portfolio (excluding for these purposes further advances that the seller has a discretion to advance).

The purpose of Z is to mitigate enforceability risks relating to cash withdrawals and further advances under loans in the portfolio that are regulated by the CCA that are not represented to be enforceable.

### **Adjustments to distributions**

In calculating on each trust calculation date and making the distributions on each distribution date, the mortgages trustee, or the cash manager on its behalf, will take account of and make adjustments for such calculations and distributions in order that:

- (a) any increase in the Funding 1 share or any further Funding company share of the trust property as a result of the payment by Funding 1 or any further Funding company of any contribution (excluding a deferred contribution) during the trust calculation period immediately preceding such distribution date (or during any interim trust calculation period during that trust calculation period) is deemed to have taken effect as an increase in Funding 1 or that further Funding company's share of the trust property from the date on which such contribution was paid to the mortgages trustee; and
- (b) any decrease in the seller share of the trust property as a result of the payment of a special distribution to the seller will be deemed to have taken effect as a decrease in the seller share from the date on which such special distribution was paid to the seller.

### **Cash management of trust property – revenue receipts**

Under the cash management agreement, the cash manager is responsible for distributing revenue receipts on behalf of the mortgages trustee on each distribution date in accordance with the order of priority described in the following section. For further information on the role of the cash manager, see "**Summary of the transaction documents – cash management agreement**" above.

### **Mortgages trust calculation of revenue receipts**

**Mortgages trust available revenue receipts** will be calculated by the cash manager on each trust calculation date and is an amount equal to the sum of:

- revenue receipts on the loans (for the avoidance of doubt, excluding principal receipts);
- interest received or payable to the mortgages trustee on the mortgages trustee GIC account; and
- the amount of any seller contribution received by the mortgages trustee;

less:

- amounts due to third parties (also known as **third party amounts**), including:
  - (a) amounts under a direct debit which are repaid to the bank making the payment if that bank is unable to recoup that amount itself from its customer's account;
  - (b) payments by borrowers to the seller of any fees and other charges which are due to the seller (including payments of insurance premiums, if any, due to the seller in respect of any seller arranged insurance policy to the extent not paid or payable by the seller (or to the extent such insurance premiums have been paid by the seller in respect of any loan, which is not repurchased by the seller, to reimburse the seller)); and

- (c) recoveries in respect of amounts deducted from loans as described in paragraphs (a) to (d) in “– **Adjustments to trust property**” above, which will belong to and be paid to Funding 1, any further Funding companies and/or the seller as described therein,

which amounts may be paid daily from monies on deposit in the mortgages trustee GIC account.

In the mortgages trust revenue priority of payments below, references to the term **relevant trust calculation date** means the trust calculation date occurring on the first London business day of the immediately preceding trust calculation period.

On each distribution date (or in respect of amounts due to third parties under paragraph (a) below, when due), the cash manager will apply mortgages trust available revenue receipts in accordance with the following **mortgages trust revenue priority of payments**:

(a) first, *pari passu* and *pro rata*, to pay:

- amounts due and payable to the mortgages trustee under the provisions of the mortgages trust deed or to become due and payable to the mortgages trustee during the then current trust calculation period; and
- amounts due and payable to third parties or to become due and payable to third parties during the then current trust calculation period from the mortgages trustee in respect of the mortgages trust, but only if:
  - (i) payment is not due as a result of a breach by the mortgages trustee of the documents to which it is a party; and/or
  - (ii) payment has not already been provided for elsewhere;

(b) then, *pari passu* and *pro rata*, to pay:

- amounts due and payable to the servicer or to become due and payable to the servicer during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the servicing agreement;
- amounts due and payable to the cash manager or to become due and payable to the cash manager during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the cash management agreement;
- amounts due and payable to the mortgages trustee corporate services provider or to become due and payable to the mortgages trustee corporate services provider during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the mortgages trustee corporate services agreement; and
- amounts due and payable to the mortgages trustee account bank or to become due and payable to the mortgages trustee account bank during the then current trust calculation period, in each case by the mortgages trustee under the provisions of the mortgages trustee bank account agreement; and

(c) finally, *pari passu* but subject to the proviso below, to allocate and pay the remaining mortgages trust available revenue receipts to:

- Funding 1 in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the Funding 1 share percentage as calculated on the trust calculation date falling in the immediately preceding trust calculation period (or, in the case of the first distribution date, as of the initial closing date);
- each further Funding company in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by each further Funding company share percentage of the trust property as calculated on the trust calculation date falling in the immediately preceding trust calculation period (or, in the case of the first distribution date, as of the initial closing date); and

- the seller in an amount determined by multiplying the total amount of the remaining mortgages trust available revenue receipts by the seller share percentage of the trust property as calculated on the trust calculation date falling in the immediately preceding trust calculation period (or, in the case of the first distribution date, as of the initial closing date),

**PROVIDED THAT**, if a sale date or further contribution date has occurred during the trust calculation period immediately preceding the relevant distribution date, then the cash manager will use:

- (a) the weighted average Funding 1 share (revenue) percentage (instead of the Funding 1 share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to Funding 1;
- (b) the weighted average further Funding company share (revenue) percentage of each further Funding company (instead of each further Funding company share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to each further Funding company;
- (c) the weighted average seller share (revenue) percentage (instead of the seller share percentage) in respect of such trust calculation period in determining the amount of mortgages trust available revenue receipts to distribute to the seller.

Amounts due to the mortgages trustee, the servicer, the cash manager, the mortgages trustee corporate services provider and the mortgages trustee account bank by the mortgages trustee include amounts payable in respect of VAT as provided in the relevant transaction documents, if any.

#### **Cash management of trust property – principal receipts**

Under the cash management agreement, the cash manager is also responsible for distributing principal receipts on behalf of the mortgages trustee on each distribution date. To understand how the cash manager distributes principal receipts on the loans on each distribution date, you need to understand the definitions set out below. The definitions may change as new trust property is acquired. **You will not have any right of prior review or consent to such changes, provided that (among other things) the rating agencies confirm that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified as a result of such changes.**

On each trust calculation date, the cash manager will ascertain whether the following distribution date is within a cash accumulation period relating to a cash accumulation loan tranche for Funding 1 or any further Funding company and will ascertain Funding 1's and any further Funding company's cash accumulation requirement and repayment requirement.

*The cash accumulation period will be calculated separately for each cash accumulation loan tranche.*

#### **Definitions**

An **asset trigger event** will occur when an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 or any new further Funding company, unless such debit is made when the sum of the amount standing to the credit of the general reserve ledger, liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay items (a) to (f) of the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made. For more information on the principal deficiency ledger, see "**Credit structure**" below. The definition of **asset trigger event** may change as new loan types are sold to the mortgages trustee or when any further Funding company acquires an interest in the trust property, subject to satisfaction of the relevant conditions precedent and confirmation from the rating agencies that the then current ratings of the notes (and any new notes, if applicable) then outstanding will not be downgraded, withdrawn or qualified as a result (see "**Funding 1 deed of charge – Appointment, powers, responsibilities and liabilities of the**

**Funding 1 security trustee” and “Issuer deed of charge – Appointment, powers, responsibilities and liabilities of the issuer security trustee” above).**

A **bullet loan tranche** means any loan tranche or any new loan tranche where the full amount of principal is scheduled to be repaid in full on one date (being the bullet repayment date). In respect of any bullet loan tranches made to Funding 1, such bullet loan tranches will be deemed to be pass-through loan tranches if:

- a trigger event occurs;
- in respect of the bullet loan tranches made by the issuer, the issuer security is enforced; or
- the Funding 1 security is enforced.

The bullet loan tranches to be made by the issuer to Funding 1 on any closing date will be set out in the applicable final terms accompanying this prospectus. Any bullet loan tranches made to Funding 1 will be notified to noteholders in the first investor report published after the date such bullet loan tranches are made and will include details of the amount and bullet repayment date of such bullet loan tranche.

If a bullet loan tranche is made to any further Funding company the amount and bullet repayment date of that bullet loan tranche will be notified to noteholders in the first investor report published after the date such bullet loan tranche is made.

There may be circumstances when the bullet loan tranches made to a further Funding company will be deemed to be a pass-through loan tranche. Noteholders will not be notified of these.

A **cash accumulation loan tranche** means a bullet loan tranche and/or scheduled amortisation loan tranche.

A **cash accumulation ledger** means a ledger maintained by the cash manager to record the amount accumulated by Funding 1 or any further Funding company from time to time to pay relevant accumulation amounts. There will be a separate cash accumulation ledger for each Funding company.

A **cash accumulation period** means, as applicable, a Funding 1 cash accumulation period and/or a further Funding company cash accumulation period.

A **cash accumulation requirement** means, on a trust calculation date, in relation to Funding 1 or any further Funding company:

- the principal amount remaining to be repaid in relation to each relevant accumulation amount due to that Funding company;
- plus, on a trust calculation date falling immediately prior to a Funding company interest payment date, amounts due and payable by that Funding company on the following Funding company interest payment date (or which will become due and payable in the current Funding company interest period) in priority to principal amounts due by that Funding company on the relevant accumulation amount under the pre-acceleration principal priority(s) of payments relevant to that Funding company (e.g. in relation to Funding 1, see items (a) to (c) (inclusive) of the Funding 1 pre-acceleration principal priority of payments);
- plus, on a trust calculation date falling immediately prior to a Funding company interest payment date, the amount of principal that will be required on the following Funding company interest payment date to meet the Funding company revenue deficit amount (if any) in respect of that Funding company;
- less the amount standing to the credit of the cash accumulation ledger of the relevant Funding company at the last Funding company interest payment date (which amount was not distributed on that Funding company interest payment date and which is available to reduce the relevant cash accumulation requirement);



- less the sum of each relevant cash accumulation requirement amount paid to the relevant Funding company on a previous distribution date during the relevant Funding company interest period.

**Funding company loan tranche** means any loan tranche made to a Funding company.

**Funding 1 cash accumulation period** means in, a scheduled amortisation loan tranche, 3 months and, in respect of a bullet loan tranche, the period of time beginning on the earlier of the following two dates:

- the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months calculated under the definition of the Funding 1 anticipated cash accumulation period; and
- the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months specified in the relevant final terms accompanying this prospectus,

provided that, if the beginning of a Funding 1 cash accumulation period as determined above would fall on a date which is not a distribution date, then the Funding 1 cash accumulation period shall commence on the distribution date falling immediately before that date. A Funding 1 cash accumulation period shall end in respect of a relevant accumulation amount when Funding 1 has accumulated an amount equal to that particular relevant accumulation amount.

**Funding 1 anticipated cash accumulation period** means, on any trust calculation date, the anticipated number of months required by Funding 1 to accumulate sufficient principal receipts to pay the relevant accumulation amount of Funding 1 in relation to the relevant cash accumulation loan tranche made to Funding 1, which will be equal to (a) 3 months in respect of scheduled amortisation instalments and (b) the following in respect of bullet loan tranches:

$$\frac{J + K - L}{M \times N \times O}$$

calculated in months and rounded up to the nearest whole number, where:

- J = the relevant accumulation amount;
- K = the aggregate outstanding principal amount on that trust calculation date of:
- each cash accumulation loan tranche made to Funding 1 that was not fully repaid on its scheduled repayment date; and
  - each other cash accumulation loan tranche made to Funding 1, the scheduled repayment date of which falls on or before the scheduled repayment date of the relevant accumulation amount;
- L = the amount of any available cash already standing to the credit of the cash accumulation ledger of Funding 1 at the start of that Funding 1 interest period (which is available to pay the relevant accumulation amount) plus the aggregate amount of cash accumulation requirement paid to Funding 1 since the previous Funding 1 interest payment date;
- M = means the sum of each monthly CPR on the 12 most recent trust calculation dates which have occurred prior to that date divided by 12;
- N = 0.85; and
- O = the aggregate current balance of the loans comprising the trust property as calculated on the previous trust calculation date in respect of the previous trust calculation period (or, if applicable, the initial closing date).

**A further Funding company cash accumulation period** means the anticipated period required by that further Funding company to accumulate sufficient funds to repay a cash accumulation loan tranche made to a further Funding company (ending when that further Funding company has accumulated an amount equal to that cash accumulation loan tranche, taking into

account its obligation to accumulate for any other cash accumulation loan tranche before, or at the same time as, the relevant cash accumulation loan tranche).

The **monthly CPR** means, on any trust calculation date, the total principal receipts received during the immediately preceding trust calculation period divided by the aggregate current balance of the loans comprised in the trust property calculated on the previous trust calculation date in respect of the previous trust calculation period.

A **non-asset trigger** event will occur on a trust calculation date if:

- (a) an insolvency event occurs in relation to the seller on or before that trust calculation date;
- (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days;
- (c) the current seller share of the trust property is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date); or
- (d) as at the trust calculation date immediately preceding the relevant trust calculation date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms and this has not been remedied by the relevant trust calculation date.

The definition of non-asset trigger event may change as new loan types are sold to the mortgages trustee or when a further Funding company acquires an interest on the trust property, subject to satisfaction of the relevant conditions precedent and confirmation from the rating agencies that the then current ratings of the notes (and any new notes, if applicable) then outstanding will not be downgraded, withdrawn or qualified as a result (see "**Funding 1 deed of charge – Appointment, powers, responsibilities and liabilities of the Funding 1 security trustee**" and "**Issuer deed of charge – Appointment, powers, responsibilities and liabilities of the issuer security trustee**" above).

An **original bullet loan tranche** means any Funding company loan tranche which at any time has been a bullet loan tranche (even if such Funding company loan tranche has subsequently become a pass-through loan tranche).

An **original scheduled amortisation instalment** means that part of a Funding company loan tranche which at any time has been a scheduled amortisation loan tranche (even if such Funding company loan tranche has subsequently become a pass-through loan tranche).

A **pass-through loan tranche** means a loan tranche which has no scheduled repayment date other than the final repayment date. The loan tranches of Funding 1 from time to time will be all the loan tranches other than the cash accumulation loan tranches of Funding 1. If a pass-through trigger event occurs or the Funding 1 security or the issuer security is enforced, then the bullet loan tranches and the scheduled amortisation loan tranches (other than those in relation to money market notes) will be deemed to be pass-through loan tranches.

The **relevant accumulation amount** means the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or make a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, in each case on its scheduled repayment date (whether or not actually repaid on that scheduled repayment date).

The **repayment requirement** means, on a trust calculation date, the amount (if any) by which: the aggregate of all principal amounts that will be due and payable by a Funding company on the next Funding company interest payment date in respect of the Funding company loan tranches made to that Funding company on the basis:

- (a) that there would be no deferral of those Funding company loan tranches due to the operation of applicable deferral rules (e.g. in respect of Funding 1 (separate rules may apply to further Funding companies), pursuant to Rule (1) as described below in "**Cashflows – Distribution of Funding 1 available principal receipts – The rules**");

(b) in respect of Funding 1 only (separate rules may apply to further Funding companies), where Rule (2) set out in that section applies to an intercompany loan, that the amount so payable by Funding 1 in respect of loan tranches and new loan tranches (where applicable) (other than bullet loan tranches and scheduled amortisation instalments) under that intercompany loan shall be treated as the lesser of:

- (A) the amount due and payable in respect of those loan tranches and new loan tranches (where applicable);
- (B) the aggregate amount that may be repaid by Funding 1 on a Funding 1 interest payment date in respect of those loan tranches and new loan tranches (where applicable) if Rule (2) applies;

and

- (C) the remaining mortgages trust available principal receipts after paying or providing for amounts set out in items (a) to (c) (inclusive) of the mortgages trust principal priority of payments;
- (c) that Funding company loan tranche will be treated as due and payable if they are already due and payable, or would become due and payable on or before the next Funding company interest payment date in accordance with the terms of the relevant Funding 1 pre-acceleration principal priorities of payment or, in respect of each further Funding company, the relevant principal priorities of payment for that further Funding company; and
- (d) that amounts due and payable to that Funding company in respect of bullet loan tranches and scheduled amortisation instalments are excluded,

exceeds the sum of:

- (i) the amounts standing to the credit of the principal ledger of that Funding company as at the last Funding company interest payment date (which amount was not distributed on that Funding company interest payment date); and
- (ii) the sum of each repayment requirement amount paid to the relevant Funding company on a previous distribution date during the relevant Funding company interest period.

A **scheduled amortisation instalment** means that part of a scheduled amortisation loan tranche which is payable on each of the scheduled repayment dates of that Funding company loan tranche.

A **scheduled amortisation loan tranche** means any Funding company loan tranche which is scheduled to be repaid in multiple instalments (being scheduled amortisation instalments) on scheduled repayment dates in accordance with the terms of the relevant debt instruments of the Funding companies. In respect of any scheduled amortisation loan tranches made to Funding 1 under the intercompany loan agreement, such scheduled amortisation loan tranches will be deemed to be pass-through loan tranches if:

- a trigger event occurs;
- in respect of the scheduled amortisation loan tranches made by the issuer, the security granted by the issuer is enforced; or
- the security granted by Funding 1 is enforced.

As at the initial closing date, the scheduled amortisation loan tranches to be made by the issuer to Funding 1 are set out in the final terms accompanying this prospectus together with their scheduled amortisation instalments. Any scheduled amortisation loan tranches made to Funding 1 after the initial closing date will be notified to noteholders in the first investor report available after the date such scheduled amortisation loan tranche is made.

If a scheduled amortisation loan tranche is made to any further Funding company, the amount and scheduled repayment dates of each scheduled amortisation instalment will be notified to noteholders in the first investor report available after the date such scheduled amortisation loan tranche is made.

There may be circumstances when the scheduled amortisation loan tranches made to a further Funding company will be deemed to be pass-through loan tranches.

A **scheduled repayment date** means the Funding company interest payment date when a Funding company is required to repay a bullet loan tranche or make a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche. If bullet loan tranches or scheduled amortisation loan tranches are made to a further Funding company, the scheduled repayment date of those loan tranches will be notified to noteholders in the first investor report published after the date such bullet loan tranches or scheduled amortisation loan tranches are made.

A **trigger event** means an asset trigger event and/or a non-asset trigger event.

#### **Mortgages trust calculation of principal receipts**

**Mortgages trust available principal receipts** are calculated by the cash manager on each trust calculation date and will be equal to the amount that is standing to the credit of the principal ledger on that trust calculation date.

The cash manager will calculate the repayment requirement and the cash accumulation requirement on each trust calculation date and the relevant amounts will be notified to the mortgages trustee (who will be entitled to rely on such notifications).

#### ***Mortgages trust allocation and distribution of principal receipts prior to the occurrence of a trigger event***

On each distribution date (the **relevant distribution date**) where no trigger event has occurred on or before the immediately preceding trust calculation date, the cash manager will apply mortgages trust available principal receipts, special contributions and refinancing contributions as follows (the **mortgages trust principal priority of payments**):

- (a) first, *pari passu* and *pro rata* if any of Funding 1 and/or any further Funding company has a cash accumulation requirement on that distribution date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by the Funding 1 share percentage and (2) an amount up to but not exceeding the sum of Funding 1's cash accumulation requirement (if any) on that distribution date; and
  - (ii) to allocate and pay to each further Funding company an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by the relevant Funding company share percentage and (2) an amount up to but not exceeding the sum of such further Funding company's cash accumulation requirement (if any) on that distribution date;
- (b) then, *pari passu* and *pro rata*:
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's cash accumulation requirement (if any) on that distribution date after taking into account any amounts received by Funding 1 in accordance with item (a)(i) above; and
  - (ii) to allocate and pay to each further Funding company an amount up to but not exceeding that further Funding company's cash accumulation requirement (if any) on that distribution date after taking into account any amounts received by such further Funding company in accordance with item (a)(ii) above;
- (c) then, *pari passu* and *pro rata*, if any of Funding 1 and/or any further Funding companies has a repayment requirement on that distribution date:
  - (i) to allocate and pay to Funding 1 an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by the relevant Funding company share percentage and (2) an amount up to but not exceeding the sum of Funding 1's repayment requirement (if any) on that distribution date; and

- (ii) to allocate and pay to each further Funding company an amount equal to the lesser of (1) all remaining mortgages trust available principal receipts multiplied by that further Funding company's Funding company share percentage and (2) an amount up to but not exceeding the sum of such further Funding company's repayment requirement (if any) on that distribution date;
- (d) then, *pari passu* and *pro rata*:
  - (i) to allocate and pay to Funding 1 an amount up to but not exceeding Funding 1's repayment requirement (if any) on that distribution date after taking into account any amounts received by Funding 1 in accordance with item (c)(i) above; and
  - (ii) to allocate and pay to each further Funding company an amount up to but not exceeding such further Funding company's repayment requirement (if any) on that distribution date after taking into account any amounts received by such further Funding company in accordance with item (c)(ii) above; and
- (e) finally, provided that the seller share of the trust property on the immediately preceding trust calculation date is not less than the minimum seller share, to allocate and pay all remaining mortgages trust available principal receipts to the seller,

provided that, in relation to items (a) to (e) above, the following rules shall apply:

- (a) the amount of mortgages trust available principal receipts to be allocated and paid:
  - (i) to Funding 1 on a distribution date will be reduced by an amount equal to the aggregate of Funding 1 available revenue receipts which are to be applied on the immediately succeeding Funding 1 interest payment date in reduction of deficiencies on the principal deficiency ledger; and
  - (ii) to such further Funding company on a distribution date will be reduced by an amount equal to the aggregate of available revenue receipts of such further Funding company which are to be applied on the immediately succeeding relevant Funding company interest payment date in reduction of deficiencies on the principal deficiency ledger(s) of the relevant Funding company,

but in each case only to the extent that (following any such reduction) amounts falling due under items (a), (b), (c) and (d) above are still able to be paid in full;
- (b) a Funding company will not be entitled to have allocated to it (nor will it have allocated to it or receive) in aggregate an amount of mortgages trust available principal receipts from the mortgages trustee on a distribution date which is in excess of:
  - (i) in respect of Funding 1, the Funding 1 share on such distribution date;
  - (ii) in respect of each further Funding company, such further Funding company share on such distribution date; and
- (c) if on any trust calculation date prior to the occurrence of a non-asset trigger event the seller share is less than the minimum seller share:
  - (i) the mortgages trustee will make provision in an amount which would have been payable to the seller if the seller share of the trust property had been greater than the minimum seller share; and
  - (ii) the seller will not receive nor have allocated to it any amount so provided for by the mortgages trustee in item (e) above until such time as the seller share is greater than the minimum seller share and provided that (i) the seller will not receive nor will have allocated to it any such amount if a non-asset trigger event occurs and is occurring and (ii) if an asset trigger event occurs and is occurring, the seller will have allocated to it and will be paid such amount but only to the extent permitted by the rules governing distribution of principal receipts after the occurrence of an asset trigger event.

***Mortgages trust allocation and distribution of principal receipts on or after the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event***

On each distribution date after the occurrence of a non-asset trigger event and until the occurrence of an asset trigger event, the cash manager will apply all mortgages trust available principal receipts by way of allocation and payment to the Funding companies *pari passu* and *pro rata* according to the Funding 1 share and the applicable Funding company share, respectively, of trust property until each of the Funding 1 share and the Funding company share of trust property (as calculated on the trust calculation date falling in the immediately preceding trust calculation period) is zero. The remainder, if any, of such receipts will be allocated and paid to the seller.

Following the occurrence of a non-asset trigger event, the notes will be subject to prepayment risk (that is, they may be repaid earlier than expected). See above “**Risk factors – The occurrence of a non-asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**”.

***Mortgages trust allocation and distribution of principal receipts on or after the occurrence of an asset trigger event***

On each distribution date after the occurrence of an asset trigger event, the cash manager will allocate and pay all mortgages trust available principal receipts, *pari passu* and *pro rata*, to Funding 1, each further Funding company and the seller according to the Funding 1 share percentage, the relevant further Funding company percentage and the seller share percentage, respectively (in each case as calculated on the trust calculation date falling in the immediately preceding trust calculation period), until each of the Funding 1 share and each further Funding company share of the trust property is zero. Following the occurrence of an asset trigger event, the making of allocations and payments to the seller may reduce the seller share below the minimum seller share.

Notwithstanding the foregoing, if a sale date has occurred during the trust calculation period immediately preceding such distribution date, the cash manager on behalf of the mortgages trustee will apply all principal receipts by way of allocation and payment between and to Funding 1, each further Funding company and the seller according to the weighted average Funding 1 share (principal) percentage, the relevant weighted average further Funding company share (principal) percentage and the weighted average seller share (principal) percentage, for that distribution date, until each of the Funding 1 share and each further Funding company share of the trust property is zero.

Following the occurrence of an asset trigger event, it is possible that the notes of any series may not be repaid in full by their respective final maturity dates. See above “**Risk factors – The occurrence of an asset trigger event may accelerate the repayment of certain notes and/or delay the repayment of other notes**”.

**Losses**

All losses arising on the loans will be applied in reducing each beneficiary's share of the trust property.

Save as otherwise provided, each beneficiary's share of the losses will be determined on any date by multiplying the amount of losses by:

- in relation to Funding 1, the Funding 1 share percentage;
- in relation to each further Funding company, the relevant further Funding company share percentage; and
- in relation to the seller, the seller share percentage,

in each case as calculated on the trust calculation date in the immediately preceding trust calculation period, until the share of each beneficiary in the trust property is zero, regardless of the requirements in relation to the minimum seller share.

However, if, during the trust calculation period immediately preceding a trust calculation date, the seller has sold new loans to the mortgages trustee or a further contribution (excluding a seller contribution) is made by a beneficiary, then the amount of losses shall be multiplied by, as

applicable, the weighted average Funding 1 share (losses) percentage, the relevant weighted average further Funding company share (losses) percentage of each further Funding company and the weighted average seller share (losses) percentage, in each case as calculated for the immediately preceding trust calculation period on that trust calculation date, rather than the then current Funding 1 share percentage, the then current further Funding company share percentage and the then current seller share percentage, respectively.

#### **Disposal of trust property**

The trust property is held on bare trust for the benefit of Funding 1, any further Funding companies and the seller absolutely. Subject as provided otherwise in the mortgages trust deed and the other transaction documents, the mortgages trustee is not entitled to dispose of the trust property or create any security interests over the trust property.

If an event of default occurs under the intercompany loan agreement relating to Funding 1 and (following the service on Funding 1 of an intercompany loan acceleration notice) the Funding 1 security trustee enforces the Funding 1 security, then the Funding 1 security trustee will be entitled, among other things, to sell the Funding 1 share of the trust property (see "**Summary of the transaction documents – Funding 1 deed of charge**" above).

#### **Additions to and reductions in the trust property**

An overpayment made by a borrower under a flexible loan will constitute a principal receipt in respect of the relevant loan and shall be distributed to the beneficiaries in accordance with the mortgages trust principal priority of payments, and this will result in a reduction of the outstanding principal balance of the relevant loan by the amount of such overpayment on the following day.

If a borrower makes a cash withdrawal under a flexible loan, then pursuant to the terms of the mortgage sale agreement, the seller will be solely responsible for funding that cash withdrawal. Similarly, pursuant to the terms of the mortgage sale agreement, the seller will be solely responsible for funding any further advance made to a borrower. Any cash withdrawal or further advance made to a borrower will increase the outstanding principal balance of the relevant loan with effect from the following day and will increase the seller share in the trust property, in each case by the amount of that cash withdrawal or further advance on as calculated the next trust calculation date.

If a borrower exercises a right to make an underpayment or take a payment holiday under a flexible loan, then that will increase the current balance of the loan with effect from the following day by an amount equal to the amount of interest not paid on the relevant loan in the month during which such underpayment or payment holiday option is exercised. Prior to an insolvency event in respect of the seller, the seller shall make a seller contribution to the mortgages trustee in an amount equal to the unpaid interest element otherwise payable under any loan which is subject to an underpayment or payment holiday. If the seller makes such a seller contribution, then it will be deemed to be a revenue receipt, and only the seller share of the trust property shall increase by a corresponding amount. The seller may cease making such contributions if it is subject to an insolvency event.

#### **Increasing the shares of the Funding companies by way of further contributions and additional initial contributions**

If Funding 1 or any further Funding company enters into a new intercompany loan, then any such Funding company may apply the proceeds of that new intercompany loan as either a further contribution on a further contribution date or an additional initial contribution to the mortgages trust on a sale date to increase its beneficial interest in, and the Funding 1 share or the relevant further Funding company share (as applicable) of, the trust property on a distribution date. A Funding company will be permitted to do this only if certain conditions are met, including *inter alia*:

- (a) no event of default under the transaction documents or the transaction documents relating to any further Funding company has occurred and is continuing or unwaived as at the relevant further contribution date or sale date (as applicable);

- (b) no deficiency was recorded on the principal deficiency ledger or any further Funding company principal deficiency ledger (as applicable) as at the relevant further contribution date or sale date (as applicable);
- (c) the rating agencies have confirmed in writing that the proposed increase in the Funding 1 or the relevant further Funding company share (as applicable) would not cause the then current ratings of the notes (or any new notes, as applicable) then outstanding to be downgraded, withdrawn or qualified; and
- (d) as of the last day of the immediately preceding trust calculation period, the aggregate current balance of the loans in the trust property, in respect of which the aggregate amount in arrears is more than 3 times the monthly payment then due, is less than 4 per cent. of the aggregate current balance of the loans in the trust property as of such date, unless the rating agencies have confirmed that the then current ratings of the notes (or any new notes, as applicable) then outstanding will not be downgraded, withdrawn or qualified as a result of any increase in, as applicable, the Funding 1 share or the Funding company share of the trust property.

### **Special distributions**

Pursuant to the terms of the mortgages trust deed, the Funding companies and the seller will agree that amounts held by the mortgages trustee on any date in respect of any further contribution (other than a refinancing contribution) paid by any Funding company to the mortgages trustee (therefore excluding, for the avoidance of doubt, seller contributions) will be allocated and paid by the mortgages trustee to the seller as a distribution (a **special distribution**) from the mortgages trust on such date whether or not such date is a distribution date. The payment of any such special distribution will reduce the seller share of the trust property with a corresponding increase to the relevant Funding company's share of the trust property.

### **Refinancing distributions**

Each of the beneficiaries may make a refinancing contribution (being a contribution designated as such by the beneficiary) to the mortgages trustee from time to time. A refinancing contribution is a cash payment made by a beneficiary to the mortgages trustee, which the relevant beneficiary directs the mortgages trustee to apply to reduce the share of another beneficiary (other than the seller) in the trust property. A beneficiary may only give such a direction to the mortgages trustee with the prior consent of the relevant Funding company whose share in the trust property will be reduced. In respect of Funding 1 the consent of the Funding 1 security trustee will also be required. Similarly, in the case of each further Funding company, the relevant further Funding security trustee's consent will be required.

Pursuant to the terms of the mortgages trust deed, the beneficiaries will agree that amounts held by the mortgages trustee on any date in respect of any refinancing contribution paid by a beneficiary to the mortgages trustee on that date will be allocated and paid by the mortgages trustee to the relevant Funding company as a refinancing distribution (a **refinancing distribution**) from the mortgages trust on such date whether or not such date is a distribution date. The payment of any such refinancing distribution will reduce the share of the receiving Funding company with a corresponding increase to the contributing beneficiary's share of the trust property.

If a further Funding company enters into new loan tranches that would have the effect of extending the Funding 1 cash accumulation period in respect of any cash accumulation loan tranche that is, as at the date that such new loan tranche is entered into, in a cash accumulation period or which would, as a result of the issue of that such new loan tranche, be in a cash accumulation period (each an **affected cash accumulation loan tranche**), then the proceeds of such new loan tranche must be applied to make a refinancing contribution to the mortgages trustee. The mortgages trustee shall apply the proceeds of such refinancing contribution to make a refinancing distribution to Funding 1 in an amount equal to the lesser of:

- (a) the aggregate cash accumulation requirement of Funding 1 in respect of each affected cash accumulation loan tranche; and



- (b) the net proceeds of the debt to be issued by such further Funding company.

Certain conditions will apply to the right of the seller to make refinancing contributions and hence increase the seller share of the trust property with a corresponding decrease in the relevant Funding company share of the trust property. In respect of a refinancing contribution to be made by the seller to Funding 1, these are:

- (a) each of the rating agencies has confirmed to Funding 1 that the then current ratings of the notes then outstanding would not be downgraded, withdrawn or qualified as a result thereof; and
- (b) Funding 1 agrees to apply the proceeds of that refinancing contribution to repay (in whole or in part) a loan tranche made to it.

**Termination of the mortgages trust**

The mortgages trust will terminate on the later to occur of the date on which there is no remaining trust property or, if earlier, the date on which:

- (a) all of the loan tranches and all new loan tranches have been repaid in full;
- (b) the Funding 1 share of the trust property and each Funding company share of the trust property has been reduced to zero; or
- (c) the beneficiaries collectively agree to terminate the mortgages trust,

so long as all amounts due from the Funding companies to their respective secured creditors have been repaid in full.

Subject to applicable law, the beneficiaries are not entitled to remove or replace the mortgages trustee as the trustee of the mortgages trust. The mortgages trustee is not entitled to retire as the trustee of the mortgages trust or appoint any additional trustee of the mortgages trust.

**Governing law**

The mortgages trust deed will be governed by English law.

## CASHFLOWS

### Definition of Funding 1 available revenue receipts

**Funding 1 available revenue receipts** for each Funding 1 interest payment date will be calculated by the cash manager on the day falling four business days prior to such Funding 1 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available revenue receipts distributed or to be distributed to Funding 1 during the then current interest period;
- other net income of Funding 1 including all amounts of interest received on the Funding 1 GIC account, the Funding 1 transaction account and/or in respect of authorised investments and amounts received by Funding 1 under the Funding 1 swap agreement (other than any early termination amount received by Funding 1 under the Funding 1 swap agreement), in each case to be received during the then current interest period;
- the amounts then standing to the credit of the general reserve ledger, subject to any limits or conditions on the purposes for which the general reserve fund may be utilised;
- if a liquidity reserve fund rating event has occurred and is continuing, and there are no amounts standing to the credit of the general reserve ledger, the amounts then standing to the credit of the liquidity reserve ledger and available to be drawn to the extent necessary to pay items (a) to (g) in the Funding 1 pre-acceleration revenue priority of payments;
- if a liquidity reserve fund rating event has occurred but is no longer continuing due to an increase in the seller's rating since the preceding Funding 1 interest payment date, and Funding 1 elects to terminate the liquidity reserve fund, all amounts standing to the credit of the liquidity reserve ledger;
- any amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required amount as a result of a reduction in the liquidity reserve fund required amount;
- any amount available to be drawn by Funding 1 under the Funding 1 liquidity facility (if established) for payment of any amounts other than Funding 1 liquidity facility principal payments or Funding 1 liquidity facility subordinated payments (as agreed under the terms of the Funding 1 liquidity facility agreement); and
- (only to the extent required after making the calculation set out below) the aggregate of all Funding 1 principal receipts (if any) which are applied on the relevant Funding 1 interest payment date to pay up to the applicable limits items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

Funding 1 available revenue receipts does not include:

- any refinancing contribution which is applied to reduce the Funding 1 share of the trust property during the Funding 1 interest period ending on the relevant Funding 1 interest payment date as described above in "**The mortgages trust**"; or
- any proceeds of a new intercompany loan received by Funding 1 during the Funding 1 interest period ending on the relevant Funding 1 interest payment date as described above in "**Summary of the transaction documents – The intercompany loan agreement – New intercompany loan agreements**".

Four business days prior to each Funding 1 interest payment date, the cash manager will calculate whether Funding 1 available revenue receipts (as calculated above) will be sufficient to pay items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

If the cash manager determines that there is an insufficiency, then Funding 1 shall pay or provide for that insufficiency by applying amounts then standing to the credit of (a) first, the Funding 1 principal ledger (if any) and (b) second, any amounts standing to the credit of the cash accumulation ledger after deducting the amounts standing to the credit of the Funding 1 principal

ledger (if any) from such ledger, and the cash manager shall make a corresponding entry in the relevant principal deficiency ledger, as described below in “**Credit structure – Principal deficiency ledger**”. Funding 1 principal receipts thus applied may not be used to pay interest on any loan tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a loan tranche with a higher rating designation. If there are no (or insufficient) amounts standing to the credit of the Funding 1 principal ledger and the cash accumulation ledger to cure such insufficiency, then the cash manager will direct Funding 1 to request a drawing under the liquidity reserve fund to apply towards the revenue shortfall in accordance with the Funding 1 pre-acceleration revenue priority of payments. See “**Credit structure – Liquidity reserve fund**” and “**Credit structure – Funding 1 liquidity facility agreement**” below.

If the cash manager determines that there is an excess of Funding 1 available revenue receipts over the amount required to pay the specified items in the Funding 1 pre-acceleration revenue priority of payments, then Funding 1 shall apply such excess to extinguish any balance on the principal deficiency ledger, as described below in “**Credit structure – Principal deficiency ledger**”.

#### **Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**

This section sets out the priority of payments of Funding 1 available revenue receipts as at the initial closing date.

Except for amounts due to third parties (other than parties to the transaction documents) by the issuer and/or Funding 1 under item (a) or amounts due to the Funding 1 account bank and/or the issuer account bank, which will be paid when due, on each Funding 1 interest payment date prior to the service of an intercompany loan acceleration notice on Funding 1, the cash manager will apply (i) the Funding 1 available revenue receipts for such date and (ii) if Funding 1 available revenue receipts for such date are insufficient to pay items (a) to (e) inclusive, (g), (j), (l) and (n) below, amounts standing to the credit of the Funding 1 principal ledger and the cash accumulation ledger (in the manner described above) in the following priority (the **Funding 1 pre-acceleration revenue priority of payments**):

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - the Funding 1 security trustee (together with interest and any amount in respect of VAT thereon) and to provide for any amounts due or to become due in the immediately following interest period to the Funding 1 security trustee under the Funding 1 deed of charge;
  - to pay amounts due to the issuer by way of payment of the fee under the intercompany loan agreement in respect of the issuer’s obligations specified in items (a) to (c) inclusive of the issuer pre-acceleration revenue priority of payments or, as the case may be, items (a) and (b) of the issuer post-enforcement priority of payments, as described in “– **Distribution of issuer revenue receipts before note acceleration**” and “– **Distribution of issuer revenue receipts after note acceleration but before intercompany loan acceleration**” below; and
  - any third party creditors of Funding 1 (other than those referred to later in this priority of payments), which amounts have been incurred without breach by Funding 1 of the transaction documents to which it is a party (and for which payment has not been provided for elsewhere) and to provide for any of these amounts expected to become due and payable in the immediately following interest period by Funding 1 and to pay or discharge any liability of Funding 1 for corporation tax on any chargeable income or gain of Funding 1;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts, if any, due and payable (in each case together with any VAT thereon) to the cash manager under the terms of the cash management agreement, to the account bank under the terms of the Funding 1 bank account agreement, to the

Funding 1 corporate services provider under the corporate services agreement in relation to Funding 1 and Holdings, to the PECO corporate services provider under the corporate services agreement in relation to the post-enforcement call option holder and to Alliance & Leicester under the terms of the secretarial services agreement;

- (c) to pay amounts due to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility agreement (if established) (except for amounts drawn thereunder to make Funding 1 liquidity facility principal payments and any Funding 1 liquidity facility subordinated amounts);
- (d) towards payment of all amounts (if any) due and payable to the Funding 1 swap provider under the Funding 1 swap agreement (including termination payments, but excluding any Funding 1 swap excluded termination amount (as defined later in this section));
- (e) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the AAA loan tranches;
- (f) towards a credit to the AAA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (g) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the AA loan tranches;
- (h) if a liquidity reserve fund rating event has occurred and is continuing, towards a credit to the liquidity reserve ledger to the extent the amount standing to the credit thereof is less than the liquidity reserve fund required amount, taking into account any net replenishment of the liquidity reserve fund on that Funding 1 interest payment date from Funding 1 available principal receipts (see item (c) of the relevant Funding 1 pre-acceleration principal priority of payments);
- (i) towards a credit to the AA principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (j) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the A loan tranches;
- (k) towards a credit to the A principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (l) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the BBB loan tranches;
- (m) towards a credit to the BBB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (n) without priority among them, but in proportion to the respective amounts due, towards payment of interest due and payable on the BB loan tranches;
- (o) towards a credit to the BB principal deficiency sub-ledger in an amount sufficient to eliminate any debit on that ledger;
- (p) towards payment of any amounts due to the issuer in respect of its obligations (if any) to make a termination payment to an issuer swap provider (but excluding any issuer swap excluded termination amount);
- (q) towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount, taking into account any net replenishment of the general reserve fund on that Funding 1 interest payment date from Funding 1 available principal receipts (see item (b) of the relevant Funding 1 pre-acceleration principal priority of payments);
- (r) without priority among them but in proportion to the respective amounts due, to pay
  - to the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount;

- any other amounts due to the issuer under the intercompany loan agreement and not otherwise provided for in this priority of payments;
  - any Funding 1 swap excluded termination amount due and payable by Funding 1 under the Funding 1 swap agreement; and
  - to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility (if established) of Funding 1 liquidity subordinated amounts (as agreed under the terms of the Funding 1 liquidity facility agreement);
- (s) without priority among them but in proportion to the respective amounts due, towards payment of amounts due to the Funding 1 start-up loan provider under the Funding 1 start-up loan agreements;
- (t) towards payment to Funding 1 of an amount equal to 0.01 per cent. of the Funding 1 available revenue receipts; and
- (u) toward payment of any deferred contribution due to the mortgages trustee pursuant to the terms of the mortgages trust deed.

#### **Definition of issuer revenue receipts**

**Issuer revenue receipts** will be calculated by the issuer cash manager four business days prior to each interest payment date and will be an amount equal to the sum of:

- interest to be paid by Funding 1 on the relevant Funding 1 interest payment date in respect of the loan tranches under the intercompany loan which correspond to notes with interest payment dates corresponding to such Funding 1 interest payment date;
- interest previously paid by Funding 1 on a previous Funding 1 interest payment date and required to be held in the issuer GIC account until such interest payment date;
- fees to be paid to the issuer by Funding 1 on the relevant Funding 1 interest payment date under the terms of the intercompany loan;
- interest payable on the issuer transaction account and (if established) the issuer GIC account and any income from authorised investments which will be received on or before the relevant interest payment date; and
- other net income of the issuer including amounts received or to be received under the issuer swap agreements on or before the relevant interest payment date (other than any early termination amount received by the issuer under any issuer swap agreement to the extent used to purchase any replacement issuer swap) and including any amount received by the issuer by way of any premium paid by any replacement issuer swap provider which is not applied to pay any termination payment under such swap being replaced but excluding (i) the return or transfer of any excess swap collateral as set out under any of the issuer swap agreements and (ii) in respect of each issuer swap provider, prior to the designation of an early termination date under the relevant issuer swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof).

On each Funding 1 interest payment date, all Funding 1 available revenue receipts received by the issuer in respect of interest paid on a loan tranche will be credited to a sub-ledger (in respect of the related series and class of notes) to the ledger on which the issuer cash manager records issuer revenue receipts received and paid out of the issuer (the **issuer revenue ledger**).

#### **Distribution of issuer revenue receipts before note acceleration**

The issuer cash management agreement sets out the priority of distribution by the issuer cash manager, prior to the service of a note acceleration notice on the issuer, of issuer revenue receipts and issuer principal receipts on each interest payment date. The order of priority will be as described in this section as supplemented by the final terms related to each series.

Except for amounts due to third parties by the issuer under item (b) below or amounts due to the issuer account bank under item (c) below, which will be paid when due, on each interest payment date the issuer cash manager will apply issuer revenue receipts in the following manner (the issuer pre-acceleration revenue priority of payments):

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - the issuer security trustee, together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due during the following interest period to the issuer security trustee under the issuer deed of charge;
  - the note trustee, together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due during the following interest period to the note trustee under the note trust deed; and
  - the agent bank, the paying agents, the registrar, the exchange rate agent (if applicable) and the transfer agent (if any), together with interest and any amount in respect of VAT thereon, and any costs, charges, liabilities and expenses then due or to become due during the following interest period to the agent bank, the registrar, the transfer agent, the exchange rate agent (if applicable) and the paying agents under the paying agent and agent bank agreement;
- (b) to pay amounts due to any third party creditors of the issuer (other than those referred to later in this priority of payments), which amounts have been incurred without breach by the issuer of the transaction documents to which it is a party and for which payment has not been provided for elsewhere and to provide for any of those amounts expected to become due and payable during the following interest period by the issuer and to pay or discharge any liability of the issuer for corporation tax on any chargeable income or gain of the issuer;
- (c) without priority among them but in proportion to the respective amounts due, to pay amounts due, together with any amount in respect of VAT thereon as provided therein, and to provide for any amounts due, or to become due, in the immediately following interest period, to the issuer cash manager under the issuer cash management agreement, to the issuer corporate services provider under the issuer corporate services agreement, to the issuer account bank under the issuer bank account agreement and to Alliance & Leicester under the terms of the secretarial services agreement;
- (d) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each AAA loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
  - (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class A notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class A notes on such interest payment date;
- (e) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each AA loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):

- (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class B notes (including any termination payment, but excluding any issuer, swap excluded, termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
- (ii) to pay interest due and payable (if any) on the related series and class of class B notes on such interest payment date;
- (f) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each A loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
  - (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class M notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class M notes on such interest payment date;
- (g) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each BBB loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
  - (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class C notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class C notes on such interest payment date;
- (h) from amounts (excluding principal) received by the issuer from Funding 1 in respect of each BB loan tranche or by way of fee in respect of any termination payment other than as excluded in respect of (i) below (and, in respect of (ii) below, the amounts (if any), excluding principal, received from the issuer swap provider(s) under the issuer swap agreement(s) in respect of the related series and class of notes):
  - (i) to pay the amounts due and payable to the relevant issuer swap provider(s) (if any) in respect of the related series and class of class D notes (including any termination payment, but excluding any issuer swap excluded termination amount) on such interest payment date in accordance with the terms of the relevant issuer swap agreement;
  - (ii) to pay interest due and payable (if any) on the related series and class of class D notes on such interest payment date;
- (i) without priority among them but in proportion to their respective amounts due, any issuer swap excluded termination amount due and payable by the issuer to an issuer swap provider;
- (j) to the issuer, an amount equal to 0.01 per cent. of the interest received by the issuer on the loan tranches, to be retained by the issuer as profit; and
- (k) the balance to the issuer.

Prior to the service of a note acceleration notice on the issuer, on each interest payment date, the amounts standing to the credit of any sub-ledger of the issuer revenue ledger (in respect of a

series and class of notes) may only be applied by the issuer cash manager to pay the interest and other amounts due in respect of such series and class of notes under the issuer pre-acceleration revenue priority of payments provided that to the extent that on any interest payment date, amounts standing to the credit of the issuer revenue ledger (excluding amounts standing to the credit of the sub-ledgers for each series and class of notes) are insufficient to pay items (a) to (c) of the issuer pre-acceleration revenue priority of payments, then the issuer cash manager will, in no order of priority among them but in proportion to the amount required, apply amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class D notes of each series on such date to meet such shortfall (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class C notes of each series (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class M notes of each series (until the balance of such sub-ledgers is zero), then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class B notes of each series (until the balance of such sub-ledgers is zero) and then amounts standing to the credit of the sub-ledgers of the issuer revenue ledger in respect of the class A notes (until the balance of such sub-ledgers is zero).

#### **Distribution of issuer revenue receipts after note acceleration but before intercompany loan acceleration**

Following the service of a note acceleration notice on the issuer, but prior to the service of an intercompany loan acceleration notice on Funding 1 under the Funding 1 deed of charge, the issuer cash manager or, if the issuer security has also been enforced, the issuer security trustee will apply issuer revenue receipts and any other amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf) in the same priority as set out in the issuer pre-acceleration revenue priority of payments, except that such amounts will be applied on the date of receipt or recovery, and:

- in addition to the amounts due to the issuer security trustee under item (a) of the issuer pre-acceleration revenue priority of payments, issuer revenue receipts will be applied to pay amounts due to any receiver appointed by the issuer security trustee together with interest and any amount in respect of VAT thereon, and to provide for any amounts due or to become due to the receiver during the following interest period; and
- the issuer security trustee will not be required to pay amounts due to any entity which is not an issuer secured creditor.

#### **Distribution of Funding 1 available principal receipts**

##### ***Payment of principal receipts to Funding 1 by the mortgages trustee***

On each distribution date, mortgages trust available principal receipts will be paid to Funding 1 in the manner and to the extent provided by the mortgages trustee principal priority of payments (see "**The mortgages trust – Mortgages trust calculation of principal receipts**" above) and shall be deposited in the Funding 1 GIC account and credited by the cash manager to the **Funding 1 principal ledger** (being a ledger maintained by the cash manager for Funding 1).

##### ***Definition of Funding 1 available principal receipts***

**Funding 1 available principal receipts** will be calculated by the cash manager on the day falling four business days prior to each Funding 1 interest payment date and will be an amount equal to the sum of:

- all mortgages trust available principal receipts received by Funding 1 during the interest period ending on the relevant Funding 1 interest payment date;
- all other Funding 1 principal receipts standing to the credit of the cash accumulation ledger which are to be applied on the next Funding 1 interest payment date to repay a bullet loan tranche and/or, subject to Rule (1) below, a scheduled amortisation instalment in respect of a scheduled amortisation loan tranche, or to make a payment under items



(a) and (b) of the Funding 1 pre-acceleration principal priority of payments and, if such Funding 1 interest payment date occurs on or after a trigger event, the remainder of such receipts standing to the credit of the cash accumulation ledger;

- the amount, if any, to be credited to the principal deficiency ledger pursuant to the terms of the Funding 1 pre-acceleration revenue priority of payments on the relevant Funding 1 interest payment date;
- in so far as available for and needed to make a reserve principal payment (see “**Credit structure – General reserve fund**” below), the amount that would then be standing to the credit of the general reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments, plus any amounts which will be credited to the general reserve ledger under item (b) of the relevant Funding 1 pre-acceleration principal priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days);
- in so far as available for and needed to make a liquidity reserve principal payment (see “**Credit structure – Liquidity reserve fund**” below), the amount that would then be standing to the credit of the liquidity reserve ledger, less any amounts applied or to be applied on the relevant date in payment of interest and other revenue expenses as set out in items (a) to (g) of the Funding 1 pre-acceleration revenue priority of payments, plus any amounts which will be credited to the liquidity reserve ledger under item (c) of the relevant Funding 1 pre-acceleration principal priority of payments on the next Funding 1 interest payment date (i.e. occurring at the end of such period of four business days); and
- any amount available to be drawn under the Funding 1 liquidity facility (if established) to make a Funding 1 liquidity facility principal payment (as agreed under the terms of the Funding 1 liquidity facility agreement),

less amounts to be applied on the relevant Funding 1 interest payment date to pay items (a) to (e) (inclusive), (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

#### ***Due and payable dates of loan tranches***

The repayment of any loan tranche prior to the occurrence of a trigger event, service of a note acceleration notice or service of an intercompany loan acceleration notice will be made in accordance with the terms of the intercompany loan agreement. The accompanying final terms will specify the due and payable dates of the loan tranches related to the series of notes issued.

The following sections set out various priorities of payments for Funding 1 available principal receipts under the following circumstances, and are collectively referred to as the **Funding 1 pre-acceleration principal priority of payments**:

- repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes;
- repayment of loan tranches after a non-asset trigger event but before intercompany loan acceleration or acceleration of all notes;
- repayment of loan tranches after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes; and
- repayment of loan tranches after acceleration of all notes but before intercompany loan acceleration.

#### ***Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes***

On each Funding 1 interest payment date prior to the occurrence of a trigger event or the service on Funding 1 of an intercompany loan acceleration notice or the service on the issuer of a

note acceleration notice, the cash manager shall apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity fund reserve required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity fund reserve required amount;
- (d) in order of their final repayment dates, beginning with the earliest such date (and if two or more AAA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the principal amounts due (if any) on such Funding 1 interest payment date on the AAA loan tranches, in each case subject to Rules (1) and (2) below;
- (e) in no order of priority between them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the AA loan tranches, in each case subject to Rules (1) and (2) below;
- (f) in no order of priority between them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the A loan tranches, in each case subject to Rules (1) and (2) below;
- (g) in no order of priority between them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the BBB loan tranches, in each case subject to Rules (1) and (2) below;
- (h) in no order of priority between them, to repay the principal amounts due (if any) on such Funding 1 interest payment date on the BB loan tranches, in each case subject to Rules (1) and (2) below;
- (i) *then*, towards a credit to the cash accumulation ledger until the balance is equal to Funding 1's cash accumulation liability (as calculated after any payments are made at items (d) to (h) of this priority of payments); and
- (j) the remainder to be credited to the Funding 1 principal ledger.

**The rules**

In the applicable circumstances, the following rules apply in determining the amounts to be paid under items (d), (e), (f), (g) and (h) of the priority of payments set out above and below:

**Rule (1) – deferral of repayment of pass-through loan tranches and/or scheduled amortisation instalments in certain circumstances**

1. If on a Funding 1 interest payment date:
  - (a) there is a debit balance on the BB principal deficiency sub-ledger, the BBB principal deficiency sub-ledger, the A principal deficiency sub-ledger or the AA principal deficiency sub-ledger, after application of the Funding 1 available revenue receipts on that Funding 1 interest payment date; or
  - (b) the adjusted general reserve fund level is less than the general reserve required amount; or

- (c) the aggregate outstanding principal balance of loans in the mortgages trust, in respect of which the aggregate amount in arrears is more than three times the monthly payment then due, is more than 4 per cent. of the aggregate outstanding principal balance of loans in the mortgages trust,

then until the relevant circumstance as described in sub-paragraphs (a), (b) or (c) above has been cured or otherwise ceases to exist, if:

- (a) any AAA loan tranche (whether or not such AAA loan tranche is then due and payable) remains outstanding after making the payments under item (d) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (i) of the above priority of payments, then the AA loan tranches will not be entitled to principal repayments under item (e) of the above priority of payments;
  - (b) any AAA loan tranche or any AA loan tranche (whether or not such AAA loan tranche or AA loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) of the above priority of payments, and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (i) of the above priority of payments, then the A loan tranches will not be entitled to principal repayments under item (f) of the priority of payments set out above;
  - (c) any AAA loan tranche, any AA loan tranche or any A loan tranche (whether or not such AAA loan tranche, AA loan tranche or A loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) and/or (f) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (i) of the above priority of payments, then the BBB loan tranches will not be entitled to principal repayments under item (g) of the priority of payments set out above; and/or
  - (d) any AAA loan tranche, any AA loan tranche, any A loan tranche or any BBB loan tranche (whether or not such AAA loan tranche, AA loan tranche, A loan tranche or BBB loan tranche is then due and payable) remains outstanding after making the payments under items (d) and/or (e) and/or (f) and/or (g) of the above priority of payments and/or the balance of the cash accumulation ledger is not equal to the cash accumulation liability of Funding 1 after making payments under item (i) of the above priority of payments, then the BB loan tranches will not be entitled to principal repayments under item (h) of the priority of payments set out above.
2. If on a Funding 1 interest payment date in respect of which principal in respect of any loan tranche is scheduled to be paid:
- (a) for any AA loan tranche, the amount of principal due (or any part thereof) in respect of the AA loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount;
  - (b) for any A loan tranche, the amount of principal due (or any part thereof) in respect of the A loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount and the class B available subordinated amount is at least equal to the class B required subordinated amount;
  - (c) for any BBB loan tranche, the amount of principal due (or any part thereof) in respect of the BBB loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated

amount is at least equal to the class B required subordinated amount and the class M available subordinated amount is at least equal to the class M required subordinated amount;

- (d) for any BB loan tranche, the amount of principal due (or any part thereof) in respect of the BB loan tranche may only be paid if, after giving effect to such payment and the payment to be made on such date in respect of the related series and class of notes, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class M available subordinated amount is at least equal to the class M required subordinated amount and the class C available subordinated amount is at least equal to the class C required subordinated amount,

save that in calculating the class A available subordinated amount, the class B available subordinated amount, the class M available subordinated amount and the class C available subordinated amount for the purposes of the above, rating agency excess spread will be deemed to be zero.

See “**The issuance of notes**” above for a description of the various required subordinated amounts and available subordinated amounts.

3. If on a Funding 1 interest payment date:

- (a) one or more bullet loan tranches are within a cash accumulation period at that time (irrespective of whether any scheduled amortisation instalments are then in a cash accumulation period); and
- (b) either:
- (i) the quarterly CPR is less than 10 per cent.; or
  - (ii) both:
    - (A) the quarterly CPR is equal to or greater than 10 per cent., but less than 15 per cent., and
    - (B) the annualised CPR is less than 10 per cent.;

then on or before their step-up dates, the scheduled amortisation loan tranches will be entitled to principal repayments under items (d) and/or (e) and/or (f) and/or (g) and/or (h), of the priority of payments set out above only to the extent permitted under the scheduled amortisation repayment restrictions (as defined below).

For the purposes hereof:

**annualised CPR** means the result of:

$$1 - ((1 - M)^{12})$$

where:

**M** is expressed as a percentage and determined as at the most recent trust calculation date as indicated in the definition of **Funding 1 anticipated cash accumulation period** (see “**The mortgages trust – Definitions**” above);

**bullet accumulation liability** means, on any Funding 1 interest payment date prior to any payment under item (i) of the above priority of payments, the aggregate of each relevant accumulation amount at that time of each bullet loan tranche which is within a cash accumulation period;

**bullet accumulation shortfall** means, at any time, that the cash accumulation ledger amount is less than the bullet accumulation liability;

**cash accumulation ledger amount** means, at any time, the amount standing to the credit of the cash accumulation ledger at that time (immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (i) of the above priority of payments);

**cash accumulation liability** means, on any Funding 1 interest payment date, prior to any payment under item (i) of the above priority of payments the sum of:

- (1) the bullet accumulation liability at that time; and
- (2) the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period;

**scheduled amortisation repayment restrictions** means, on a Funding 1 interest payment date:

- (a) where there is no bullet accumulation shortfall at that time, the total amount withdrawn from the cash accumulation ledger on that Funding 1 interest payment date for repayment of the relevant scheduled amortisation instalments shall not exceed the cash accumulation ledger amount less the bullet accumulation liability at that time; and
- (b) where there is a bullet accumulation shortfall at that time:
  - (i) no amount may be withdrawn from the cash accumulation ledger on that Funding 1 interest payment date to be applied in repayment of the relevant scheduled amortisation instalments; and
  - (ii) thereafter, an amount may be applied in repayment of the relevant scheduled amortisation instalments if the sum of the cash accumulation ledger amount and the amount of Funding 1 available principal receipts after the application of items (b) and (c) and before item (d) of the above priority of payments is greater than the bullet accumulation liability of Funding 1 at that time.

**Rule (2) – repayment of payable pass-through loan tranches after a step-up date**

Following the occurrence of the step-up date under a series of loan tranches (**series A loan tranches**) and provided that the Funding 1 share of the trust property is greater than zero, the aggregate amount repaid on a Funding 1 interest payment date in relation to loan tranches (other than bullet loan tranches or scheduled amortisation instalments) comprising those series A loan tranches under items (d), (e), (f), (g) and (h) of the priority of payments set out above shall be limited to an amount calculated as follows:

$$\text{Funding 1 principal funds} \times \frac{\text{outstanding principal amount of series A loan tranches}}{\text{aggregate outstanding principal amount of all loan tranches}}$$

where **Funding 1 principal funds** means, in respect of any Funding 1 interest payment date, the sum of:

- (a) the aggregate of the following amount for each trust calculation period which has ended in the period from the previous Funding 1 interest payment date to the most recent trust calculation date, such amount being the product of:
  - (i) the Funding 1 share percentage or, as applicable, the weighted average Funding 1 share (principal) percentage, as calculated for the relevant trust calculation period; and
  - (ii) the aggregate amount of principal receipts received by the mortgages trustee during the relevant trust calculation period;
- (b) the amount credited to the principal deficiency ledger on the relevant Funding 1 interest payment date; and
- (c) the amount, if any, credited to the Funding 1 principal ledger pursuant to item (j) of the above Funding 1 pre-acceleration principal priority of payments on the immediately preceding Funding 1 interest payment date.

**Allocations involving Rule (2)**

Where Rule (2) applies at a level of any priority of payments, the funds available for making payments at that level shall first be allocated without reference to Rule (2). However, if the amount so allocated to one or more loan tranches exceeds the amount permitted under Rule (2) to be paid

in respect of those loan tranches (the **capped loan tranches**), the excess shall then be reallocated among any other relevant loan tranches at that level using the method of allocation as applies at that level but without reference to the capped loan tranches in calculating such reallocation. If a further such excess arises as a result of the reallocation process, the reallocation process shall be repeated at that level in relation to each such further excess that arises until no further funds can be allocated at that level following which the remaining excess shall then be applied at the next level of that priority of payments.

Rules 1 and 2 above are referred to in this prospectus as the **repayment tests**.

***Repayment of loan tranches after a non-asset trigger event but before intercompany loan acceleration or acceleration of all notes***

Following the occurrence of a non-asset trigger event (where no asset trigger event has occurred) under the mortgages trust deed but prior to the service on Funding 1 of an intercompany loan acceleration notice under the Funding 1 deed of charge or the service on the issuer of a note acceleration notice under the note trust deed, the bullet loan tranches and the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity reserve fund required amount;
- (d) in order of their final repayment dates, beginning with the earliest such date (and if two or more AAA loan tranches have the same final repayment date, in proportion to the respective amounts due) to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (e) in no order of priority between them, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (f) in no order of priority between them, to repay the A loan tranches until the A loan tranches are fully repaid;
- (g) in no order of priority between them, to repay the BBB loan tranches until the BBB loan tranches are fully repaid; and
- (h) in no order of priority between them, to repay the BB loan tranches until the BB loan tranches are fully repaid.

***Repayment of loan tranches after an asset trigger event but before intercompany loan acceleration notice or acceleration of all notes***

Following the occurrence of an asset trigger event (whether or not a non-asset trigger event occurs or has occurred) but prior to the service on Funding 1 of an intercompany loan acceleration notice under the Funding 1 deed of charge or the service on the issuer of a note acceleration notice under the note trust deed, the bullet loan tranches and the scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity reserve fund required amount;
- (d) without priority among them, but in proportion to the amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (e) without priority among them, but in proportion to the amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (f) without priority among them, but in proportion to the amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (g) without priority among them, but in proportion to the amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid; and
- (h) without priority among them, but in proportion to the amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid.

***Repayment of loan tranches after acceleration of all notes but before intercompany loan acceleration***

If a note acceleration notice is served on the issuer under the note trust deed, then that will not result in automatic enforcement of the Funding 1 security under the Funding 1 deed of charge. In those circumstances, however, the bullet loan tranches and any scheduled amortisation loan tranches will be deemed to be pass-through loan tranches and on each Funding 1 interest payment date (which shall, if not already the case, be a monthly payment date) Funding 1 will be required to apply Funding 1 available principal receipts in the following priority:

- (a) in accordance with the terms of the Funding 1 liquidity facility agreement, towards repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity facility principal payments;
- (b) to the extent only that monies have been drawn from the general reserve fund to make reserve principal payments, towards a credit to the general reserve ledger to the extent the amount standing to the credit thereof is less than the general reserve required amount;
- (c) if a liquidity reserve rating event has occurred and is continuing (i) to initially fund the liquidity reserve fund up to the liquidity reserve fund required amount and (ii) once it has been initially funded, to the extent that Funding 1 available revenue receipts are insufficient to do so, to replenish the liquidity reserve fund up to the liquidity fund reserve required amount;
- (d) without priority among them, but in proportion to the amounts due, to repay the AAA loan tranches until the AAA loan tranches are fully repaid;
- (e) without priority among them, but in proportion to the amounts due, to repay the AA loan tranches until the AA loan tranches are fully repaid;
- (f) without priority among them, but in proportion to the amounts due, to repay the A loan tranches until the A loan tranches are fully repaid;
- (g) without priority among them, but in proportion to the amounts due, to repay the BBB loan tranches until the BBB loan tranches are fully repaid; and

- (h) without priority among them, but in proportion to the amounts due, to repay the BB loan tranches until the BB loan tranches are fully repaid.

**Repayment of loan tranches when Funding 1 receives an amount outstanding under the proceeds of a new intercompany loan or a refinancing distribution**

If either:

- (a) the proceeds of a new intercompany loan are to be used to refinance all or part of the loan tranche under the intercompany loan made to Funding 1 as described above in “**Summary of the transaction documents – Intercompany loan agreement – New intercompany loan agreements**”; or
- (b) Funding 1 has received, or will receive during the Funding 1 interest period ending on the relevant Funding 1 interest payment date, a refinancing distribution funded by another beneficiary and either:
  - (i) the issuer has issued, or will issue within the period of 60 days of receipt of that refinancing distribution, an optional redemption notice to noteholders in the circumstances set out in (and in accordance with) the terms and conditions of the notes; or
  - (ii) with the consent of Funding 1 and the Funding 1 security trustee, the contributing beneficiary specifies that the proceeds of the refinancing distribution are to be applied (in whole or in part) by Funding 1 towards repayment of all or part of the loan tranche under the intercompany loan,

then Funding 1 will not apply the amount received under the new intercompany loan or the relevant refinancing distribution as described above in “– **Distribution of Funding 1 available principal receipts**”. Rather, Funding 1 will apply the amount received under the new intercompany loan or, as applicable, the relevant refinancing distribution to repay the relevant loan tranches under the intercompany loan after repayment of amounts outstanding under the Funding 1 liquidity facility (if established) that were drawn in order to make Funding 1 liquidity principal payments. If (at any time) only one loan tranche is outstanding under the intercompany loan, then Funding 1 shall apply the amount received under the new intercompany loan or, as applicable, the relevant refinancing distribution to repay such loan tranche.

**Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration**

The Funding 1 deed of charge sets out the priority of distribution of amounts received by the cash manager following the service of an intercompany loan acceleration notice on Funding 1 or, if the Funding 1 security has also been enforced, of amounts received or recovered by the Funding 1 security trustee (or a receiver appointed on its behalf) on the date of receipt or recovery of such amounts.

The cash manager will apply amounts received following the service of an intercompany loan acceleration notice on Funding 1 or, as applicable, the Funding 1 security trustee will apply amounts received or recovered following the enforcement of the Funding 1 security in accordance with the following priority (the **Funding 1 post-acceleration priority of payments**) on the date of receipt or recovery of such amounts:

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - (i) the Funding 1 security trustee and any receiver appointed by the Funding 1 security trustee, together with interest and any amount in respect of VAT thereon as provided therein, and to provide for any amounts due or to become due to the Funding 1 security trustee and the receiver in the following interest period under the Funding 1 deed of charge; and
  - (ii) the issuer in respect of the issuer’s obligations specified in items (a) and (b) of the issuer post-enforcement priority of payments;



- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts (if any) due to the cash manager under the terms of the cash management agreement, to the account bank under the terms of the bank account agreement, to the corporate services provider under the corporate services agreements relating to Funding 1, Holdings and the post-enforcement call option holder and to Alliance & Leicester under the secretarial services agreement;
- (c) towards payment of amounts due to the Funding 1 liquidity facility provider under the Funding 1 liquidity facility agreement (if established) (except for any Funding 1 liquidity facility subordinated amounts);
- (d) towards payment of amounts (if any) due to the Funding 1 swap provider under the Funding 1 swap agreement (including any termination payment, but excluding any Funding 1 swap excluded termination amount);
- (e) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the AAA loan tranches;
- (f) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the AA loan tranches;
- (g) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the A loan tranches;
- (h) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the BBB loan tranches;
- (i) without priority among them, but in proportion to the respective amounts due, towards payments of interest, principal and fees due and payable on the BB loan tranches;
- (j) towards payment of any amounts due to the issuer in respect of its obligations (if any) to make a termination payment to an issuer swap provider (but excluding any issuer swap excluded termination amount);
- (k) without priority among them but in proportion to the respective amounts due, to pay (without double counting):
  - (i) amounts due to the issuer in respect of its obligations (if any) to pay any issuer swap excluded termination amount to an issuer swap provider following an issuer swap provider default or an issuer swap provider downgrade termination event (as appropriate);
  - (ii) any other amounts due to the issuer under the intercompany loan agreement and not otherwise provided for earlier in this priority of payments;
  - (iii) any Funding 1 swap excluded termination amounts due to the Funding 1 swap provider; and
  - (iv) the Funding 1 liquidity facility provider under the Funding 1 liquidity facility (if established) any Funding 1 liquidity facility subordinated amounts (as agreed under the terms of the Funding 1 liquidity facility agreement);
- (l) without priority among them but in proportion to the amounts then due, towards payment of amounts due to the Funding 1 start-up loan provider under the Funding 1 start-up loan agreements.

#### **Definition of issuer principal receipts**

Prior to the service of a note acceleration notice, **issuer principal receipts** will be calculated by the issuer cash manager four business days prior to each Funding 1 interest payment date and will be an amount equal to all principal amounts to be repaid by Funding 1 to the issuer under the intercompany loan during the relevant interest period. Following the service of a note acceleration notice on the issuer, but prior to the the service of an intercompany loan acceleration notice on Funding 1, **issuer principal receipts** means the sum calculated by the issuer cash manager or, if the issuer security has also been enforced, by the issuer security trustee four business days prior to each interest payment date as the amount to be repaid by Funding 1 to the issuer under the

intercompany loan during the relevant interest period or, as the case may be, the sum recovered by the issuer security trustee (or the receiver appointed on its behalf) on any other business day representing the principal balance of the intercompany loan.

On each interest payment date, all Funding 1 available principal receipts received by the issuer from Funding 1 constituting principal repayments on a loan tranche will be credited to a sub-ledger (in respect of the related series and class of notes) to the issuer principal ledger.

#### **Distribution of issuer principal receipts before note acceleration**

Prior to the service of a note acceleration notice on the issuer, the issuer, or the issuer cash manager on its behalf, will apply any issuer principal receipts on each interest payment date to repay the notes in the following manner (the **issuer pre-acceleration principal priority of payments**):

- the class A notes: from principal amounts received by the issuer from Funding 1 in respect of each AAA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class A notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class A notes;
- the class B notes: from principal amounts received by the issuer from Funding 1 in respect of each AA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class B notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class B notes;
- the class M notes: from principal amounts received by the issuer from Funding 1 in respect of each A loan tranche (and in respect of (iii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class M notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class M notes;
- the class C notes: from principal amounts received by the issuer from Funding 1 in respect of each BBB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class C notes in accordance with the terms of the relevant issuer swap agreements; and

- (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class C notes;
- the class D notes: from principal amounts received by the issuer from Funding 1 in respect of each BB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes):
  - (i) to pay amounts due and payable (in respect of principal) on such interest payment date to the relevant issuer swap providers in respect of the related series and class of class D notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on such interest payment date on the related series and class of class D notes.

The amounts standing to the credit of any sub-ledger of the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer cash manager to pay the principal amounts due (if any) in respect of such series and class of notes under the issuer pre-acceleration principal priority of payments.

**Distribution of issuer principal receipts after note acceleration but before intercompany loan acceleration**

The issuer deed of charge sets out the priority of distribution of issuer principal receipts received by the issuer cash manager on an interest payment date following the service of a note acceleration notice on the issuer or, as the case may be, received or recovered by the issuer security trustee (or a receiver appointed on its behalf) following the enforcement of the issuer security on an interest payment date or any other day but (in each case) prior to the service of an intercompany loan acceleration notice on Funding 1. In these circumstances, the issuer cash manager or the issuer security trustee (as the case may be) will apply issuer principal receipts on each interest payment date or such other day to repay the notes in the following order of priority (the **issuer post-acceleration principal priority of payments**):

- the class A notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each AAA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class A notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class A notes;
- the class B notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each AA loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class B notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class B notes;

- the class M notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each A loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class M notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class M notes;
- the class C notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each BBB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class C notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class C notes;
- the class D notes: from principal amounts received by the issuer or the issuer security trustee (as the case may be) from Funding 1 in respect of each BB loan tranche (and in respect of (ii) below, the principal amounts received (if any) from the issuer swap providers under the relevant issuer swap agreements in respect of the related series and class of notes) or otherwise recovered:
  - (i) to pay amounts due and payable (in respect of principal) to the relevant issuer swap providers in respect of the related series and class of class D notes in accordance with the terms of the relevant issuer swap agreements; and
  - (ii) to pay amounts due and payable in respect of principal (if any) on the related series and class of class D notes.

The amounts standing to the credit of any sub-ledger of the issuer principal ledger (in respect of a series and class of notes) may only be applied by the issuer cash manager or the issuer security trustee (as applicable) to pay the principal amounts due (if any) in respect of such series and class of notes under the issuer post-acceleration principal priority of payments.

#### **Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration**

If an intercompany loan acceleration notice is served on Funding 1 under the Funding 1 deed of charge, then the issuer security will become enforceable. The issuer deed of charge sets out the priority of payments following the service on Funding 1 of an intercompany loan acceleration notice, (known as the **issuer post-enforcement priority of payments following an intercompany loan acceleration**) of amounts received by the issuer cash manager or, following the enforcement of the issuer security, of amounts received or recovered by the issuer security trustee (or a receiver appointed on its behalf).

On each date following the service on Funding 1 of an intercompany loan acceleration notice that amounts are received by the issuer cash manager or, following the enforcement of the issuer security, amounts are received or recovered by the issuer security trustee (or a receiver appointed on its behalf), the issuer cash manager or the issuer security trustee, as the case may be, will apply such amounts (other than amounts representing (i) any excess swap collateral which shall be returned directly to the relevant issuer swap provider and (ii) in respect of each issuer swap provider, prior to the designation of an early termination date under the relevant issuer swap agreement and the resulting application of the collateral by way of netting or set-off, an amount

equal to the value of all collateral (other than excess swap collateral) provided by such issuer swap provider to the issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof)) received or recovered following enforcement of the issuer security as follows:

- (a) without priority among them but in proportion to the respective amounts due, to pay amounts due to:
  - (A) the issuer security trustee and any receiver appointed by the issuer security trustee together with interest and any amount in respect of VAT thereon as provided therein and any amounts then due or to become due to the issuer security trustee and the receiver under the provisions of the issuer deed of charge;
  - (B) the note trustee together with interest and any amount in respect of VAT thereon as provided therein and any amounts then due or to become due and payable to the note trustee under the provisions of the note trust deed; and
  - (C) the agent bank, the paying agents, the registrar, the exchange rate agent (if applicable) and the transfer agent together with interest and any amount in respect of VAT thereon as provided therein and any costs, charges, liabilities and expenses then due or to become due and payable to them under the provisions of the paying agent and agent bank agreement;
- (b) without priority among them but in proportion to the respective amounts due, towards payment of amounts due and payable, together with any amount in respect of VAT thereon as provided therein to the issuer cash manager under the issuer cash management agreement, to the issuer corporate services provider under the issuer corporate services agreement, to the issuer account bank under the issuer bank account agreement and to Alliance & Leicester under the terms of the secretarial services agreement;
- (c) subject to item (d) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class A notes (excluding any termination payment);
- (d) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class A notes and to pay any swap termination payment due to the issuer swap provider for each series of class A notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (d) (on the assumption that no amounts are due and payable under item (c) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (d), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class A notes under item (c) above will be reduced by the amount of the shortfall applicable to that series of class A notes;
- (e) subject to item (f) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class B notes (excluding any termination payment);
- (f) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class B notes and to pay any swap termination payment due to the issuer swap provider for each series of class B notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (f) (on the assumption that no amounts are due and payable under item (e) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (f), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the

issuer to the issuer swap provider in respect of any series of class B notes under item (e) above will be reduced by the amount of the shortfall applicable to that series of class B notes;

- (g) subject to item (h) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class M notes (excluding any termination payment);
- (h) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class M notes and to pay any swap termination payment due to the issuer swap provider for each series of class M notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (h) (on the assumption that no amounts are due and payable under item (g) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (h), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class M notes under item (g) above will be reduced by the amount of the shortfall applicable to that series of class M notes;
- (i) subject to item (j) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class C notes (excluding any termination payment);
- (j) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class C notes and to pay any swap termination payment due to the issuer swap provider for each series of class C notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (j) (on the assumption that no amounts are due and payable under item (i) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (j), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class C notes under item (i) above will be reduced by the amount of the shortfall applicable to that series of class C notes;
- (k) subject to item (l) below, without priority among them but in proportion to the respective amounts due, to pay amounts due to the issuer swap providers for each series of class D notes (excluding any termination payment);
- (l) without priority among them but in proportion to the respective amounts due, to pay interest due or overdue on, and to repay principal of, the applicable series of class D notes and to pay any swap termination payment due to the issuer swap provider for each series of class D notes (but excluding any issuer swap excluded termination amount) provided that if the amounts available for distribution under this item (l) (on the assumption that no amounts are due and payable under item (k) and no amounts are received from any issuer swap provider) would be insufficient to pay the sterling equivalent of the amounts due and payable under this item (l), the shortfall will be divided amongst all such amounts on a *pro rata* basis and the amount payable by the issuer to the issuer swap provider in respect of any series of class D notes under item (k) above will be reduced by the amount of the shortfall applicable to that series of class D notes;
- (m) without priority among them but in proportion to the respective amounts due, to pay any issuer swap excluded termination amount to the issuer swap providers; and
- (n) the balance to the issuer.

Notwithstanding the above, amounts standing to the credit of any sub-ledger to the issuer revenue ledger and/or the issuer principal ledger (in respect of a series and class of notes) may

only be applied by the issuer cash manager and/or the issuer security trustee (as applicable) to pay the interest, principal and other amounts due in respect of such series and class of notes or any shortfall in the amounts available to pay items (a) to (b) under the issuer post-enforcement priority of payments and may not be applied in payment of interest, principal and other amounts due in respect of any other series and class of notes.

## CREDIT STRUCTURE

The notes will be obligations of the issuer only and will not be 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 to noteholders, as follows:

- Funding 1 available revenue receipts are expected to exceed interest and fees payable by Funding 1 to the issuer under the intercompany loan;
- a shortfall in Funding 1 available revenue receipts may be met from Funding 1's principal receipts;
- a general reserve fund has been established to help meet shortfalls in principal due on the original bullet term loan tranches and original scheduled amortisation loan tranches in the circumstances described below;
- the general reserve fund may also be used to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the intercompany loan and to help meet any deficit on the principal deficiency ledger;
- payments on the class D notes will be subordinated to payments on the class A notes, the class B notes, the class M notes and the class C notes;
- payments on the class C notes will be subordinated to payments on the class A notes, the class B notes and the class M notes;
- payments on the class M notes will be subordinated to payments on the class A notes and the class B notes;
- payments on the class B notes will be subordinated to payments on the class A notes;
- the mortgages trustee GIC account and the Funding 1 GIC account each earn interest at a specified rate; and
- Funding 1 start-up loans will be provided to Funding 1 from time to time to credit the general reserve fund and to meet the costs in connection with the issuance of notes.

Each of these factors is considered more fully in the remainder of this section.

### **Credit support for the notes provided by Funding 1 available revenue receipts**

It is anticipated that, during the life of the notes issued under the programme, the Funding 1 share of the interest received from borrowers on the loans will, assuming that all of the loans are fully performing, be greater than the aggregate amount of interest which the issuer and any new issuer have to pay on all of the notes and any new notes the proceeds of which are advanced to Funding 1 and all other fees, costs and expenses under the programme. In other words, the Funding 1 available revenue receipts will be sufficient to pay the amounts payable under items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments, assuming all loans are fully performing.

The actual amount of any excess will vary during the life of the notes. Two of the key factors determining the variation are as follows:

- the interest rate on the loans in the portfolio; and
- the level of arrears experienced.

On any Funding 1 interest payment date, any excess will be available to make a deferred contribution.

### **Level of arrears experienced**

If the level of arrears of interest payments made by the borrowers results in Funding 1 experiencing an income deficit, Funding 1 will be able to use the following amounts to cure that income deficit:

- *first*, amounts standing to the credit of the general reserve fund, as described in "– **General reserve fund**" below; and



- *second*, principal receipts, if any, as described in “– **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**” below.

Any excess of Funding 1 revenue receipts will be applied on each Funding 1 interest payment date to the extent described in the Funding 1 pre-acceleration revenue priority of payments, including to extinguish amounts standing to the debit of any principal deficiency ledger and to replenish the funds.

#### **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**

Four business days prior to each Funding 1 interest payment date, the cash manager will calculate whether there will be an excess or a deficit of Funding 1 available revenue receipts to pay items (a) to (e) inclusive, (g), (j), (l) and (n) of the Funding 1 pre-acceleration revenue priority of payments.

If there is a deficit, then Funding 1 shall pay or provide for that deficit by the application of Funding 1 principal receipts (plus any part of the balance of the cash accumulation ledger which is not comprised in Funding 1 available principal receipts), if any, and the cash manager shall make a corresponding entry in the relevant principal deficiency sub-ledger, as described in “– **Principal deficiency ledger**” below as well as making a debit in the Funding 1 principal ledger. Any such entry and debit shall be made and taken into account (including as to which priority of payments shall apply) prior to the application of Funding 1 available principal receipts on the relevant Funding 1 interest payment date.

Funding 1 principal receipts may not be used to pay interest on any loan tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a principal deficiency sub-ledger relating to a loan tranche with a higher rating designation.

#### **General reserve fund**

A general reserve fund has been established:

- to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the intercompany loan agreement and to help meet any deficit recorded on the principal deficiency ledger; and
- to help meet any deficit in Funding 1 available principal receipts available for:
  - (a) prior to the occurrence of a trigger event:
    - (i) repayments of principal which are then due and payable in respect of the original bullet loan tranches; and
    - (ii) repayments of principal in respect of original scheduled amortisation loan tranches on their respective final maturity dates only; and
  - (b) on or after the occurrence of a trigger event, repayments of principal in respect of original bullet loan tranches and original scheduled amortisation loan tranches on their respective final maturity dates only,

(each a **reserve principal payment**)

in each case prior to the service of an intercompany loan acceleration notice on Funding 1.

The general reserve fund will be funded and replenished from:

- Funding 1 available revenue receipts in accordance with item (q) of the Funding 1 pre-acceleration revenue priority of payments up to an amount equal to the general reserve required amount (see “**Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration**” above);
- Funding 1 available principal receipts to the extent applied in making reserve principal payments;

- following the occurrence of an arrears or step-up trigger event (as defined below), any Funding 1 available revenue receipts to be paid in accordance with item (q) of the Funding 1 pre-acceleration revenue priority of payments up to (and including) an amount equal to the sum of the general reserve required amount and:
  - (a) if an arrears or step-up trigger event has occurred under item (i) only of that definition, the amount specified in the most recent final terms;
  - (b) if an arrears or step-up trigger event has occurred under item (ii) only of that definition, the amount specified in relation to such event in the most recent final terms;
  - (c) if an arrears or step-up trigger event has occurred under both items (i) and (ii) of that definition, the amount specified in relation to such event in the most recent final terms.

If an arrears or step-up trigger event has occurred under item (i), item (ii) or items (i) and (ii) of that definition and such event(s) have been cured, the general reserve required amount will be reduced by the amounts specified in paragraphs (a), (b) and (c) respectively and the amount of such reduction will constitute Funding 1 available revenue receipts.

An **arrears or step-up trigger event** occurs (i) when the outstanding principal balance of the loans in arrears for more than 3 times the monthly payment then due divided by the outstanding principal balance of all of the loans in the mortgages trust (expressed as a percentage) exceeds 2 per cent. or (ii) if the issuer fails to exercise its option to redeem any of its notes on the relevant step-up date as specified in the relevant final terms.

Funding 1 may adjust the general reserve required amount and/or the additional amounts described in paragraphs (a), (b) and (c) above at any time, without the consent of the noteholders, provided Funding 1 obtains confirmation from the rating agencies that such adjustments will not result in the reduction, qualification or withdrawal of its then current rating of any outstanding notes;

- Funding 1 start-up loans provided to Funding 1 from time to time to fund the general reserve fund pursuant to the terms of a Funding 1 start-up loan agreement.

The **general reserve required amount** as at any date and subject to amendment as described below will be the amount specified as such in the most recent final terms.

Funding 1 may adjust, at any time, the general reserve required amount without the consent of noteholders so long as Funding 1 obtains confirmation from the rating agencies that such adjustments will not cause a reduction, qualification or withdrawal of the then current ratings of any outstanding notes (or any new notes, where applicable).

A general reserve ledger is maintained by the cash manager to record the balance from time to time of the general reserve fund.

#### **Liquidity reserve fund**

Funding 1 will be required to establish a liquidity reserve fund to the extent of the liquidity reserve fund required amount if, and for as long as, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least A3 by Moody's or A- by Fitch (unless Moody's or Fitch, as applicable, confirms that the then current ratings of the notes (and any new notes, where applicable) will not be adversely affected by the ratings downgrade) and there are class A notes and/or class B notes then outstanding. If following a subsequent increase in the seller's rating or redemption in full of all class A notes and class B notes, Funding 1 would no longer be required to maintain the liquidity reserve fund, then Funding 1 at its option may terminate the liquidity reserve fund, and all amounts standing to the credit of the liquidity reserve ledger will then be treated as Funding 1 available revenue receipts for the next Funding 1 interest payment date. In addition, following a reduction in the liquidity reserve fund required amount, amounts standing to the credit of the liquidity reserve ledger in excess of the liquidity reserve fund required

amount will then be treated as Funding 1 available revenue receipts for the next Funding 1 interest payment date.

Prior to enforcement of the Funding 1 security, the liquidity reserve fund may be used:

- to help meet any deficit in Funding 1 available revenue receipts available for payment of interest and fees due under the intercompany loan agreement, but only to the extent that such amounts are necessary to fund the payment by Funding 1 of interest and fees due on a Funding 1 interest payment date in respect of AAA loan tranches and AA loan tranches and to help meet any deficit recorded on the principal deficiency ledger in respect of the AAA loan tranches;
- (provided that there are no AAA loan tranches and AA loan tranches outstanding) to help meet any deficit in Funding 1 available revenue receipts which are allocated to pay interest and fees due on a Funding 1 interest payment date under the intercompany loan agreement;
- to help meet any deficit in Funding 1 principal receipts available for:
  - (a) prior to the occurrence of a trigger event, repayments of principal which are then due and payable in respect of the original bullet loan tranches (which are AAA loan tranches); and
  - (b) on or after the occurrence of a trigger event, repayments of principal due and payable in respect of original bullet loan tranches (which are AAA loan tranches) on their respective final maturity dates only,

(each a **liquidity reserve principal payment**)

in each case prior to the service of an intercompany loan acceleration notice on Funding 1.

The liquidity reserve fund, if required to be funded, will be funded initially from Funding 1 available principal receipts in accordance with the Funding 1 pre enforcement principal priority of payments. The liquidity reserve fund will be deposited in Funding 1's name in the Funding 1 GIC account into which the general reserve fund is also deposited. All interest or income accrued on the amount of the liquidity reserve fund while on deposit in the Funding 1 GIC account will belong to Funding 1. The cash manager will maintain a separate liquidity reserve ledger to record the balance from time to time of the liquidity reserve fund.

The liquidity reserve fund is replenished up to and including an amount equal to the liquidity reserve fund required amount on Funding 1 interest payment dates from Funding 1 available revenue receipts at item (h) of the Funding 1 pre-acceleration revenue priority of payments and from Funding 1 available principal receipts at item (c) of the relevant Funding 1 pre-acceleration principal priority of payments, as applicable.

**liquidity reserve fund required amount** is an amount as of any interest payment date equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the notes on that interest payment date over the aggregate of amounts standing to the credit of the general reserve fund on that Funding 1 interest payment date.

Following enforcement of the Funding 1 security, amounts standing to the credit of the liquidity reserve ledger may be applied in making payments of principal due under the loan tranches.

#### **Principal deficiency ledger**

A principal deficiency ledger has been established to record:

- on each trust calculation date, any principal losses on the loans allocated to Funding 1; and/or
- on each Funding 1 interest payment date, any application of Funding 1 principal receipts to meet any deficiency in Funding 1 available revenue receipts (as described in “– **Use of Funding 1 principal receipts to pay Funding 1 income deficiency**” above).

The principal deficiency ledger is split into five sub-ledgers which will correspond to each of the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches, respectively.

Losses on the loans and/or the application of Funding 1 available principal receipts to pay interest on the loan tranches will be recorded as follows:

- *first*, on the BB principal deficiency sub-ledger until the balance of the BB principal deficiency sub ledger is equal to the aggregate principal amount outstanding of all BB loan tranches;
- *second*, on the BBB principal deficiency sub-ledger until the balance of the BBB principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all BBB loan tranches;
- *third*, on the A principal deficiency sub-ledger until the balance of the A principal deficiency sub ledger is equal to the aggregate principal amount outstanding of all A loan tranches;
- *fourth*, on the AA principal deficiency sub-ledger until the balance of the AA principal deficiency sub-ledger is equal to the aggregate principal amount outstanding of all AA loan tranches; and
- *fifth*, on the AAA principal deficiency sub-ledger, at which point there will be an asset trigger event (unless such losses are recorded when (a) the aggregate principal amount outstanding of all BB loan tranches, BBB loan tranches, A loan tranches and AA loan tranches is equal to zero and (b) the sum of (i) the amount standing to the credit of the general reserve ledger and (ii) the amount standing to the credit of the Funding 1 revenue ledger, together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, is greater than the amount necessary to pay the items (a) to (f) in the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made).

Losses on the loans and/or the application of Funding 1 available principal receipts to pay interest on the loan tranches will not be recorded on the principal deficiency ledger on any day to the extent that the Funding 1 share of the trust property together with amounts standing to the credit of the Funding 1 cash accumulation ledger and the Funding 1 principal ledger in aggregate is greater than or equal to the aggregate outstanding principal balance of the loan tranches on that day, after taking account of such losses or the relevant application of principal receipts.

Prior to the service of an intercompany loan acceleration notice on Funding 1, Funding 1 available revenue receipts will be applied on each Funding 1 interest payment date in the manner and to the extent described in the Funding 1 pre-acceleration revenue priority of payments as follows:

- *first*, in an amount necessary to reduce to zero the balance on the AAA principal deficiency sub-ledger;
- *second*, provided that interest due on the AA loan tranches has been paid, in an amount necessary to reduce to zero the balance on the AA principal deficiency sub-ledger;
- *third*, provided that interest due on the A loan tranches has been paid, in an amount to reduce to zero the balance on the A principal deficiency sub-ledger;
- *fourth*, provided that interest due on the BBB loan tranches has been paid, in an amount necessary to reduce to zero the balance on the BBB principal deficiency sub-ledger; and
- *fifth*, provided that interest due on the BB loan tranches has been paid, in an amount necessary to reduce to zero the balance on the BB principal deficiency sub-ledger.

See also “– Use of Funding 1 principal receipts to pay Funding 1 income deficiency” above.

### **Issuer available funds**

On each Funding 1 interest payment date in respect of the intercompany loan, the issuer will receive from Funding 1 an amount equal to or less than the amount which it needs to pay out on the next interest payment date in respect of the notes in accordance with the issuer pre-acceleration principal priority of payments and the issuer pre-acceleration revenue priority of payments. It is not intended that any surplus cash will be accumulated in the issuer.

Please see also the description of the issuer swaps under “**Summary of the transaction documents – Swap agreements**” above.

### **Priority of payments among the class A notes, the class B notes, the class M notes, the class C notes and the class D notes**

Payments of interest on the notes will be prioritised so that interest payments due on the class D notes on any interest payment date will be subordinated to interest payments on the class C notes, the class M notes, the class B notes and the class A notes due on the same interest payment date, interest payments due on the class C notes on any interest payment date will be subordinated to interest payments on the class M notes, the class B notes and the class A notes due on the same interest payment date, interest payments due on the class M notes on any interest payment date will be subordinated to interest payments on the class B notes and the class A notes due on the same interest payment date and interest payments due on the class B notes on any interest payment date will be subordinated to interest payments on the class A notes on the same interest payment date, in each case in accordance with the issuer priority of payments.

Any shortfall in payments of interest due on any series of class D notes and/or class C notes and/or class M notes and/or class B notes on any interest payment date in respect of such notes will be deferred until the next interest payment date in respect of such notes and interest will accrue on such deferred interest. On that next interest payment date, the amount of interest due on the relevant class of notes will be increased to take account of any deferred interest. If on that interest payment date there is still a shortfall, that shortfall will be deferred again. This deferral process will continue until the final maturity date of such series of class D notes and/or class C notes and/or class M notes and/or class B notes, at which point all amounts of deferred interest will become due and payable. However, if there is insufficient money available to the issuer to pay interest on the class D notes and/or the class C notes and/or the class M notes and/or the class B notes, then you may not receive all interest amounts payable on those classes of notes.

The issuer is not able to defer payments of interest due on any interest payment date in respect of the most senior class of notes then outstanding. The failure to pay interest on such notes will be a note event of default.

The class A notes, the class B notes, the class M notes, the class C notes and the class D notes will be constituted by the note trust deed and will share the same security. However, upon enforcement of the issuer security or the occurrence of a trigger event: the class A notes of each series will rank in priority to each series of class B notes, each series of class M notes, each series of class C notes and each series of class D notes; the class B notes of each series will rank in priority to each series of class M notes, each series of class C notes and each series of class D notes; the class M notes of each series will rank in priority to each series of class C notes and each series of class D notes; and the class C notes of each series will rank in priority to each series of class D notes.

### **Mortgages trustee GIC account/Funding 1 GIC account**

All amounts held by the mortgages trustee will be deposited in the mortgages trustee GIC account with the mortgages trustee account bank. The mortgages trustee account bank has agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

Amounts held in the collection accounts will not have the benefit of such an interest rate but following receipt will be transferred into the mortgages trustee GIC account on a regular basis and

in any event in the case of direct debits no later than the next business day after they are deposited in the collection accounts.

All amounts held by Funding 1 will be deposited in the Funding 1 GIC account in the first instance. The Funding 1 GIC account is maintained with the Funding 1 account bank. The Funding 1 account bank has agreed to pay a variable rate of interest on funds in the Funding 1 GIC account of 0.10 per cent. per annum below LIBOR for three-month sterling deposits.

The mortgages trustee account bank and the Funding 1 account bank are required to satisfy certain criteria (including certain criteria and/or permissions set or required by the FSA from time to time) in order to continue to receive deposits in the mortgages trustee GIC account and the Funding 1 GIC account, respectively. These criteria include a requirement that the short-term, unguaranteed, unsecured and unsubordinated ratings of the mortgages trustee account bank or the Funding 1 account bank or the issuer account bank, as the case may be, are at least A-1+ (or in the circumstances described below, A-1) by Standard & Poor's, F1+ by Fitch and P-1 by Moody's (provided that, if the aggregate amount on deposit in any account opened in the name of Funding 1 with the Funding 1 account bank, in the name of the mortgages trustee with the mortgages trustee account bank and in the name of the issuer with the issuer account bank is either less than 20 per cent. of the aggregate principal amount outstanding of the notes or, should such amount be equal to or exceed 20 per cent. of such amount, the excess over such amount is held in such account for 30 days or less, then the short-term, unguaranteed, unsecured and unsubordinated ratings of the Funding 1 account bank or, the mortgages trustee account bank or the issuer account bank (as the case may be) shall be at least A-1), unless each rating agency confirms that its then current rating of the notes (or any new notes, where applicable) would not be downgraded, qualified or withdrawn as a result of such ratings falling below these minimum ratings. If either the mortgages trustee account bank or the Funding 1 account bank or the issuer account bank ceases to satisfy these criteria, then the relevant account may be transferred to another entity which does satisfy these criteria.

#### **Funding 1 start-up loans**

The Funding 1 start-up loan provider will enter into Funding 1 start-up loan agreements with Funding 1 on the initial closing date and subsequent closing dates in order to: (i) make a credit to the general reserve fund; (ii) meet the costs and expenses incurred by Funding 1 in connection with increasing the Funding 1 share of the trust property; and (iii) pay the fees due under the intercompany loan agreement which relate to the costs of issue of the notes on such date. For further information on the Funding 1 start-up loans, see "**Summary of the transaction documents – Funding 1 start-up loan agreement**" above.

#### **Funding 1 liquidity facility**

Funding 1 may, at any time after the initial closing date and with the prior written consent of the Funding 1 security trustee, establish the Funding 1 liquidity facility, which may be available to make interest and/or principal payments on certain loan tranches and/or other senior expenses of Funding 1 (the payment of which ranks in priority to interest due on the loan tranches).

The consent of noteholders will not be obtained in relation to the establishment of the Funding 1 liquidity facility.

The terms of the Funding 1 liquidity facility will be agreed with the Funding 1 liquidity facility provider at the time Funding 1 enters into the Funding 1 liquidity facility agreement. It is expected that the terms of the Funding 1 liquidity facility agreement would require the Funding 1 liquidity facility provider to make available to Funding 1, on the satisfaction of certain conditions, but subject to certain restrictions and limitations, a facility to be utilised towards the making of payments of interest and repayments of principal in respect of certain loan tranches.

The obligation to pay interest or fees under the Funding 1 liquidity facility (if established) will be senior to the obligation to pay amounts due to the Funding 1 swap provider under the Funding 1 pre-acceleration revenue priority of payments and under the Funding 1 post-acceleration priority of payments.

Repayment of amounts drawn down under the Funding 1 liquidity facility (if established) will be made by Funding 1 prior to making payments of interest and/or principal on the loan tranches.

Any Funding 1 liquidity facility provider will be a secured creditor of Funding 1 pursuant to the Funding 1 deed of charge. All amounts owing to the Funding 1 liquidity facility provider will, on the service of an intercompany loan enforcement notice on Funding 1, rank in priority to all amounts of interest and principal then outstanding from Funding 1 under the intercompany loan agreement.

## **USE OF PROCEEDS**

The use of proceeds from an issuance of notes will be described in the accompanying final terms.



## **ALLIANCE & LEICESTER**

Alliance & Leicester plc is the sponsor of the programme in connection with which the notes will be issued. In this capacity, Alliance & Leicester participates in structuring the programme and the terms of each issuance of notes by the issuer. Alliance & Leicester is the only seller of the loans to the mortgages trustee and is the servicer of all the loans. Alliance & Leicester is also the cash manager, the issuer cash manager, the account bank and the Funding 1 swap provider.

### **History and development**

Alliance & Leicester is a public limited company incorporated and registered in England and Wales under the Companies Act 1985. Alliance & Leicester and its subsidiaries (together, the **Group**) is one of the UK's major financial services organisations, offering a broad range of financial services to private and commercial clients.

Alliance & Leicester was originally a building society (a mutual form of organisation existing under English law which engages primarily in residential mortgage lending and deposit taking) prior to its conversion to a public limited company. Alliance & Leicester was incorporated as a public limited company on 10 October 1996 (with registration number 03263713) and the conversion became effective as of 21 April 1997.

Alliance & Leicester is an authorised bank operating within the UK and the Isle of Man, and supervised by the Financial Services Authority and the Financial Supervision Commission, respectively. Shares in Alliance & Leicester have been listed on the London Stock Exchange since 1997 and are owned by both retail and institutional investors.

The registered office of Alliance & Leicester is at Carlton Park, Narborough, Leicester, LE19 0AL, United Kingdom (telephone number +44 (0)116 201 1000).

As at 30 June 2006, Alliance & Leicester and its subsidiaries had total assets of approximately £62.6 billion and employed approximately 8,400 employees. At the date of this prospectus, Alliance & Leicester has a long-term rating of "A+" by Standard & Poor's, "Aa3" by Moody's and "AA-" by Fitch.

### **Principal activities**

The principal activities of the Group are the provision of a comprehensive range of personal financial services in addition to a wide range of banking and financial services to business and public sector customers.

The Group's business comprises two main business units. Retail Banking provides personal savings and residential mortgage lending, current accounts and unsecured personal finance. Retail Banking also provides credit cards through MBNA, life assurance and long-term investment products through Legal & General, and general insurance products supplied by a range of providers, primarily Zurich Insurance. Wholesale Banking provides banking services to commercial customers, including cash and cheque handling for retailers and other corporates, commercial lending, business banking and treasury services. These business units are supported by central group functions including finance, IT, human resources, communications and legal.

The principal markets in which Alliance & Leicester operates are as follows:

#### ***Residential mortgage lending***

Alliance & Leicester's residential mortgage assets are spread geographically throughout the UK. Residential mortgage lending is focused primarily on customers who wish to purchase their primary residence. Arrears at the end of December 2005 and for the six months ended 30 June 2006 totalled less than £7.2 million and £7.5 million, respectively. The indexed loan to value ratio at the end of 2005 and for the six months ended 30 June 2006 was 44 per cent. and 46 per cent., respectively.

At the end of December 2005 and for the six months ended 30 June 2006, Alliance & Leicester had £33.1 billion and £35.7 billion, respectively, of advances secured on residential property which represents around 56 per cent. and 57 per cent., respectively, of its total assets. At

the end of 2005 and for the six months ended 30 June 2006, Alliance & Leicester's market share of UK mortgage balances was 3.4 per cent. and 3.5 per cent., respectively.

Figures relating to residential mortgage lending market shares have been calculated based on market data extracted from the Bank of England's publication, *Monetary & Financial Statistics*. The issuer confirms that such information has been accurately reproduced and that, so far as the issuer is aware, and is able to ascertain from information published by the Bank of England, no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Group structure**

The principal operating subsidiary undertakings of Alliance & Leicester at 31 December 2005 are listed below. These subsidiary undertakings are incorporated and all operate in the United Kingdom, except Alliance & Leicester International Limited which operates in the Isle of Man.

	<i>Sector</i>
<i>Directly held subsidiary undertakings</i>	
Alliance & Leicester Commercial Bank plc	Banking
Alliance & Leicester Personal Finance Limited	Unsecured lending
<i>Indirectly held subsidiary undertakings</i>	
Alliance & Leicester Commercial Finance plc	Asset leasing
Alliance & Leicester International Limited	Offshore deposit taking

All subsidiary undertakings are limited by ordinary shares and are unlisted.

Alliance & Leicester holds a 100 per cent. interest in the ordinary share capital and the voting rights of all its subsidiary undertakings.

Alliance & Leicester is, directly or indirectly, the holding company of all subsidiary undertakings in the Group, and operates as a bank authorised under the Financial Services and Markets Act 2000. It is accordingly dependent on the income from its own operations, and from the performance and dividends of its principal operating subsidiary undertakings listed above.

### **Subsidiaries of Alliance & Leicester**

Alliance & Leicester currently has the following two principal directly held subsidiaries:

#### ***Alliance & Leicester Commercial Bank plc***

Alliance & Leicester Commercial Bank plc is a public limited company incorporated in England and Wales on 19 September 1985 with registered number 01950000. Its core business is the provision of banking services to corporate customers. Alliance & Leicester Commercial Bank plc has three core product lines: business banking, which provides banking services for small and medium sized businesses; commercial lending, which provides loans and leasing facilities to companies; and money transmission, which provides a range of facilities including bill payment, cheque processing, cash handling and cash sales products.

#### ***Alliance & Leicester Personal Finance Limited***

Alliance & Leicester Personal Finance Limited is a private limited company incorporated in England and Wales on 29 March 1990 with registered number 02486611. Its core business is the provision of unsecured loans for personal customers.

### **Recent developments**

On 22 May 2006, Crédit Agricole announced that it was assessing Alliance & Leicester, amongst others, as a potential acquisition opportunity but that its evaluation was at a preliminary stage. Since then, Crédit Agricole has undertaken further analysis of Alliance & Leicester and the returns it could generate from an offer for Alliance & Leicester. In light of this analysis, Crédit Agricole has decided that it does not wish to proceed with an offer for Alliance & Leicester. Crédit Agricole has not submitted an offer proposal to Alliance & Leicester and has not carried out any non-public due diligence on Alliance & Leicester.

For the purposes of Rule 2.8 of The City Code on Takeovers and Mergers, Crédit Agricole reserves the right to make or participate in an offer for Alliance & Leicester shares in the next six months: (i) with the agreement or recommendation of the Alliance & Leicester board; (ii) if any announcement is made by or on behalf of Alliance & Leicester or a third party relating to the making of an offer or possible offer (whether full or partial) for Alliance & Leicester; (iii) upon the announcement by or on behalf of Alliance & Leicester of a “whitewash” proposal or any proposal to implement a scheme of arrangement, reverse takeover or any other business combination with a third party; or (iv) if there is a material change in circumstances.

## THE ISSUER

Fosse Master Issuer plc, referred to in this prospectus as the issuer, was incorporated in England and Wales on 5 September 2006 and is a public limited company (registered number 5925693) under the Companies Act 1985. The registered office of the issuer is at 35 Great St. Helen's, London EC3A 6AP (telephone number +44 (0)20 7389 6300).

The authorised share capital of the issuer comprises 50,000 ordinary shares of £1 each. The issued share capital of the issuer comprises 50,000 ordinary shares of £1 each, all of which are one quarter paid and all of which are owned by Holdings (see "**Holdings**"). Under the Funding 1 corporate services agreement, Holdings has agreed to comply with all requests of the Funding 1 security trustee in relation to the appointment and/or removal by Holdings of any of the directors of the issuer.

The issuer is organised as a special purpose company. 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 was established as a special purpose company for the purposes of issuing the notes and making the advances to the Funding companies. The activities of the issuer are limited to passively owning or holding the loan tranches, issuing the notes supported by the intercompany loan agreement and other activities reasonably incidental thereto. The principal objects of the issuer are set out in its memorandum of association and include:

- lending money and giving credit, with or without security;
- borrowing or raising money and obtaining credit or finance;
- securing payment or repayment of money, credit or finance by any security over the issuer's property; and
- acquiring or entering into financial instruments, including swaps and options.

Under the Companies Act 1985 (as amended), the issuer's governing documents, including the principal objects of the issuer, may be altered by a special resolution of the shareholders.

The activities of the issuer will be further restricted by the terms and conditions of the notes and will be limited to the issue of the notes, the making of the loan tranches under the intercompany loan agreement to Funding 1, the exercise of related rights and powers and other activities referred to in this prospectus or incidental to those activities.

Since its incorporation, the issuer has not commenced operations and has not engaged in any material activities other than those incidental or ancillary to its incorporation as a public limited company under the Companies Act 1985 (as amended), to the proposed issue of the notes and to the authorisation of the other transaction documents referred to in this prospectus to which it is or will be a party.

There is no intention to accumulate surplus cash in the issuer.

The accounting reference date (i.e. the last day of the fiscal year) of the issuer is 31 December. The first financial period of the issuer will end on 31 December 2007. As at the date hereof, no statutory accounts have been prepared or delivered to the Registrar of Companies on behalf of the issuer.

### Directors and secretary

The following table sets out the directors of the issuer and their respective business addresses and occupations. Each director has served in office since the incorporation of the issuer.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
Ian John Hares	Carlton Park Narborough Leicester LE19 0AL	Group Treasurer of Alliance & Leicester

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective business addresses and principal activities or business occupations are:

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
Robert William Berry	35 Great St. Helen's London EC3A 6AP	Company Director
James Henry France	35 Great St. Helen's London EC3A 6AP	Company Director
Jonathan Eden Keighley	35 Great St. Helen's London EC3A 6AP	Company Director
James Garner Smith Macdonald	35 Great St. Helen's London EC3A 6AP	Company Director

The company secretary of the issuer is:

<b>Name</b>	<b>Business address</b>
Richard Allen Hawker	Carlton Park Narborough Leicester LE19 0AL

*In accordance with the issuer corporate services agreement, the issuer corporate services provider will provide the issuer with directors and a registered office, arrange meetings of directors and shareholders and procure book-keeping services and the preparation of accounts by Alliance & Leicester. No other remuneration is paid by the issuer to or in respect of any director or officer of the issuer for acting as such.*

**Capitalisation statement**

The following table shows the capitalisation of the issuer as at 21 November 2006:

	<u>£</u>
<b>Authorised share capital</b>	
Ordinary shares of £1 each .....	<u>50,000</u>
<b>Issued share capital</b>	
50,000 ordinary shares of £1 each one quarter paid.....	<u>12,500</u>
	<u><u>12,500</u></u>

## FUNDING 1

Funding 1 was incorporated in England and Wales on 5 September 2006 as a private limited company (registered number 5925696) under the Companies Act 1985. The authorised share capital of Funding 1 comprises 100 ordinary shares of £1 each. The issued share capital of Funding 1 comprises one ordinary share of £1, which is owned by Holdings (see “**Holdings**”).

Funding 1 has no subsidiaries. The seller does not own directly or indirectly any of the share capital of Holdings or Funding 1.

The principal objects of Funding 1 are set out in its memorandum of association and are, among other things, to:

- carry on business as a general commercial company;
- borrow or raise money by any method and to obtain any form of credit or finance; and
- secure the payment of any monies, the discharge of any liabilities and the observance or performance of any kind of obligations by any charge over the whole or any part of its undertaking or assets.

Since its incorporation, Funding 1 has not engaged in any material activities, other than those incidental to the authorisation of the transaction documents referred to in this prospectus to which it is or will be a party, and other matters which are incidental to those activities. Funding 1 has no employees.

The accounting reference date of Funding 1 is 31 December. The first financial period of Funding 1 will end on 31 December 2007.

The registered office of Funding 1 is 35 Great St. Helen's, London EC3A 6AP. The telephone number of Funding 1's registered office is +44 (0) 20 7398 6300.

### Directors and secretary

The following table sets out the directors of Funding 1 and their respective business addresses and occupations.

<b>Name</b>	<b>Business address</b>	<b>Principal activities/business occupation</b>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Director of special purpose companies
Ian John Hares	Carlton Park Narborough Leicester LE19 0AL	Group Treasurer of Alliance & Leicester

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their respective business addresses and principal activities or business occupations are set out under “**The issuer**”.

The company secretary of Funding 1 is:

<b>Name</b>	<b>Business address</b>
Richard Allen Hawker	Carlton Park Narborough Leicester LE19 0AL

The directors and secretary of Funding 1 have no potential conflicts of interest between their duties to Funding 1 and their private interests and/or other duties.

In accordance with the corporate services agreement, the corporate services provider will provide Funding 1 with directors and a registered office, arrange meetings of directors and

shareholders and procure book-keeping services and preparation of accounts by Alliance & Leicester. No other remuneration is paid by Funding 1 to or in respect of any director or officer of Funding 1 for acting as such.



## THE MORTGAGES TRUSTEE

The mortgages trustee was incorporated in Jersey, Channel Islands on 1 September 2006 as a private company (registered number 94410) with limited liability under the Companies (Jersey) Law 1991, for a period of unlimited duration. The authorised share capital of the mortgages trustee is £2 divided into two ordinary shares of £1 each. Two ordinary shares have been issued and fully paid and are held on trust for charitable purposes under a charitable trust governed by Jersey law. The registered office of the mortgages trustee is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands.

The mortgages trustee was established as a special purpose company to hold the loans and related mortgages security constituting the trust property as bare trustee for the seller, Funding 1 and any further Funding companies pursuant to the terms of the mortgages trust deed. The mortgages trustee has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the mortgages trustee.

The principal activities of the mortgages trustee are, among other things, to:

- invest and deal in mortgage loans secured on residential or other properties within England, Wales, Northern Ireland and Scotland;
- invest in, buy, sell and otherwise acquire and dispose of mortgage loans, advances, other similar investments and all forms of security;
- carry on business as a moneylender, financier and investor;
- undertake and carry on all kinds of loan, financial and other operations; and
- act as trustee in respect of carrying on any of these activities.

The mortgages trustee has not engaged, since its incorporation, in any material activities other than those incidental to its incorporation, the settlement of the trust property on the mortgages trustee, acting as trustee of the mortgages trust since the initial closing date, the issue of notes by the issuer, the authorisation of the transaction documents referred to in this prospectus to which it is or will be a party, filing a notification under the Data Protection Act 1998, registering as a data user under the Data Protection (Jersey) Law 2005, as amended, and other matters which are incidental or ancillary to the foregoing. The mortgages trustee has applied for a standard licence under the CCA. The mortgages trustee has no employees.

The accounting reference date of the mortgages trustee is 31 December. The first financial period of the mortgages trustee will end on 31 December 2007.

In accordance with the mortgages trustee corporate services agreement, the mortgages trustee corporate services provider will provide to the mortgages trustee with directors and a registered and administrative office and the service of a company secretary, arrange meetings of directors and shareholders and procure book keeping services and the preparation of accounts by Alliance & Leicester. No other remuneration is paid by the mortgages trustee to or in respect of any director or officer of the mortgages trustee for acting as such.

## HOLDINGS

Holdings was incorporated in England and Wales on 5 September 2006 as a private limited company (registered number 5925689) under the Companies Act 1985. The registered office of Holdings is 35 Great St. Helen's, London EC3A 6AP.

Holdings has an authorised share capital of £100 divided into 100 ordinary shares of £1 each, of which one share has been issued and fully paid and is owned by SFM Corporate Services Limited on a discretionary trust for the benefit of Marie Curie Cancer Care (registered charity number 207994) in the United Kingdom and for charitable purposes.

Holdings is organised as a special purpose company. The seller does not own directly or indirectly any of the share capital of Holdings.

The principal objects of Holdings are set out in its memorandum of association and are, among other things, to carry on business as a general commercial company, including to (i) acquire and hold, by way of investments or otherwise and/or (ii) 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 any company (including the issuer, any new issuers, the mortgages trustee, Funding 1 and any further Funding companies).

Holdings has acquired all of the issued share capital of the issuer and Funding 1 and has not engaged in any other activities since its incorporation other than those incidental to the authorising of the transaction documents and other matters which are incidental or ancillary to the foregoing. Holdings has no employees.

The accounting reference date of Holdings is 31 December. The first financial period of Holdings will end on 31 December 2007.

## THE POST-ENFORCEMENT CALL OPTION HOLDER

The post-enforcement call option holder was incorporated in England and Wales on 5 September 2006 as a private limited company (registered number 5925699) under the Companies Act 1985. The registered office of the post-enforcement call option holder is 35 Great St. Helen's, London EC3A 6AP.

The authorised share capital of the post-enforcement call option holder comprises 100 ordinary shares of £1 each. The issued share capital of the post-enforcement call option holder comprises one ordinary share of £1, which is owned by Independent Share Trustees Limited, the PECOH share trustee, on trust pursuant to the terms of a discretionary trust for charitable purposes.

The post-enforcement call option holder is organised as a special purpose company. The post-enforcement call option holder has no subsidiaries. The seller does not own directly or indirectly any of the share capital of the post-enforcement call option holder.

The principal objects of the post-enforcement call option holder are as set out in its memorandum of association and are, among other things, to carry on business as a general commercial company, including to hold bonds, notes, obligations and securities issued or guaranteed by any company and any options or rights in respect of them. The post-enforcement call option holder has not engaged since its incorporation in any material activities other than those activities relating to the issue of notes by the issuer and those incidental to the authorising of the transaction documents referred to in this prospectus and other matters which are incidental or ancillary to the foregoing. The post-enforcement call option holder has no employees.

The accounting reference date of the post-enforcement call option holder is 31 December. The first financial period of the post-enforcement call option holder will end on 31 December 2007.

Pursuant to the terms of an option granted to Fosse PECOH Limited under the post-enforcement call option agreement, following the enforcement and distribution of the security granted by the issuer pursuant to the issuer deed of charge, Fosse PECOH Limited can require the transfer to it of all of the notes of any series outstanding for a nominal amount.

As the post-enforcement call option granted pursuant to the post-enforcement call option agreement can be exercised only after the Funding 1 security trustee has enforced the security granted by the issuer under the issuer deed of charge and has determined that there are no further assets available to pay amounts due and owing to the noteholders, the exercise of the post-enforcement call option and delivery by the noteholders of the notes to Fosse PECOH Limited will not extinguish any other rights or claims other than the rights to payment of interest and repayment of principal under the notes that such noteholders may have against the issuer.

## **THE NOTE TRUSTEE, ISSUER SECURITY TRUSTEE AND FUNDING 1 SECURITY TRUSTEE**

Law Debenture Trust Company of New York acts as initial note trustee, initial issuer security trustee and initial Funding 1 security trustee in this transaction.

Law Debenture Trust Company of New York is primarily a provider of corporate trust and related services for corporate, municipal and sovereign issuers. It generally acts as trustee for new business or may assume the position of trustee from another bank as successor business. Additionally Law Debenture Trust Company of New York acts as administrative, escrow or paying agency in a variety of complex transactions including: project financings, mergers and acquisitions and litigation/liquidation trusts.

Law Debenture Trust Company of New York is a wholly owned subsidiary of Law Debenture Holdings Inc. which is a wholly-owned subsidiary of LDC Trust Management Limited, an entity based in the United Kingdom. Law Debenture Trust Company of New York is incorporated in New York, is licensed by the New York State Banking Department and received its bank charter by the New York State Banking Department in May 2002.

Law Debenture Trust Company of New York is regulated on a state level by the New York State Banking Department and federally by the Securities and Exchange Commission.

As at 31 December 2005, Law Debenture Trust Company of New York serves as trustee of 78 bond issues representing approximately US\$24 billion and as agent for 14 escrow accounts representing approximately US\$36 million.

## THE LOANS

### The portfolio

Each final terms issued in connection with the issuance of a series and class of notes will contain tables summarising information in relation to the relevant expected portfolio. The tables will contain information in relation to various criteria as at the applicable cut-off date. Tables will indicate, amongst other things, composition by type of property, seasoning, geographical distribution, LTV ratios, outstanding balance and repayment terms, as well as other information that may be described from time to time. The expected portfolio as at the cut-off date, for which statistics are presented in the relevant final terms, and the expected portfolio as at the relevant closing date may differ due to, among other things, amortisation of loans in the expected portfolio.

Each final terms relating to the issuance of a series and class of notes also will contain tables summarising certain characteristics of the United Kingdom mortgage market. Tables will provide historical information on, amongst other things, repossession rates, arrears, house price to earnings ratios, as well as other information that may be described from time to time. These tables should be read in conjunction with the additional historical information on certain aspects of the United Kingdom residential mortgage market appearing in "**Certain characteristics of the United Kingdom residential mortgage market**" in the accompanying final terms.

### Introduction

The following is a description of some of the characteristics of the loans currently or previously originated since 1993 by the seller, including details of loan types, the underwriting process and lending criteria and selected statistical information.

On the initial closing date, the seller will sell the initial loans together with their related security to the mortgages trustee and the mortgages trustee will pay the seller for the initial loans together with their related security pursuant to the terms of the mortgage sale agreement. The initial loans together with their related security, accrued interest and other amounts derived from the initial loans make up the trust property on the initial closing date.

Unless otherwise indicated, the description that follows relates to types of loans that will be sold to the mortgages trustee on the initial closing date and which will form part of the portfolio as at the initial closing date or which may be sold as a new loan to the mortgages trustee from time to time.

After the initial closing date, the seller may sell new loans and their related security to the mortgages trustee. The seller reserves the right to amend its lending criteria and the right to sell to the mortgages trustee new loans which are based upon mortgage terms different from those upon which the initial loans are based. Those new loans may include loans which have been or are currently being offered to borrowers which may or may not have some of the characteristics described here, but may also include loans with other characteristics that are not currently being offered to borrowers or that have not yet been developed. All new loans will be required to comply with the representations and warranties set out in the mortgage sale agreement and all the material representations and warranties in the mortgage sale agreement are described in this document. See "**Summary of the transaction documents – The mortgage sale agreement**" above. The representations and warranties may be amended if new loan types are to be sold to the mortgages trustee. The consent of noteholders will not be obtained in relation thereto if (among other things) the rating agencies have confirmed to the Funding 1 security trustee that the ratings of the notes then outstanding will not be downgraded, withdrawn or qualified if those new loan types are sold to the mortgages trustee.

Each of the English loans is governed by the laws of England and Wales, each of the Scottish loans is governed by the laws of Scotland and each of the Northern Irish loans is governed by the laws of Northern Ireland.

## Characteristics of the loans

### **Repayment terms**

Loans are typically repayable on one of the following bases:

*Repayment:* the borrower makes monthly payments of both interest and principal so that, when the loan matures, the full amount of the principal of the loan will have been repaid; or

*Interest-only:* the borrower makes monthly payments of interest but not of principal, so that, when the loan matures, the entire principal amount of the loan is still outstanding and is repayable in one lump sum; or

*Combination repayment and interest-only:* the borrower effects a separation of the repayable amounts into two portions, one in respect of which it will only pay interest until the date of the loan's maturity (the **interest-only portion**) and the other in respect of which the borrower will make payments incorporating both interest and principal components. When the loan matures, the principal amount of the interest-only portion of the loan is still outstanding and is repayable in one lump sum.

In each case, the required monthly payment may alter from month to month for various reasons, including changes in interest rates and the ability to make overpayments of £500 or more, see “– **Flexible payments**” below. The ability to make underpayments and take payment holidays applies to flexible loans only.

For interest-only loans and for the interest-only portion of combination repayment and interest-only loans, because the principal is repaid in a lump sum at the maturity of the loan, the seller requests but does not verify that the borrower has some repayment mechanism (such as an investment plan or a pension plan) in place to ensure that funds will be available to repay the principal at the end of the term.

### **Interest payments and interest rate setting**

The seller offers a range of interest rates on each of the following products which may be eligible for inclusion in the portfolio from time to time:

- **variable rate loans:** loans subject to the seller's standard variable rate (the **variable rate**) for the life of the loan. The variable rate is set by the seller by reference to the general level of interest rates and competitive rates in the UK mortgage market.
- **discount loans:** loans which allow the borrower for a specified period of time (the **discount rate period**), which is usually between one and five years, to pay interest at a specified discount to the variable rate (the **discount rate**). An early repayment charge may be payable in respect of some of these loans (but not all) for a set period of time, which generally corresponds with the term of the discount rate period.
- **fixed rate loans:** loans subject to a fixed rate of interest (the **fixed rate**) for a specified period of time (the **fixed rate period**), which is usually for a period of either two, three or five years. At the expiration of the fixed rate period these fixed rate loans generally convert to variable rate loans or base rate loans (as described below). An early repayment charge may be payable in respect of some of these loans (but not all) for a set period of time, which generally corresponds with the term of the fixed rate period.
- **base rate loans:** loans subject to a variable rate of interest (the **base rate-linked rate**) that is a margin (expressed as a percentage figure) above and/or equal to and/or below the Bank of England base rate (the **base rate**) for a set period as specified in the offer (the **premium rate period**). During the applicable premium rate period, or for a certain period within the premium rate period, an early repayment charge may be payable in respect of some (but not all) of these loans. At the expiration of any applicable premium rate period, base rate loans will (unless a base rate-linked rate applies for the term of the loan) convert to a variable rate loan. The base rate-linked rate may differ for each product type. The percentage amount of the relevant margin to be charged under or over

the base rate is set by the seller at the commencement of the loan and is dependent on the product type and the LTV. This percentage margin, which is fixed, is specified in the borrower's offer of advance.

No capped rate loans will form part of the portfolio as at the initial closing date.

New loan types may be included in the portfolio in the future by the seller.

All interest rates depend on the product type and the LTV ratio. Under the 2002 and 2004 mortgage conditions, interest may be calculated and charged on a daily, monthly or yearly basis depending upon the borrower's mortgage product. Under the 1993 and 1997 mortgage conditions, interest is calculated and charged on a yearly basis. Under the 1998 mortgage conditions, interest is calculated and charged on a monthly basis. Where interest is calculated on a daily basis, in every month interest is charged each day on the capital and on any unpaid interest or expenses outstanding as at the end of the previous day, excluding interest charged in that month. Where interest is calculated on a monthly basis, in every month interest is charged for the month on the capital and on any unpaid interest or expenses outstanding as at the end of the previous month. Where interest is charged on a yearly basis, in every year interest is charged for the year on the capital and on any unpaid interest or expenses outstanding as at the end of the previous year. Payments of interest in respect of all loans are payable either monthly in arrears or in advance or monthly partially in advance and partially in arrears, depending upon a borrower's interest payment date. Monthly payments due by borrowers are paid normally (although not always) by direct debit and are due on the first day of each month unless (under the 2002 and 2004 mortgage conditions only) the borrower has chosen a different monthly instalment date. The seller may give a borrower notice at any time that a different instalment date will apply.

The variable rate for existing and/or new borrowers as at the initial closing date is 6.84 per cent. If the variable rate changes and that change affects the interest rate applicable to a borrower's mortgage, the seller is obliged to give the borrower written notice of the change. Notice will be given to borrowers prior to any changed monthly instalment becoming due. The actual gross rate of interest that the seller charges for variable rate loans, discount loans linked to the variable rate or fixed rate loans upon conversion from a fixed rate to the variable rate may be changed for various reasons, which include:

- to reflect a change in the rates of interest paid to customers with savings accounts with the seller;
- to reflect a change in the cost of other funds used by the seller in its mortgage lending business;
- to reflect a change in the base rate;
- to make sure the seller's business is run in a prudent manner;
- to allow the seller to raise additional funds to improve its services or facilities, to promote the growth of its business or to invest in new technology;
- to reflect changes in the law or recommendations by a court or by an ombudsman or regulatory requirements or guidance;
- to reflect a merger of its business; and
- to reflect a transfer of its business;

Under the 1997 and 1998 mortgage conditions and under the offers of advance sent out to borrowers with mortgages subject to the 1993 mortgage conditions, the variable rate may also be changed for any "other valid reason".

Under the 1997, 1998, 2002 and 2004 mortgage conditions, if a borrower's interest rate is increased as a result of a change to the variable rate, the borrower may repay the loan without paying interest at the increased rate and without paying any early repayment charge which would otherwise be due under the terms of the loan, if the seller receives notice from the borrower of that borrower's intention to repay within one month after the increase takes effect and the repayment is made within three months after the increase takes effect. Under the 1993 mortgage conditions, if a borrower's interest rate is increased and if that borrower gives notice within one month of the date

upon which that increase is to take effect, the borrower can redeem the mortgage without paying the additional interest resulting from the increase (provided such redemption is effected within three months of the increase date).

Except in limited circumstances, as set out above in "**Summary of the transaction documents – Servicing agreement – Undertakings by the servicer**", the servicer is responsible for setting the variable rate on the loans in the portfolio as well as on any new loans that are sold to the mortgages trustee. The servicer may vary the variable rate for any of the reasons listed above.

In maintaining, determining or setting the variable rate, the servicer will apply the factors set out here and, except in limited circumstances as set out in "**Summary of the transaction documents – Servicing agreement – Undertakings by the servicer**", has undertaken to maintain, determine or set the variable rate at a rate which is not higher than the variable rate from time to time.

Where a borrower's interest rate is set by reference to a margin (a **differential rate**), which will generally be a margin below the variable rate in relation to discount loans, under the 1997, 1998, 2002 and 2004 mortgage conditions the seller may change or disapply the differential rate where this is agreed with the relevant borrower or where this reflects a change in the way the mortgaged property is used or occupied. The differential rate will only be changed without a borrower's agreement if the change in the way in which a mortgaged property is used affects the seller's assessment of how likely the borrower is to carry out its obligations under the mortgage. Under the 1997 and 1998 mortgage conditions, the seller may also change the differential rate for any "other valid reason". If a borrower's interest rate is increased as a result of a change to the differential rate, the borrower may repay the loan without paying interest at the increased rate and without paying any early repayment charge which would otherwise be due under the terms of the loan, if the seller receives notice from the borrower of that borrower's intention to repay within one month after the increase takes effect and the repayment is made within three months after the increase takes effect. If applicable, the servicer will also be responsible for maintaining, determining or setting any differential rates and in doing so the servicer will apply the factors set out here and, except in limited circumstances as set out above in "**Summary of the transaction documents – Servicing agreement – Undertakings by the servicer**", has undertaken to maintain, determine or set any differential rate at a level which is not higher than the differential rates set in accordance with the seller's policy from time to time.

Loans may combine one or more of the features listed in this section and these will be specified in the offer of advance in relation to a loan or by the seller from time to time. Other customer incentives may be offered with the product including cashback, free valuations and payment of legal fees. Additional features in relation to a loan may include a flexible payment facility whereby the borrower may make overpayments and then use the accumulated overpayments to make underpayments, take payment holidays and make cash withdrawals (together, the **flexible features**). See "**– Flexible payments**" below. Borrowers who do not have the benefit of the flexible features are also able to make overpayments in addition to their usual monthly payment but early repayment charges may be payable. See "**– Flexible payments**" below.

### **Portability**

Certain mortgage products incorporate a portability facility, which allows the borrower to transfer the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property. A loan is only portable during any applicable discount rate period, fixed rate period or premium rate period. Variable rate loans are not portable.

The borrower can have the same or a lower level of funding for the loan for the new property as for the existing loan, however, if additional funding is required, this additional funding will only be available on the terms and conditions being offered by the seller at the time. Where flexible terms and conditions apply to a borrower's existing loan, flexible terms and conditions must also apply to any additional funding to which the seller agrees. Where flexible terms and conditions do not apply to a borrower's existing loan, flexible terms and conditions cannot apply to any additional funding to which the seller agrees. If a customer with a fixed rate loan, discount loan or base rate loan



requires a level of funding for the new property which is less than 75 per cent. of the level of funding previously required, the seller will charge any applicable early repayment charge (as set out in the relevant offer of advance) on the difference between the balance of the existing loan and the balance of the new loan.

### **Early repayment**

This term is used to describe instances when the borrower pays back either all or part of the loan (in an amount exceeding their normal monthly payments) before the maturity date of the loan. When a loan is redeemed in full or in part in this way, an early repayment charge may be payable. Early repayment charges are usually (but not exclusively) payable during a fixed rate period or discount rate period or the early years of the premium rate period depending upon the concessionary rate offered.

Capital repayments may be made, in whole or in part, at any time during the term of a loan. The borrower is obliged to pay any applicable early repayment charge in relation to such capital repayment, as specified in the relevant offer of advance (other than where the capital repayment is an overpayment being made in relation to a mortgage to which flexible features apply: see “– **Flexible payments**” below). In relation to certain products without flexible features, the seller permits borrowers to repay up to 10 per cent. of the amount outstanding on a mortgage in addition to scheduled repayments in any one year without having to pay any applicable early repayment charge. To benefit from this, the borrower must make the capital repayment during January and the capital repayment must be £500 or more above that borrower’s normal monthly payment. A repayment of the entire outstanding balance of all loans secured by a customer’s mortgage discharges the mortgage. Any prepayment in full must be made together with all accrued interest, any amounts in arrears, any unpaid expenses and any applicable early repayment charge(s). In addition, a “redemption administration charge” of £295 is currently payable where a borrower prepays in full.

If interest is paid at either a fixed rate, a base rate-linked rate or a discount rate, an early repayment charge may be charged on the amount repaid at the rate which applies during the early repayment charge period (which is normally the discount rate period, fixed rate period or premium rate period as the case may be) stated in the conditions of the loan.

### **Flexible payments**

The 2002 and 2004 mortgage conditions incorporate the concept of “flexible mortgage provisions”, which are available for certain products in the portfolio through a running account credit facility (the **flexible facility**). A borrower’s offer of advance states whether the flexible mortgage provisions are applicable to a borrower’s loan.

In relation to loans subject to the 1998 mortgage conditions, flexible mortgage provisions are incorporated in the “additional special conditions” applicable to the loan. The additional special conditions are issued to borrowers with the offer of advance and form part of the offer document.

In relation to customers who have the benefit of flexible mortgage provisions pursuant to the 1998 and 2002 mortgage conditions, each customer will have signed a running account credit agreement regulated by the CCA.

The flexible facility enables borrowers to make overpayments or underpayments, take payment holidays or make cash withdrawals in certain circumstances. A borrower may make overpayments throughout the life of the loan and may make underpayments, take payment holidays or make cash withdrawals provided that there is credit available on the flexible facility. A borrower accumulates credit on the flexible facility by making overpayments. Where the available credit on the flexible facility is reduced to zero via underpayments, cash withdrawals or payment holidays or because no overpayments have been made, a borrower may not make underpayments, take payment holidays or make cash withdrawals.

There is no limit to the number of times the flexible facility can be exercised provided that there is available credit on the flexible facility.

Flexible features comprise the following:

- **overpayments** – These are paid in addition to scheduled monthly repayments without the borrower having to pay an early repayment charge, except in respect of an overpayment which has the effect of redeeming the borrower's mortgage. There is no minimum or maximum level of overpayment. Borrowers can overpay for as long and as regularly as they like.
- **underpayments** – The borrower may pay less each month by an amount agreed between the borrower and the seller. The borrower must agree in advance how many underpayments the borrower will make and the borrower may not make underpayments when the accrued overpayments have been depleted.
- **payment holidays** – Accrued overpayments can be used to take payment holidays during which the borrower may suspend mortgage payments without penalty for a period agreed between the borrower and the seller. The borrower may not take a payment holiday when the accrued overpayments have been depleted.
- **cash withdrawals** – All or part of the accrued overpayments can be taken out in cash. The minimum cash withdrawal that can be made is £500.

Borrowers are entitled to make overpayments even where the flexible mortgage provisions do not apply to their mortgage, although any applicable early repayment charge may be payable in relation to such overpayments; see “– **Early Repayment**”. Only borrowers with the benefit of the flexible mortgage provisions have the ability to make underpayments or cash withdrawals or take payment holidays.

Any overpayments which are less than £500 are deducted from the outstanding principal balance at the end of the month in which the overpayment is made in the case of products for which interest is calculated on a monthly basis or at the end of the year in the case of products for which interest is calculated on a yearly basis. Any overpayments (whether or not the flexible mortgage provisions apply) which are £500 or more are deducted from the outstanding principal balance immediately. Where the flexible mortgage provisions apply and the overpayment is £500 or more, the borrower can opt to reduce the monthly payment or else the term of the relevant loan is reduced accordingly. The change in the monthly payment will be notified to the borrower a reasonable time in advance of when the monthly payment is due. In respect of flexible loans only, underpayments and cash withdrawals can only be made and payment holidays can only be taken to the limit of previous overpayments by the borrower.

The outstanding principal balance is increased following any underpayment, cash withdrawal or payment holiday, and interest is charged on such increased outstanding principal balance in accordance with the mortgage conditions.

The administration of the flexible facility is undertaken by the seller.

See “**Risk factors – Set-off risks in relation to flexible loans may adversely affect the funds available to the issuer to repay your notes**” above.

#### ***Product switches***

A product switch is a variation in the financial terms and conditions applicable to the borrower's loan as agreed between the borrower and the seller. If a product switch is made, the mortgage conditions relating to a borrower's loan will be updated to the then current version.

If a borrower wishes to make a product switch, the seller will use the lending criteria applicable to product switches at that time in determining whether to approve the application. None of the loans in the portfolio as at the initial closing date will oblige the seller to make product switches. However, some loans in the portfolio as at the initial closing date may have product switches made on them prior to their being sold to the mortgages trustee, and new loans added to the portfolio in the future may have had product switches made on them prior to the relevant sale date.

If a loan, following a product switch, does not meet certain criteria, then the seller will be required to repurchase the loan or loans under the relevant mortgage account and its or their related security from the mortgages trustee. See “**Summary of the transaction documents – The**

**mortgage sale agreement – Product switches and further advances” and “Risk factors – In limited circumstances, loans subject to product switches and further advances will be repurchased by the seller from the mortgages trustee, which will affect the prepayment rate of the loans and this may affect the yield to maturity of your notes” above.**

### ***Origination of the loans***

The seller currently derives its mortgage-lending business through its branch network throughout the United Kingdom, through intermediaries, through its internet website and through telephone sales.

Under the seller's policy, it can provide many customers with an agreement in principle to lend almost immediately upon application.

The seller has been authorised and regulated by the Financial Services Authority for mortgage business since 31 October 2004 and is therefore subject to the FSA's Mortgage Conduct of Business rules. The seller is also subject to the compulsory jurisdiction of the Financial Ombudsman Service, which is a statutory scheme under the FSMA. Prior to 31 October 2004, the seller subscribed to the CML Code from its inception in 1997. The CML Code is a voluntary code of good practice and is independently monitored by the Mortgage Code Compliance Board.

### ***Underwriting***

Applicants are credit scored to establish which applications can be approved, declined or referred for manual assessment by an underwriter. See “– **Credit scorecard**” below.

Pre-completion processing and certification of data together with an automated credit search is the first stage of the process. Cases that meet specified criteria, for example high value, are also manually underwritten.

To gain the authority to approve loans, each underwriter must first undertake training conducted by the seller. Underwriters then undergo a periodic assessment of their work. The seller has established various levels of authority for its underwriters who approve loan applications. The levels are differentiated by, among other things, the ratio of the loan amount to the value of the mortgaged property and the size of the loan applied for. An underwriter wishing to move to the next level of authority must undertake further training. The seller's lending policy sets out the discretion available to underwriters where a proposal is made to lend outside the seller's standard policy. Requests outside the scope of such discretion are escalated to the Director of Credit & Risk for approval.

Credit Operations carry out a quality check of a portion of the underwriters' decisions on a monthly basis to ensure adherence to the seller's lending policy and procedures. All underwriting decisions are monitored for bad debt and further quality checking where an individual's bad debt performance warrants investigation. All loans underwritten are subject to the seller's underwriting policies, lending criteria and internal procedures for compliance with government regulations, such as those concerning money laundering.

### ***Lending criteria***

Each initial loan in the portfolio as at the initial closing date will be originated according to the seller's lending criteria applicable at the time the loan was offered, which included some or all of the criteria set out in this section. The geographical location of a mortgaged property (i.e. England, Wales, Scotland or Northern Ireland) has no impact upon the seller's lending criteria and current credit scoring tests. New loans, including loans with product switches, may only be included in the portfolio if they were or are originated in accordance with the lending criteria applicable at the time the loan was or is offered and if the conditions contained above in “**Summary of the transaction documents – The mortgage sale agreement – Sale of loans and their related security**” have been satisfied.

The seller may exercise discretion within its lending criteria in applying those factors that are used to determine the maximum amount of the loan(s). The seller may take the following into account when exercising discretion: credit history, LTV ratio, affordability, residency, residential history, employment history and nature of income. However, the seller retains the right, in its sole

discretion, to revise its lending criteria from time to time, so the criteria applicable to new loans may not be the same as those currently used. Some of the factors currently used in making a lending decision are outlined below.

(a) *Type of property*

Mortgaged properties may be freehold, leasehold, commonhold or (in Scotland) heritable. Leases must have an unexpired term of at least 50 years at the commencement of the loan and at least 30 years (or, from 28 March 2006, at least 35 years) remaining on the maturity of the loan.

The mortgaged property must be used for residential purposes, however, a mortgaged property may be used, in limited circumstances, partially for business purposes provided that no more than 60 per cent. of the mortgaged property is used for such business purposes, that no items are held for storage in connection with the business usage, no structural alterations have been made to accommodate the business and, from 31 October 2004, at least 40 per cent. of the mortgaged property is occupied by the borrower or the borrower's spouse, common-law partner, same sex partner, parent(s), grandparent(s), sibling(s), children or grandchildren. Any business use other than clerical is unlikely to be considered acceptable. A mortgaged property must be marketable, habitable and insurable.

A mortgaged property must be owner-occupied or may be occupied by the borrower's spouse, common-law partner, same sex partner, parent(s), grandparent(s), sibling(s), children or grandchildren. The seller does not lend on buy-to-let properties (although the seller may provide consent during the life, but not at the start, of the mortgage for the mortgaged property to be let for a specified period). Mortgaged properties must be situated in England, Wales, Scotland and Northern Ireland.

The following are examples (non-exhaustive) of the types of properties considered by the seller to be unacceptable security: freehold flats, flats in ex-local authority buildings of more than five storeys or mobile homes.

(b) *Term of the loan*

There is no minimum term for loans, although where an early repayment charge applies, the term cannot be less than the period during which the early repayment charge is payable. The maximum term for endowment linked mortgages or mortgages repaid on a repayment basis is 40 years and, subject to this, the maximum term for pension backed mortgages is 50 years.

(c) *Age of applicant*

All borrowers must be aged 18 or over. The current maximum age limit is 75 at the maturity of the loan. If the term of the loan extends past an applicant's normal retirement age, the applicant must confirm that he or she will have adequate income to maintain repayments beyond his or her retirement.

(d) *LTV*

The maximum loan available (excluding any high percentage loan fee) is based on the lower of the current value or purchase price of the mortgaged property. The maximum LTV for loans of up to £250,000 is 95 per cent. The maximum LTV for loans of up to £500,000 is 90 per cent. The maximum LTV for loans of up to £1,000,000 is 85 per cent. The maximum LTV for loans of above £1,000,000 is negotiable. Existing Alliance & Leicester mortgagors are considered for loans of over 95 per cent. LTV where essential repairs are required. The maximum LTV in this situation is 100 per cent. and the loan must be agreed by a senior underwriter. A revaluation must be carried out before the offer is issued to establish that the repairs are essential and will restore the property value after they have been completed. Where the loan is advanced for the purchase of a second/holiday home, or a home for a dependent relative, the maximum LTV is 85 per cent. (or 75 per cent. where the purchase price or valuation is greater than £500,000).

(e) *Mortgage indemnity guarantee (MIG) policies*

Since 1996, the seller has not required cover under MIG policies for any loans.

***Income verifications***

The seller accepts the following original documents by way of income verification in relation to “employed” applicants:

- existing Alliance & Leicester borrowers and new borrowers with an LTV less than or equal to 75 per cent.: latest monthly or four weeks' payslips or latest year's accounts where self-employed;
- new borrowers with an LTV greater than 75 per cent.: latest three months' payslips or last three years' accounts if self employed;
- loans over £500,000: latest three months' payslips or last three years' accounts if self-employed.

The seller includes in its calculations, in relation to employed applicants, the employee's basic salary, pension or permanent disability allowance together with 100 per cent. of any mortgage subsidy received, guaranteed overtime, bonuses and commission, car and large town allowances and working/family tax credits. The seller accepts 50 per cent. of any regular but not guaranteed overtime, bonuses and commission. The figures used as allowable income for self-employed applicants are as follows:

- LTV less than or equal to 75 per cent. and where the loan is less than or equal to £500,000: latest year's net profit attributable to the applicant;
- existing Alliance & Leicester borrowers regardless of LTV or loan amount: latest year's net profit attributable to the applicant; and
- LTV above 75 per cent. or where the loan is greater than £500,000: an average of the last three years' net profit attributable to the applicant. Two years' full accounts and a projection verified by a qualified accountant sufficing for the third year may be acceptable where the applicant has been self-employed for less than three years. Draft accounts are acceptable only if verified by a qualified accountant and the applicant has been self-employed for over three years.

A maximum of four applicants may apply for a loan and a maximum of two incomes can be used.

Positive proof of the borrower's identity and address is established in line with money laundering regulations.

Currently, the seller does not accept third party guarantees.

For low risk applications, income is verified at the point of sale and a percentage is audited by a central processing unit for accuracy. Low risk applications are defined as below £500,000 and 75 per cent. LTV where the applicant is employed and either remortgaging or a next-time buyer.

***Credit history***

Applications where an adverse credit history exists (i.e. bankruptcy, county court judgment (or the Scottish equivalent) or outstanding defaults registered with a credit reference agency) are unacceptable, unless the bankruptcy has been discharged for more than three years or the county court judgment has been satisfied for more than three years. There are limited circumstances where exceptions to these rules may be made, for example where the underwriter is satisfied that the outstanding default did not represent a deliberate breach of a financial contract.

***Credit scorecard***

The seller uses certain criteria described in this section and various other criteria to produce an overall score for the application that reflects a statistical analysis of the risk of advancing the loan. The lending policies and processes are determined centrally to ensure consistency in the management and monitoring of credit risk exposure. Credit scoring applies statistical analysis to

publicly available data and customer-provided data to assess the likelihood of an account going into arrears. All loan applications are subject to credit scoring.

(a) *Eligibility*

**UK residents** – British citizens normally resident in the UK are eligible to apply for all loan products. Applicants entitled to claim diplomatic immunity are unacceptable. Applications from non-British citizens are only acceptable where the applicant can prove a right to live and work in the United Kingdom. Applications from foreign nationals without an indefinite right to stay in the United Kingdom are usually unacceptable.

**Non-residents** – Applications from expatriates are unacceptable.

(b) *Employment*

**Employed applicants** – Employed applicants must have been in their present employment for a minimum of three months. The seller will accept contracted staff provided that they have been employed as a contractor for a minimum of three months and have been in employment for the last 12 months. There is no minimum length of time that should be left to run on a temporary contract. Contractors are treated as self-employed for the assessment and verification of income if they are classed as self-employed for tax purposes; otherwise they are treated as employed applicants.

**Self-employed applicants** – See “**Income Verifications**” above. An individual will be deemed to be self-employed when his or her shareholding is more than ten per cent. of the total share capital of the applicant’s employer or the applicant is in a partnership. Sole traders will be deemed to be self-employed.

***Insurance policies***

(a) *Insurance on the property*

A borrower is required to insure the mortgaged property with buildings insurance for the duration of the loan. The insurance may have been purchased through the seller or, alternatively, the borrower or landlord (in the case of a leasehold property) may arrange for the buildings insurance independently. The building must be insured for its full reinstatement value, i.e. the cost to rebuild as new, including site clearance, debris removal, cost to comply with the latest building regulations and architects and surveyors fees. The borrower must ensure that the buildings insurance payments are kept up to date.

Under the 1997, 1998, 2002 and 2004 mortgage conditions, if the borrower does not insure the mortgaged property, or insures the mortgaged property but violates a provision of the mortgage terms which relates to insurance, the seller, upon becoming aware of the same, is entitled to insure the mortgaged property itself for its own benefit, in which case the seller may determine who the insurer will be, what will be covered by the policy, the amount of the sum insured and any excess. Under the 1993 mortgage conditions, the seller may itself insure the mortgaged property or, at the seller’s option, require the borrower to insure the property. Under each set of mortgage conditions the borrower will be responsible for the payment of insurance premiums and the seller retains the right to settle all insurance claims which concern the mortgaged property without the borrower’s consent.

(b) *Alliance & Leicester arranged buildings insurance*

Where a borrower purchases buildings insurance through the seller, the borrower will be responsible for paying the premiums for that insurance to the insurer by the payment method acceptable to the relevant insurer.

Where the seller has had to insure a mortgaged property as a result of a borrower’s inability to do so, the borrower must repay the premium in relation to this insurance as soon as payment of this premium is requested by the seller. Except for the loans originated under the 1997 and 1998 mortgage conditions, interest is chargeable on the

premium at the applicable interest rate in relation to the relevant mortgage. Under each of the mortgage conditions the premium may be paid by the borrower in monthly instalments.

(c) *Borrower-arranged buildings insurance*

A borrower is required to arrange for the mortgaged property to be insured by a third party if the borrower did not arrange for the seller to insure the mortgaged property on its behalf. The mortgaged property must be insured under a comprehensive policy and for an amount not less than the full cost of rebuilding the mortgaged property, including all professional fees, debris removal and the cost of meeting planning and local authority requirements.

Under the 2004 mortgage conditions for both England & Wales and Northern Ireland, the policy must include the seller's interest noted on the policy or be in the joint names of the borrower and the seller. The 1997, 1998 and 2002 mortgage conditions for both England & Wales and Northern Ireland, require the policy to be in the joint names of the borrower and the seller. Under the 1997, 1998, 2002 and 2004 mortgage conditions, if the mortgaged property is leasehold and the lease provides for the landlord to insure, the borrower must arrange for the seller's interest to be noted on the landlord's policy. The mortgage conditions for Scotland all require that the seller's interest is noted on the policy. In all cases, the borrower must inform the seller of any event which might give rise to a claim under the policy.

(d) *Title insurance*

Since 21 October 1999, the seller has offered a service (the **mortgage transfer service**) which allows remortgages of properties to be completed under an expedited procedure. The mortgage transfer service takes care of the legal administration involved in a remortgage and, rather than following the traditional conveyancing practice, to protect its interests the seller takes out a policy of title insurance in relation to each relevant property. The process differs from the traditional conveyancing procedures in that there is no in-depth investigation of title or searches carried out. If defects in a title become evident during any later repossession of a property, the seller is able to claim against the title insurance policy. The title insurance used by the seller for the mortgage transfer service is provided by First Title Insurance plc (**first title**), a company which provides this type of title insurance and whose address is Walkden House, 3-10 Melton Street, London NW1 2EB. Amongst other things, the first title policy provides protection (a) that there is good and marketable title to the property; (b) that the property was built, and (if relevant) modified or extended since, in compliance with all necessary planning and building regulation approvals; (c) against adverse information which would be discovered from Local Authority searches; and (d) against costs or legal expenses necessary to defend the title. After an agent of first title, as applicable, checks ownership of the relevant property, first title provides a certificate of insurance to the seller. The agent then arranges execution of the relevant documents, requests the funds from the seller and, upon receipt, disburses such funds under the seller's instructions and completes the transaction. The mortgage transfer service is not available for mortgage applications on unencumbered properties, purchases of second homes where the mortgagor will not reside at the property address, cases where there is any element of shared ownership or right-to-buy cases within 18 months of the original purchase or within the discount period.

Some loans in the portfolio may have the benefit of defective title indemnity insurance, restrictive covenant indemnity insurance or other similar types of indemnity insurance.

### ***Servicing of loans***

Servicing procedures include responding to customer enquiries, monitoring compliance with the mortgage terms, servicing the loan features and facilities applicable to the loans and management of amounts in arrears. See “– **Summary of the transaction documents – Servicing agreement**” above.

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

In the case of variable rate loans, Alliance & Leicester, acting as servicer, sets the variable rate and the margin applicable to any variable rate loan and any differential rate applicable to any discount loan on behalf of the mortgages trustee and the beneficiaries, except in the limited circumstances set out in the servicing agreement. In the case of some loans that are not payable at the variable rate, for example fixed rate loans, the borrower will continue to pay interest at the relevant fixed rate until the relevant period ends in accordance with the borrower's offer conditions. After that period ends interest will be payable at the variable rate or a base rate-linked rate.

The servicer will take all steps necessary under the mortgage terms to notify borrowers of any change in the interest rates applicable to the loans, whether due to a change in the variable rate or any variable margin or any differential rate or as a consequence of any provisions of those terms.

Payments of interest in respect of all loans are payable either monthly in arrears or in advance, or monthly partially in advance and partially in arrears, depending upon a borrower's interest payment date. The servicer is responsible for ensuring that all payments are made by the relevant borrower into the collection accounts and subsequently transferred into the mortgages trustee GIC account on the next London business day after they are deposited in the seller's accounts. Payments are normally (although not always) made by direct debit. Under the 2002 and 2004 mortgage conditions, the borrower may select the monthly instalment date. Under the 1993, 1997 and 1998 mortgage conditions, the instalment date is the first day of the month unless the borrower or the seller selects a different monthly instalment date. All amounts which are paid to the collection accounts will be held on trust by the seller for the mortgages trustee until they are transferred to the mortgages trustee GIC account.

The servicer initially credits the mortgages trustee GIC account with the full amount of the borrowers' monthly payments. However, direct debits may be returned unpaid up to three business days after the due date for payment, and a borrower may make a claim at any time to their bank for a refund of direct debit payments. In each case, the servicer is permitted to reclaim from the mortgages trustee GIC account the corresponding amounts previously credited. In these circumstances the usual arrears procedures described below in "**Arrears and default procedures**" will be taken.

#### **Arrears and default procedures**

The servicer will regularly provide the mortgages trustee and the beneficiaries with written details of loans that are in arrears. For operational purposes, a loan is identified as being "in arrears" when one or more monthly payments in respect of a mortgage account is overdue and the total arrears across all sub-accounts is more than £150. In general, the servicer attempts to collect all payments due under or in connection with the loans, having regard to the circumstances of the borrower in each case. Alliance & Leicester uses a case control cycle featuring three stages: collection, negotiation and recovery.

Alliance & Leicester's system tracks arrears and advances and calculates when an amount is in arrears. When arrears are first reported and are less than 2.5 months overdue, the borrower is contacted and asked for payment of the arrears. Until an account reaches 2.5 months in arrears, this is largely an automatic process in which the borrower is contacted through a series of letters and telephone calls.

Where considered appropriate, the servicer may enter into arrangements with the borrower regarding the arrears, including:

- arrangements to make each monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- arrangements to pay only a portion of each monthly payment as it falls due; and



- a deferment for an agreed period of time of all payments, including interest and principal or parts of any of them. Any arrangements may be varied from time to time at the discretion of the servicer, the primary aim being to rehabilitate the borrower and recover amounts in arrears.

Once the arrears are equivalent to more than 2.5 months overdue, the collection process progresses towards litigation. The late stage process will also involve contact by letter and telephone and may also include counsellors hired to meet with the borrower at the mortgaged property and assess the arrears arrangements.

Legal proceedings usually commence when the arrears become two to three months overdue. Once legal proceedings have commenced, the servicer or the servicer's solicitor may send further letters to the borrower encouraging the borrower to enter into discussions to pay the arrears, and may still enter into an arrangement with a borrower at any time prior to a court hearing. If a court order for possession is made for payment and the borrower subsequently defaults in making the payment, then the servicer may take action as it considers appropriate, including entering into a further arrangement with the borrower. If the servicer applies to the court for a warrant for possession, the court has discretion as to whether it will grant the order.

After possession, the servicer may take action as it considers appropriate, including to:

- secure, maintain or protect the mortgaged property and put it into a suitable condition for sale;
- create (other than in Scotland) any estate or interest on the mortgaged property, including a leasehold; and
- dispose of the mortgaged property (in whole or in part) or of any interest in the mortgaged property, by auction, private sale or otherwise, for a price it considers appropriate.

The servicer has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The servicer may also carry out works on the property as it considers appropriate to maintain the market value of the mortgaged property.

The servicer has discretion to deviate from these procedures. In particular, the servicer may deviate from these procedures where a borrower suffers from a mental or physical infirmity, is deceased or where the borrower is otherwise prevented from making payment due to causes beyond the borrower's control. This is the case for both sole and joint borrowers.

It should also be noted that the servicer's ability to exercise its power of sale in respect of the mortgaged property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the control of the servicer, such as whether the borrower contests the sale and/or the market conditions at the time of sale, that may affect the length of time between the decision of the servicer to exercise its power of sale and final completion of the sale.

It should also be noted in relation to Scottish mortgages that the Mortgage Rights (Scotland) Act 2001 confers upon the court a discretion (upon application by a borrower or other specified persons) to suspend the exercise of the lender's statutory enforcement remedies for such period and to such extent as the court considers reasonable, having regard, among other factors, to the nature of the default, the applicant's ability to remedy it and the availability of alternative accommodation. See "**Material legal aspects of the loans and their related security – Scottish loans**" below.

The net proceeds of sale of the mortgaged property are applied against the sums owed by the borrower to the extent necessary to discharge the mortgage including any accumulated fees, expenses of the servicer and interest. Where the funds arising from application of these default procedures are insufficient to pay all amounts owing in respect of a loan, the funds are applied first in paying interest and costs, and second in paying principal. The servicer may then institute recovery proceedings against the borrower. If, after the sale of the mortgaged property and redemption of the loan, there are remaining funds, those funds will be distributed by the acting solicitor to the next entitled parties.

These arrears and security enforcement procedures may change over time as a result of a change in Alliance & Leicester's or the servicer's business practices or of legislative and regulatory changes.

### **Arrears experience**

Each final terms relating to the issuance of a series of notes will contain tables summarising the then up-to-date information on the seller's experience in administrating loans in arrears and its repossession experience for residential mortgage loans originated by the seller. The tables will include information in respect of the seller's experience in administering loans secured by mortgaged properties located in England, Wales, Northern Ireland and Scotland.

If the property market experiences an overall decline in property values so that the value of the properties in the portfolio falls below the principal balances of the loans comprising the overall pool, the actual rates of arrears could be significantly higher than those previously experienced by the servicer. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the loans in the portfolio. Noteholders should observe that the United Kingdom experienced relatively low and stable interest rates during the periods covered in the above mentioned tables. If interest rates were to rise, it is likely that the rate of arrears would rise.

## FORM OF THE NOTES

### Global notes

The notes of each class offered and sold outside the United States to non-U.S. persons in reliance on Reg S will be represented on issue by one or more global notes of such class in fully registered form without interest coupons or principal receipts attached (each a **Reg S global note**) which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Reg S global note may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See "**Book-entry clearance procedures**" below.

The notes of each class offered and sold in the United States to QIBs in reliance on Rule 144A 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 **Rule 144A global note**), which will be deposited with Citibank, N.A., as custodian for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of, DTC. Beneficial interests in a Rule 144A global note may only be held through DTC or its participants at any time (see "**Book-entry clearance procedures**" below). Beneficial interests in a Rule 144A global note may only be held by persons who are QIBs holding their interests for their own account or for the account of another QIB. By acquisition of a beneficial interest in a Rule 144A global note, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A global note (see "**Transfer restrictions and investor representations**" below).

The Reg S global notes and the Rule 144A global notes are referred to herein as **global notes**. Beneficial interests in global notes will be subject to certain restrictions on transfer set out therein and in the note trust deed, and such global notes will bear the applicable legends regarding the restrictions set out under "**Transfer restrictions and investor representations**" below.

### Definitive notes

Owners of beneficial interests in global notes will not be entitled to receive physical delivery of individual certificated notes except in the following limited circumstances (each, an **exchange event**):

- as a result of a change in UK law, the issuer or any paying agent is or will be required to make any deduction or withholding for or on account of tax from any payment on the notes that would not be required if the notes were in definitive form;
- in the case of the Rule 144A global notes, DTC notifies the issuer that it is unwilling or unable to hold the Rule 144A global notes or is unwilling or unable to continue as, or has ceased to be, a clearing agency under the Exchange Act and, in each case, the issuer cannot appoint a successor within 90 days; or
- in the case of the Reg S global notes, Clearstream, Luxembourg and Euroclear are closed for business for a continuous period of 14 days or more (other than by reason of legal holidays) or announce an intention to cease business permanently or do in fact do so and no alternative clearing system satisfactory to the note trustee is available.

In no event will definitive notes in bearer form be issued. Any definitive notes will be issued in registered form in minimum denominations as specified in the related final terms. Any definitive notes will be registered in that name or those names as the registrar shall be instructed by DTC, Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuer, as applicable. It is expected that these instructions will be based upon directions received by DTC, Clearstream, Luxembourg, Euroclear and any alternative clearing system agreed by the issuer, from their participants reflecting the ownership of book-entry interests. To the extent permitted by law, the issuer, the note trustee and any paying agent shall be entitled to treat the person in whose name any definitive notes are registered as the absolute owner thereof. The paying agent and agent bank agreement contains provisions relating to the maintenance by a registrar of a register reflecting ownership of the notes and other provisions customary for a registered debt security.

Any person receiving definitive notes will not be obligated to pay or otherwise bear the cost of any tax or governmental charge or any cost or expense relating to insurance, postage, transportation or any similar charge, which will be solely the responsibility of the issuer. No service charge will be made for any registration of transfer or exchange of any definitive notes.

#### **Transfer of interests**

A beneficial interest in a Rule 144A global note of one class may be transferred to a person that takes delivery in the form of a beneficial interest in a Reg S global note of the same class, whether before or after the expiration of the distribution compliance period applicable to the notes of such class, only upon receipt by the issuer of a written certification from the transferor to the effect that such transfer is being made in accordance with Rule 903 or 904 of Reg S. A beneficial interest in a Reg S global note of one class may be transferred to a person who takes delivery in the form of a beneficial interest in a Rule 144A global note of the same class only upon receipt by the issuer of written certification from the transferor to the effect that such transfer is being made to a person whom the transferor or any person acting on its behalf reasonably believes is purchasing for its own account or for an account or accounts as to which it exercises sole investment discretion and that such person and such account or accounts is a QIB, in each case, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Any beneficial interest in a Reg S global note of one class that is transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A global note of the same class will, upon transfer, cease to be represented by a beneficial interest in such Reg S global note and will become represented by a beneficial interest in such Rule 144A global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A global note for as long as it remains such a beneficial interest. Any beneficial interest in a Rule 144A global note of one class that is transferred to a person who takes delivery in the form of a beneficial interest in the Reg S global note of the same class will, upon transfer, cease to be represented by a beneficial interest in such Rule 144A global note and will become represented by a beneficial interest in such Reg S global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Reg S global note as long as it remains such a beneficial interest.

**Although DTC, Euroclear and Clearstream, Luxembourg have agreed to certain procedures to facilitate transfers of beneficial interests in a global note among participants of DTC and participants 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 relevant note trustee, the issuer security trustee or any of their respective agents will have any responsibility or liability for the performance by DTC, Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.**

## BOOK-ENTRY CLEARANCE PROCEDURES

*The information set out below has been obtained from the clearing systems (as defined herein) and the issuer believes that such sources are reliable, but prospective investors are advised to make their own enquiries as to such procedures. The issuer accepts responsibility for the accurate reproduction of such information from publicly available information. In particular, such information is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear, Clearstream, Luxembourg or DTC (together, the **clearing systems**) currently in effect and investors wishing to use the facilities of any of the clearing systems are therefore advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the managers, the dealers, the sponsor, the seller, the servicer, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the agent bank, the issuer swap providers or any issuer account bank (or any affiliate of any of the above, as defined in the Securities Act) will have any responsibility for the performance by the clearing systems or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations or for the sufficiency for any purpose of the arrangements described below.*

### **Euroclear, Clearstream, Luxembourg and DTC**

Custodial and depositary links have been established between the clearing systems to facilitate the initial issue of the notes and cross-market transfers of the notes associated with secondary market trading see “– **Settlement and transfer of notes**” below.

### ***Euroclear and Clearstream, Luxembourg***

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Investors may hold their interests in such global notes directly through Euroclear or Clearstream, Luxembourg if they are accountholders (**direct participants**) or indirectly (**indirect participants** and, together with direct participants, **participants**) through organisations which are accountholders therein.

### ***DTC***

DTC has advised the issuer as follows: “DTC, the world’s largest depositary, is a limited-purpose trust company organised under the New York Banking Law, a “banking organisation” under the laws of the State of New York, a member of the U.S. Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act.” DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerised book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Investors may hold their interests in a global note directly through DTC, if they are participants (**direct participants**) in the DTC system, or indirectly through organisations which are participants in such system (**indirect participants**, and together with direct participants, **participants**).

DTC has advised the issuer that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants in whose accounts with DTC interests in global notes are credited and only in respect of such portion of the aggregate principal amount of the relevant global notes as to which such participant or participants has to have given such direction.

### **Book-entry ownership**

#### ***Euroclear and Clearstream, Luxembourg***

Each Reg S global note will have an ISIN and a Common Code and will be deposited with Citibank, N.A., as common depository on behalf of Euroclear and Clearstream, Luxembourg.

#### ***DTC***

Each Rule 144A global note will have an ISIN, a Common Code and a CUSIP number and will be deposited with Citibank, N.A., as custodian (the **custodian**) for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of DTC. The custodian and DTC will electronically record the principal amount of the notes held within the DTC system.

### **Payments and relationship of participants with clearing systems**

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the holder of a note represented by a global note must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the issuer to the holder of such global note (save in the case of payments other than U.S. dollars outside DTC, as referred to below) and in relation to all other rights arising under the global note, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or DTC (as the case may be). The issuer expects that, upon receipt of any payment in respect of notes represented by a global note, the common depository by whom such note is held, or nominee in whose name it is registered, will (save as provided below in respect of Rule 144A global notes) immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant global note as shown on the records of the relevant clearing system or its nominee. The issuer also expects that payments by direct participants in any clearing system to owners of beneficial interests in any global note held through such direct participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the issuer in respect of payments due on the notes for so long as the notes are represented by such global note and the obligations of the issuer will be discharged by payment to the registered holder, as the case may be, of such global note in respect of each amount so paid. None of the managers, the sponsor, the seller, the servicer, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the agent bank, the issuer swap providers or any issuer account bank will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, ownership interests in any global note or for maintaining, supervising or reviewing any records relating to such ownership interests.

DTC will only process payments of principal and interest in U.S. dollars. Payments in U.S. dollars of principal and interest in respect of a Rule 144A global note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such note. In the case of any payment in a currency other than U.S. dollars in respect of a Rule 144A global note accepted by DTC, payment will be made by the exchange rate agent and the exchange rate agent will (in accordance with express written instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the global note in the currency in which

such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable participants' accounts.

#### **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 direct participants, which will receive a credit for such notes on the clearing system's records. The ownership interest of each actual purchaser of each such note (the **beneficial owner**) will in turn be recorded on the participant's records. Beneficial owners will not receive written confirmation from any clearing system of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct and indirect participant through which such beneficial owner entered into the transaction. Transfers of ownership interests in notes held within the clearing system will be effected by entries made on the books of participants acting on behalf of beneficial owners. **Beneficial owners will not receive individual certificates representing their ownership interests in such notes.**

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

The laws of some states in the United States may require that certain persons take physical delivery in definitive form of securities. Consequently, it may not be possible to transfer interests in a global note to such persons. Because DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a global note to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of a physical certificate in respect of such interest.

#### ***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, sterling denominated bonds and U.S. dollar denominated bonds.

#### ***Trading between DTC participants***

Secondary market sales of book-entry interests in the dollar notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

#### ***Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser***

When book-entry interests in the notes are to be transferred from the account of a DTC participant holding a beneficial interest in a global note to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that global note (subject to the certification procedures provided in the note trust deed), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream,

Luxembourg participant. On the settlement date, the custodian of the global note will instruct the registrar to:

- (i) decrease the amount of notes registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC), evidenced by the relevant global note; and
- (ii) increase the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg evidenced by the relevant global note. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

***Trading Between Euroclear/Clearstream, Luxembourg seller and DTC purchaser***

When book-entry interests in the notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC participant wishing to purchase a beneficial interest in a global note (subject to the certification procedures provided in the note trust deed), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the registrar to arrange delivery to the DTC participant on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will:

- (a) transmit appropriate instructions to the custodian of the global note who will in turn deliver evidence of such book-entry interests in the notes free of payment to the relevant account of the DTC participant; and
- (b) instruct the registrar to:
  - (i) decrease the amount of notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global note; and
  - (ii) increase the amount of notes registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) and evidenced by the relevant global note.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in global notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the managers, the servicer, the seller, the sponsor, Funding 1, the mortgages trustee, the issuer security trustee, the Funding 1 security trustee, the note trustee, any paying agent, the registrar, the transfer agent, the exchange rate agent (if applicable), the agent bank, any remarketing agent (if applicable), any conditional purchaser (if applicable), the issuer swap providers or any issuer account bank will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

**Pre-issue trades settlement**

It is expected that delivery of notes will be made against payment therefor on the closing date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes in the United States on the date of pricing or the next succeeding business days until three days prior to the closing date will be



required, by virtue of the fact the notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of notes may be affected by such local settlement practices and purchasers of notes who wish to trade notes between the date of pricing and the closing date should consult their own adviser.

## FORM OF FINAL TERMS

Set out below is the form of final terms which, subject to any necessary amendment, will be completed for each series of notes issued under the programme.

**Final Terms dated [●]**

### FOSSE MASTER ISSUER PLC

*(incorporated with limited liability in England and Wales with registered number 5925693)*

### Residential Mortgage Backed Note Programme

#### Issue of Series [●] Notes

Class	Interest rate	Initial principal amount	Issue price	Scheduled redemption dates	Maturity date
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]
[●].....	[●]	[●]	[●]%	[●]	[●]

Terms used herein shall be deemed to be defined as such in accordance with the conditions set forth in the prospectus dated [●] (the **prospectus**) which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the final terms (the **final terms**) of the notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the prospectus. Full information on the issuer and the offer of the notes is only available on the basis of the combination of these final terms and the prospectus. The prospectus is available for viewing at 35 Great St. Helen's, London EC3A 6AP and copies may be obtained from the registered office of the issuer at 35 Great St. Helen's, London EC3A 6AP.

#### Arrangers for the programme

BARCLAYS CAPITAL

CITIGROUP

#### Dealers and Managers

[●]

[●]

[●]

***[To be repeated for each class of notes of the applicable series]***

1. Class: [●]
2. Series Number: [●]
3. Issuer: Fosse Master Issuer plc
4. Specified Currency or Currencies: [●]
5. Initial Principal Amount: [●]
6. (a) Issue Price: [●]% of the Initial Principal Amount [plus accrued interest from *[insert date]* (if applicable)]
- (b) Net proceeds: [●]
7. Required Subordinated Percentage: [●]%
8. (a) General Reserve Required Amount: [●]
- (b) Arrears or Step-up Trigger Event:
  - item (i) of General Reserve Fund increased amount: [●]
  - item (ii) of General Reserve Fund increased amount: [●]
  - items (i) and (ii) of General Reserve Fund increased amount: [●]
9. Interest-only mortgage level test: “c” for these purposes is [●]
10. Ratings (Standard & Poor’s/Moody’s/Fitch): [●]/[●]/[●]  
*(the above disclosure should reflect the required note issuance ratings or, where the issue has been specifically rated, that rating)*
11. Specified Denominations: [●] and integral multiples of [●] in excess thereof
12. (a) Closing Date: [●]
- (b) Interest Commencement Date: [●]
13. Final Maturity Date: *[Fixed rate – specify date/ Floating rate – Interest Payment Date occurring in or nearest to [specify month]]*
14. Interest Basis: [[●]% Fixed Rate]  
[[LIBOR/EURIBOR/USD LIBOR] +/- [●]% Floating Rate]  
[Zero Coupon]  
*[specify other]*  
(further particulars specified below)
15. Redemption/Payment Basis: [Bullet Redemption]  
[Scheduled Redemption]  
[Pass-Through]  
*[specify other]*
16. Change of Interest Basis or Redemption/Payment Basis: *[Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis]*

17. (a) Listing: [London/specify other/none]  
 (b) Estimate of total expenses related to admission to trading: [●]

18. Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

19. Fixed Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Rate(s) of Interest: [●]% per annum [payable [annually/semi annually/quarterly/monthly] in arrear]  
*(If payable other than annually, consider amending Condition 4.1 Interest – Interest on Fixed Rate Notes)*
- (b) Interest Payment Date(s): [The 18th of [each calendar month/list months] in each year [or, following the occurrence of a Pass-Through Trigger Event of each month] up to and including the Final Maturity Date commencing on [●]]/[specify other]  
*(N.B. This will need to be amended in the case of long or short coupons)*
- (c) Fixed Coupon Amount(s): [●] per [●] in nominal amount
- (d) Broken Amount(s): [Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount]
- (e) Day Count Fraction: [30/360 or Actual/Actual (ICMA) or [specify other]]
- (f) Determination Date(s): [●] in each year
- (g) Other terms relating to the method of calculating interest for Fixed Rate Notes: [None/Give details]
20. Floating Rate Note Provisions: [Applicable/Not Applicable]  
*(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (a) Specified Period(s)/Specified Interest Payment Dates: [The 18th of [each calendar month/list months] in each year [or, following the occurrence of a Pass-Through Trigger Event, the 18th of each month in each year] up to and including the Final Maturity Date commencing on [●]]/[specify other]
- (b) Business Day Convention: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/[specify other]]
- (c) Additional Business Centre(s): [●]
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: [Screen Rate Determination/ISDA Determination/specify other]
- (e) Party responsible for calculating the Rate of Interest and Interest Amount [●]

- (if not the Agent Bank):
- (f) Screen Rate Determination:
- Reference Rate:
  - Interest Determination Date(s):
  - Relevant Screen Page:
- (g) ISDA Determination:
- Floating Rate Option:
  - Designated Maturity:
  - Reset Date:
- (h) Margin(s):  +/- % per annum
- (i) Minimum Rate of Interest:  [Not Applicable/% per annum]
- (j) Maximum Rate of Interest:  [Not Applicable/% per annum]
- (k) Step-Up Date  [Not Applicable/The Interest Payment Date occurring in  on which date each of the Margin, the Minimum Rate of Interest and the Maximum Rate of Interest shall be replaced with the Step-Up Margin, the Step-Up Minimum Rate of Interest and the Step-Up Maximum Rate of Interest, respectively]
- Step-Up Margin(s):  +/- % per annum
  - Step-Up Minimum Rate of Interest: % per annum
  - Step-Up Maximum Rate of Interest: % per annum]
- (l) Day Count Fraction:  [Actual/Actual (ISMA)  
Actual/365  
Actual/365 (Fixed)  
Actual/365 (Sterling)  
Actual/360  
30/360  
360/360  
30E/360  
Other]
- (m) Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:
21. Zero Coupon Note Provisions  [Applicable/Not Applicable]
- (a) Accrual Yield: % per annum
  - (b) Reference Price:
  - (c) Any other formula/basis of determining amount payable:

- (d) Day Count Fraction in relation to Early Redemption Amounts and late payment: [Conditions 5.7 *Redemption and Mandatory Transfer – Redemption Amounts* apply/specify other][*(Consider applicable day count fraction if not U.S. dollar denominated)*]

#### PROVISIONS RELATING TO REDEMPTION

22. Details relating to Bullet Redemption Notes: [Applicable/Not Applicable]
- (a) Redemption Amount: [●]
- (b) Bullet Redemption Date: Interest Payment Date occurring in [●]
- (c) Cash Accumulation Period: [●] months
23. Details relating to Scheduled Redemption Notes: [Applicable/Not Applicable]
- (a) Scheduled Redemption Dates: Interest Payment Dates occurring in [●]
- (b) Scheduled Amortisation Instalments: [●]
24. Details relating to Pass-Through Notes: [Applicable/Not Applicable]
- (If Pass-Through Notes are applicable, specify the Interest Payment Date following which the Pass-Through Notes will be due and payable)*
25. Redemption Amount: [If Redemption Amount is not calculated in accordance with Condition 5.7, specify alternative formula]

#### GENERAL PROVISIONS APPLICABLE TO THE NOTES

26. Form of Notes: [Rule 144A Global Note registered in the name of a nominee for the Depository Trust Company/Reg S Global Note registered in the name of a nominee for a common depository for Euroclear and Clearstream, Luxembourg]
27. Additional Financial Centre(s) or other special provisions relating to Interest Payment Dates: [Not Applicable/give details]
28. Issuer Swap Providers: [[●]/Not Applicable]
29. Specified currency exchange rate (Sterling/specified currency): GBP 1.00/[●]
30. Redenomination applicable: Redenomination [not] applicable
31. ERISA eligibility [No]/[Yes, subject to the considerations in “ERISA considerations” in the base prospectus.]
32. US Taxation [Debt for United States federal income tax purposes, subject to the considerations contained in “United States federal income taxation” in the base prospectus]/[Not Applicable]
33. Money Market Notes (2a-7) [Yes/No]
34. Do the Notes have the benefit of remarketing arrangements: [Yes/No]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

If yes:

- (a) Name of remarketing agent: [●]
- (b) Name of money market note purchaser/conditional purchaser: [●]
- (c) Name of the tender agent: [●]
- (d) Mandatory transfer date: [●]
- (e) Maximum reset margin: [●]
- (f) Other details: [●]

35. Other final terms: [Not Applicable/*give details*]

#### **DISTRIBUTION**

36. (a) If syndicated, names of Dealers and Managers: [Not Applicable/*give names*]

(b) Stabilising Manager (if any): [Not Applicable/*give name*]

37. If non-syndicated, name of relevant Dealer and Manager: [*Name*]

38. Additional selling restrictions: [Not Applicable/*give details*]

#### **OPERATIONAL INFORMATION**

39. Any clearing system(s) other than DTC, Euroclear, or Clearstream, Luxembourg and the relevant identification numbers: [Not Applicable/*give name(s) and number(s)*]

40. Delivery: Delivery [against/free of payment]

41. Names and addresses of additional Paying Agent(s) (if any): [●]

42. ISIN Code: [●]

43. Common Code: [●]

44. CUSIP: [●]

#### **LOAN TRANCHE INFORMATION**

45. Borrower: Fosse Funding (No. 1) Limited

46. Lender: Fosse Master Issuer plc

47. Tier of Loan Tranche: [●]

*(specify AAA Loan Tranche, AA Loan Tranche, A Loan Tranche, BBB Loan Tranche or B Loan Tranche as applicable)*

48. Series Number: Series [●]

49. Designation of Loan Tranche: [Bullet Loan Tranche/Scheduled Amortisation Loan Tranche/Pass-Through Loan Tranche/other]

50. Change of Redemption/Payment Basis: [specify any details of any provision for the change]

- of Loan Tranches into another Redemption/  
Payment Basis]
51. Initial Principal Amount: £[●]  
 (a) Closing Date: [●]  
 (b) Loan Tranche Interest Commencement Date: [●]  
 (c) Loan Tranche Interest Reset Dates: The Funding 1 Interest Payment Date occurring quarterly commencing with the Funding 1 Interest Payment Date occurring in [●] provided no Pass-Through Trigger Event has occurred and thereafter each Funding 1 Interest Payment Date
52. Initial interest rate per annum: [●] [+/-] [●]%
53. Step-Up Date (if any): [The Funding 1 Interest Payment Date occurring in [●]/Not Applicable] on which date the initial interest rate per annum shall be replaced with the stepped-up interest rate per annum
54. Stepped-up interest rate per annum: [[●]%/Not Applicable]
55. Details relating to Bullet Loan Tranches: [Applicable/Not Applicable]  
 (a) Bullet Repayment Date: [●]  
 (b) Repayment Amount: [●]  
 (c) Relevant Accumulation Amount: [●]  
*[(Insert any other information applicable in respect of cash accumulation period to the extent not specified in the prospectus. For example, specify the number of months for the purposes of paragraph (b) of the definition of Funding 1 cash accumulation period)]*
56. Details relating to Scheduled Amortisation Loan Tranches: [Applicable/Not Applicable]  
 (a) Scheduled Repayment Dates: : [●]  
 (b) Repayment Amounts: [●]  
 (c) Relevant Accumulation Amounts: [●]  
*[(Insert any other information applicable in respect of cash accumulation period to the extent not specified in the prospectus. For example, specify the number of months for the purposes of paragraph (b) of the definition of Funding 1 cash accumulation period.)]*
57. Details relating to Pass-Through Loan Tranches: [Applicable/Not Applicable]
58. Final Repayment Date: The Funding 1 Interest Payment Date falling in [●]
59. Loan Tranche Payment Dates: [Each Interest Payment Date/[●]]
60. Other terms and special conditions: [Not Applicable/Give Details]



### **Additional risk factors in relation to the series [●] notes**

[The principal risks associated with an investment in the series [●] notes are set out in the “**Risk factors**” section of the prospectus above. These risks are material to an investment in the notes and in the issuer. This section sets out certain additional risk factors associated with an investment in the series [●] notes. If you are considering purchasing the series [●] notes, you should carefully read and think about all the information contained in the final terms and the prospectus (including the additional risk factors set out below) prior to making any investment decision.] *[Delete if not applicable]*

### **Restrictions on transfers of the notes; lack of liquidity**

[The series [●] notes are a new issue of securities for which there is currently no market. Neither the issuer nor the dealers nor the managers intend to create a market for the series [●] notes. Accordingly, no assurance can be given as to the development or liquidity of any market for the series [●] notes. Because of the restrictions on transfers of the series [●] notes, investors must be able to bear the risks of their investment in the series [●] notes for an indefinite period of time.] *[Delete if not applicable]*

### **You may not be able to sell the notes**

[There currently is no secondary market for the series [●] notes. If no secondary market develops, you may not be able to sell the series [●] notes prior to maturity. The issuer cannot offer any assurance that a secondary market will develop or, if one does develop, that it will continue to exist.] *[Delete if not applicable]*

*[Insert any if applicable]*

**Issuer Swap Provider(s)**

*[Description to be inserted]*

## Currency presentation

Unless otherwise stated in these final terms, any translations of pounds sterling into US dollars have been made at the rate of £1.00 = US\$[●] which was the closing buying rate in the City of New York for cable transfers in dollars per £1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that sterling amounts actually represent those US dollar amounts or could be converted into US dollars at that rate at any particular time.

### Sterling/US dollar exchange rate history

	Period ended [●]	Years ended 31 December					
		20[●]	2005	2004	2003	2002	2001
Last <sup>(1)</sup> .....	[●]		1.7230	1.9181	1.7858	1.6100	1.4546
Average <sup>(2)</sup> .....	[●]		1.8196	1.8334	1.6359	1.5038	1.4407
High.....	[●]		1.9291	1.9467	1.7858	1.6100	1.5038
Low.....	[●]		1.7142	1.7559	1.5541	1.4082	1.3727

**Notes:**

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

Unless otherwise stated in these final terms, any translations of pounds sterling into euro have been made at the rate of €1.00 = £[●] which was the closing buying rate in the City of New York for cable transfers in pounds sterling per €1.00 as certified for customs purposes by the Federal Reserve Bank of New York on [●]. Use of this rate does not mean that pound sterling amounts actually represent those euro amounts or could be converted into euro at that rate at any particular time.

### Euro/sterling exchange rate history

	Period ended [●]	Years ended 31 December					
		20[●]	2005	2004	2003	2002	2001
Last <sup>(1)</sup> .....	[●]		0.6877	0.7066	0.7058	0.6517	0.6109
Average <sup>(2)</sup> .....	[●]		0.6838	0.6786	0.6922	0.6288	0.6218
High.....	[●]		0.7071	0.7092	0.7247	0.6538	0.6434
Low.....	[●]		0.6628	0.6567	0.6471	0.6089	0.5961

**Notes:**

(1) The closing exchange rate on the last operating business day of each of the periods indicated, years commencing from 1 January or the next operating business day.

(2) Average daily exchange rate during the period.

Source: Bloomberg – Close of Business Mid Price

## Funding 1 start-up loan

The Funding 1 start-up loan to be made available to Funding 1 on the closing date in connection with series [●] will have the following terms:

<b>Funding 1 start-up loan provider:</b>	Alliance & Leicester
<b>Initial outstanding principal balance:</b>	£[●]
<b>Interest rate:</b>	[●] per annum

### Other series issued

As of the closing date, the aggregate principal amount outstanding of notes issued by the issuer (converted, where applicable, into sterling at the applicable specified currency exchange rate), including the notes described herein, will be:

Class A Notes .....	£[●]
Class B Notes .....	£[●]
Class M Notes .....	£[●]
Class C Notes .....	£[●]
Class D Notes .....	£[●]

### Other loan tranches

As of the closing date, the aggregate outstanding principal balance of loan tranches advanced by the issuer to Funding 1 under the intercompany loan agreement, including the loan tranches described herein will be:

AAA .....	£[●]
AA .....	£[●]
A .....	£[●]
BBB .....	£[●]
BB .....	£[●]
Total .....	£[●]

## Mortgages trust and the portfolio

As at the closing date the minimum seller share will be approximately £[●].

For the purposes of paragraph (d) of the definition of **non-asset trigger event**, the aggregate outstanding balance of loans comprising the trust property must be at least £[●]. See “**The mortgages trust – Cash management of trust property – Principal receipts**” in the prospectus below.

## Use of proceeds

The gross proceeds from the issue of the series [●] notes equal approximately £[●] (after exchanging, where applicable, the proceeds of the notes for sterling, calculated by reference to the applicable specified currency exchange rate) and will be used by the issuer to make available loan tranches to Funding 1 pursuant to the terms of the intercompany loan agreement. Funding 1 will use the gross proceeds of each loan tranche to [*insert relevant use of loan tranche*].

## Maturity and prepayment considerations

The average lives of each class of the series [●] 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 each class of the series [●] notes can be made based on certain assumptions. For example, based on the assumptions that:

- (1) neither the issuer security nor the Funding 1 security has been enforced;
- (2) each series and class of series [●] notes is repaid in full by its final maturity date;
- (3) the seller is not in breach of the terms of the mortgage sale agreement;
- (4) the seller sells to the mortgages trustee sufficient new loans and their related security, such that the aggregate principal amount outstanding of the loans in the portfolio will not fall below an amount equal to 1.15 times the Funding 1 share, or such higher amount as may be required to be maintained as a result of the issuer advancing loan tranches to Funding 1 and/or any new issuer advancing new loan tranches to Funding 1 or any further Funding company (as the case may be) which Funding 1 and/or any further Funding company (as the case may be) uses as consideration for an increase in its share of the trust property or for the sale of new loans to the mortgages trustee;
- (5) neither an asset trigger event nor a non-asset trigger event occurs;
- (6) no event occurs that would cause payments on the series [●] notes to be deferred;
- (7) the annualised CPR as at the closing date is the same as the various assumed rates in the table below;
- (8) [the issuer exercises its option to redeem the series [●] notes on the step-up date, if any, relating to such notes];
- (9) the closing date is [●];
- (10) the mortgage loans are not subject to any defaults or losses, and no mortgage loan falls into arrears;
- (11) no interest or fees are paid from principal receipts; and
- (12) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller continue to be rated at least "Aa3" by Moody's, "AA-" by Fitch and "A+" by S&P;

the approximate average life in years of each class of the series [●] notes, at various assumed rates of repayment of the loans (which, when specified to be a constant prepayment rate will assume both scheduled and unscheduled repayment of the loans), would be as follows:

**Estimated average lives of each class of series [●] notes (in years)**

[(Without optional redemption on the interest payment date falling in [●])]

[(With optional redemption on the interest payment date falling in [●])]

	series[(1)]	series[(2)]	series[(3)]	series[(4)]	series[(5)]	series[(6)]	series[(7)]	series[(8)]
	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
Constant	class	class	class	class	class	class	class	class
prepayment rate	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
(per annum)	notes	notes	notes	notes	notes	notes	notes	notes
5 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
10 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
15 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
20 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
25 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
30 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]
35 per cent.....	[●]	[●]	[●]	[●]	[●]	[●]	[●]	[●]

[insert in the case of remarketable notes:

(1) This represents the average lives to the first class [●] note mandatory transfer date in [●].

(2) This represents the average lives of all class [●] note remarketed after the first class [●] note mandatory transfer date in [●].

Assumptions (1), (3), (4), (5), (6), (7), (10), (11) and (12) relate to circumstances which are not predictable. Assumptions (2), (8) and (9) reflect the issuer's current expectations, although no assurance can be given that the issuer will be in a position to redeem the notes on the step-up date. If the issuer does not so exercise its option to redeem, then the average lives of the then outstanding notes would be extended.

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 these assumptions and estimates will prove in any way to be realistic and they must therefore be viewed with considerable caution. For more information in relation to the risks involved in the use of these estimated average lives, see "**Risk factors – The yield to maturity of the notes may be adversely affected by prepayments or redemptions on the loans**" in the prospectus above.

## Statistical information on the expected portfolio

The statistical and other information contained in these final terms has been compiled by reference to the loans expected to comprise in the portfolio (the **expected portfolio**) as at [●] (the **cut-off date**). Columns stating percentage amounts may not add up to 100% due to rounding. Except as otherwise indicated, these tables have been prepared using the current balance as at the cut-off date, which includes all principal and excludes accrued interest for the loans in the expected portfolio.

A loan will be removed from any additional portfolio if, in the period up to (and including) the sale date related to such additional portfolio, the loan is repaid in full or if the loan does not comply with the terms of the mortgage sale agreement on or about the closing date.

The expected portfolio as at the cut-off date consisted of [●] mortgage accounts, comprising mortgage loans originated by Alliance & Leicester and secured over properties located in England, Wales, Scotland and Northern Ireland, and having an aggregate outstanding principal balance of £[●] as at that date. The loans in the expected portfolio at the cut-off date were originated by the seller between [●] and [●].

As at [●], [set out Alliance & Leicester variable rates and flexible variable rates as required].

As at the closing date:

- Funding 1's share of the trust property will be approximately £[●] representing approximately [●]% of the trust property; and
- the seller's share of the trust property will be approximately £[●] representing approximately [●]% of the trust property.

The actual amounts of the Funding 1 share of the trust property and the seller share of the trust property as at the closing date will not be determined until the day before the closing date which will be after the date of these final terms.

### Outstanding balances as at the cut-off date

The following table shows the range of outstanding mortgage account balances (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date.

Range of outstanding balances as at the cut-off date £	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
0 – 24,999.99.....	[●]	[●]	[●]	[●]
25,000 – 49,999.99.....	[●]	[●]	[●]	[●]
50,000 – 74,999.99.....	[●]	[●]	[●]	[●]
75,000 – 99,999.99.....	[●]	[●]	[●]	[●]
100,000 – 124,999.99.....	[●]	[●]	[●]	[●]
125,000 – 149,999.99.....	[●]	[●]	[●]	[●]
150,000 – 174,999.99.....	[●]	[●]	[●]	[●]
175,000 – 199,999.99.....	[●]	[●]	[●]	[●]
200,000 – 224,999.99.....	[●]	[●]	[●]	[●]
225,000 – 249,999.99.....	[●]	[●]	[●]	[●]
250,000 – 299,999.99.....	[●]	[●]	[●]	[●]
300,000 – 349,999.99.....	[●]	[●]	[●]	[●]
350,000 – 399,999.99.....	[●]	[●]	[●]	[●]
400,000 – 449,999.99.....	[●]	[●]	[●]	[●]
450,000 – 499,999.99.....	[●]	[●]	[●]	[●]
500,000 – 549,999.99.....	[●]	[●]	[●]	[●]
550,000 – 599,999.99.....	[●]	[●]	[●]	[●]



<b>Range of outstanding balances as at the cut-off date £</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
600,000 – 649,999.99 .....	[●]	[●]	[●]	[●]
650,000 – 699,999.99 .....	[●]	[●]	[●]	[●]
700,000 – 750,000 .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum, minimum and average outstanding balances of the mortgage accounts as at the cut-off date were £[●], £[●] and £[●], respectively.

#### **Cut-off date LTV ratios**

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the value of the property securing the loans in that mortgage account as at the date of the initial loan origination or the most recent valuation thereof. No revaluation of the property securing the loans has been done for the purposes of the issuance of the notes by the issuer.

<b>Range of LTV ratios at the cut-off date</b>	<b>Aggregate outstanding balance at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
0% – 24.99% .....	[●]	[●]	[●]	[●]
25% – 49.99% .....	[●]	[●]	[●]	[●]
50% – 74.99% .....	[●]	[●]	[●]	[●]
75% – 79.99% .....	[●]	[●]	[●]	[●]
80% – 84.99% .....	[●]	[●]	[●]	[●]
85% – 89.99% .....	[●]	[●]	[●]	[●]
90% – 94.99% .....	[●]	[●]	[●]	[●]
≥ 95% .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum, minimum and weighted average LTV ratio of the mortgage accounts (including any capitalised high LTV fees, capitalised booking fees and valuation fees) at the cut-off date were [●]%, [●]% and [●]%, respectively.

#### **Cut-off date indexed LTV ratios**

The following table shows the range of LTV ratios, which express the outstanding balance of the aggregate of loans in a mortgage account (including capitalised interest, capitalised high LTV fees, insurance fees, booking fees and valuation fees) as at the cut-off date divided by the most recent indexed valuation of the property securing the loans in that mortgage account.

Range of LTV ratios as at the cut-off date	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
0% – 24.99% .....	[●]	[●]	[●]	[●]
25% – 49.99% .....	[●]	[●]	[●]	[●]
50% – 74.99% .....	[●]	[●]	[●]	[●]
75% – 79.99% .....	[●]	[●]	[●]	[●]
80% – 84.99% .....	[●]	[●]	[●]	[●]
85% – 89.99% .....	[●]	[●]	[●]	[●]
90% – 94.99% .....	[●]	[●]	[●]	[●]
≥ 95% .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum, minimum and weighted average LTV ratio as at the cut-off date of the mortgage accounts (including any capitalised high LTV fees, capitalised high LTV fees, insurance fees, valuation fees and booking fees) were [●]%, [●]% and [●]%, respectively.

#### Geographical distribution

The following table shows the distribution of properties securing the loans throughout England, Wales, Scotland and Northern Ireland as at the cut-off date. No such properties are situated outside England, Wales, Scotland and Northern Ireland.

Regions	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
Unknown* .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

\* [Where the postal code for the relevant property has not yet been allocated or is not shown in the seller's records.]

The table below summarises the major industries for each region. For a discussion of geographic concentration risks, see “Risk factors – The timing and amount of payments on the loans could be affected by various factors which may adversely affect payments on the notes” in the prospectus.

Region	Type of industry
North	Traditional heavy industry concentrated around Tyneside and Teesside
Yorks and Humber	Iron and steel; textiles and clothing; coal; fishing
East Midlands	Diverse industry but specialises in hosiery, footwear and clothing
East Anglia	Agriculture and food processing; footwear and tourism; micro-technology
South East	Financial and commercial centre; technological and light engineering
South West	Agriculture and food processing; tourism; aerospace; tobacco
West Midlands	Mechanical and electrical engineering; vehicles; iron and steel; potteries
North West	Heavy engineering; cotton; clothing; glass; chemicals; vehicles
Wales	Coal, iron and steel in Southern Wales; agriculture; light engineering
Scotland	North Sea oil; agriculture; shipbuilding; tourism
Northern Ireland	Shipbuilding; textiles

Source: <http://www.bized.ac.uk/learn/economics/firms/locationnotes.htm#Heading73>

House prices and incomes vary throughout England, Scotland, Wales and Northern Ireland. The table below summarises the average house price in 2004 and the average income over the period from 2001 to 2004 for each region in order to produce a house price to earnings ratio for each region.

Regions	Average Price (£)	Average earnings (£ per annum)	Price/earnings ratio
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]
[●].....	[●]	[●]	[●]

Source: [Office for National Statistics; [www.bized.ac.uk](http://www.bized.ac.uk)]

### Seasoning of loans

The following table shows the number of months since the date of origination of the initial loan in a mortgage account.

Age of loans in months as at the cut-off date	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
0 to <6.....	[●]	[●]	[●]	[●]
6 to <12.....	[●]	[●]	[●]	[●]
12 to <18.....	[●]	[●]	[●]	[●]
18 to <24.....	[●]	[●]	[●]	[●]
24 to <30.....	[●]	[●]	[●]	[●]
30 to <36.....	[●]	[●]	[●]	[●]
36 to <42.....	[●]	[●]	[●]	[●]
42 to <48.....	[●]	[●]	[●]	[●]
48 to <54.....	[●]	[●]	[●]	[●]
54 to <60.....	[●]	[●]	[●]	[●]
60 to <66.....	[●]	[●]	[●]	[●]
66 to <72.....	[●]	[●]	[●]	[●]
72 to <78.....	[●]	[●]	[●]	[●]
78 to <84.....	[●]	[●]	[●]	[●]
84 to <90.....	[●]	[●]	[●]	[●]
90 to <96.....	[●]	[●]	[●]	[●]
96 to <102.....	[●]	[●]	[●]	[●]
102 to <108.....	[●]	[●]	[●]	[●]
108 to <114.....	[●]	[●]	[●]	[●]
114 to <120.....	[●]	[●]	[●]	[●]
120 to <126.....	[●]	[●]	[●]	[●]
126 to <132.....	[●]	[●]	[●]	[●]
≥ 132.....	[●]	[●]	[●]	[●]
Totals.....	[●]	100.00	[●]	100.00

The maximum, minimum and weighted average seasoning of loans in mortgage accounts as at [●] will be [●], [●] and [●] months, respectively.

### Years to maturity of loans

The following table shows the number of remaining years of the term of the initial loan in a mortgage account as at the cut-off date.

Years to maturity	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
0 to <5 .....	[●]	[●]	[●]	[●]
5 to <10 .....	[●]	[●]	[●]	[●]
10 to <15 .....	[●]	[●]	[●]	[●]
15 to <20 .....	[●]	[●]	[●]	[●]
20 to <25 .....	[●]	[●]	[●]	[●]
25 to <30 .....	[●]	[●]	[●]	[●]
30 to <35 .....	[●]	[●]	[●]	[●]
35 to <40 .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

The maximum, minimum and weighted average remaining term of the loans in mortgage accounts in the expected portfolio as at the cut-off date was [●], [●] and [●] years, respectively.

### Purpose of loan

The following table shows whether the purpose of the initial loan on origination was to finance the purchase of a new property or to remortgage a property already owned by the borrower. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Use of proceeds	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of product holdings	% of total	Average balance
Purchase .....	[●]	[●]	[●]	[●]	£[●]
Remortgage (existing loan) .....	[●]	[●]	[●]	[●]	£[●]
Remortgage (capital raising) .....	[●]	[●]	[●]	[●]	£[●]
Other .....	[●]	[●]	[●]	[●]	£[●]
Totals .....	[●]	100.00	[●]	100.00	

As at the cut-off date, the average balance of loans used to finance the purchase of a new property was £[●] and the average balance of loans used to remortgage a property already owned by the borrower was £[●].

### Property type

The following table shows the types of properties to which the mortgage accounts relate.

Property type	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total	Average balance
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
[●].....	[●]	[●]	[●]	[●]	£[●]
Unknown* .....	[●]	[●]	[●]	[●]	£[●]
Totals.....	[●]	100.00	[●]	100.00	

\* [Primarily flats or maisonettes.]

### Repayment terms

The following table shows the repayment terms for the loans in the expected portfolio mortgage accounts as at the cut-off date. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Repayment terms	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of product holdings	% of total
Repayment.....	[●]	[●]	[●]	[●]
Interest-only .....	[●]	[●]	[●]	[●]
Combination repayment and interest-only .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

### Rate type

The following table shows the distribution of rate types as at the cut-off date. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Type of rate	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of product holdings	% of total
Base rate loans .....	[●]	[●]	[●]	[●]
Discount loans .....	[●]	[●]	[●]	[●]
Fixed rate loans .....	[●]	[●]	[●]	[●]
Variable rate loans .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

### Payment methods

The following table shows the payment methods for the mortgage accounts as at the cut-off date.

Payment method	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of mortgage accounts	% of total
Direct debit.....	[●]	[●]	[●]	[●]
Cheque/Cash .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

### Distribution of fixed rate loans

As at the cut-off date, approximately [●]% of the loans in the expected portfolio were fixed rate loans. The following tables show the distribution of fixed rate loans by their fixed rate of interest as at such date, and the year in which the loans cease to bear a fixed rate of interest and instead bear a floating rate of interest. The figures in these tables have been calculated on the basis of loan product holdings rather than mortgage accounts. A mortgage account may have more than one active loan product.

Fixed rate loans remain at the relevant fixed rate for a period of time as specified in the offer conditions, after which they move to a variable rate or some other rate as specified in the offer conditions.

Fixed rate	Aggregate outstanding balance as at the cut-off date (£)	% of total	Number of fixed rate product holdings	% of total
0% – 3.99% .....	[●]	[●]	[●]	[●]
4.00% – 4.99% .....	[●]	[●]	[●]	[●]
5.00% – 5.99% .....	[●]	[●]	[●]	[●]
≥ 6.00% .....	[●]	[●]	[●]	[●]
Totals .....	[●]	100.00	[●]	100.00

<b>Year in which current fixed rate period ends</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of fixed rate product holdings</b>	<b>% of total</b>
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
[●] .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

### Employment status

The following table shows the employment status of the borrowers of the loans in the expected portfolio as at the cut-off date.

<b>Status</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
Employed .....	[●]	[●]	[●]	[●]
Self employed .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>

### First time buyer

The following table shows the split between the borrowers of the loans in the expected portfolio who are first time buyers and non-first time buyers as at the cut-off date.

<b>Status</b>	<b>Aggregate outstanding balance as at the cut-off date (£)</b>	<b>% of total</b>	<b>Number of mortgage accounts</b>	<b>% of total</b>
First time buyer .....	[●]	[●]	[●]	[●]
Non-first time buyer .....	[●]	[●]	[●]	[●]
<b>Totals .....</b>	<b>[●]</b>	<b>100.00</b>	<b>[●]</b>	<b>100.00</b>



**Payment rate analysis**

The following table shows the annualised payment rate for the most recent one-, three- and 12-month period for the loans in the expected portfolio between [●] and [●].

<b>As of month-end</b>	<b>one-month annualised</b>	<b>three-month annualised</b>	<b>12-month annualised</b>
[●]%	[●]%	[●]%	[●]%

In the table above:

- one-month annualised CPR is calculated as  $1 - ((1 - R) ^ 12)$ ;
- three-month annualised CPR is calculated as the average of the one-month annualised CPR for the most recent three months; and
- 12-month annualised CPR is calculated as the average of the one-month annualised CPR for the most recent 12 months,

where in each case R is (i) total principal receipts received plus the principal balance of loans repurchased by the seller (primarily due to further advances) during the relevant period, divided by (ii) the aggregate outstanding principal balance of the loans in the portfolio as at the start of that period.

**Delinquency and loss experience of the portfolio**

As at [●], the total outstanding balance of loans in the expected portfolio that were at least 30 days in arrears was £[●], representing [●]% of the outstanding balance of loans in the expected portfolio as at such date.

## 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. The issuer confirms that all the information contained in the tables below has been accurately reproduced and, as far as it is aware and able to ascertain from information published by third parties, no facts have been omitted which would render the reproduced information inaccurate and misleading.

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### Industry CPR rates

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

Quarter	Industry CPR rate for the quarter (%)	12-month rolling average (%)	Quarter	Industry CPR rate for the quarter (%)	12-month rolling average (%)
March 1985 .....	10.02	11.61	June 1985 .....	11.67	11.49
September 1985 .....	13.46	11.76	December 1985 .....	13.68	12.21
March 1986 .....	11.06	12.47	June 1986 .....	15.53	13.43
September 1986 .....	17.52	14.45	December 1986 .....	15.60	14.92
March 1987 .....	10.57	14.80	June 1987 .....	14.89	14.64
September 1987 .....	16.79	14.46	December 1987 .....	16.18	14.61
March 1988 .....	13.55	15.35	June 1988 .....	16.03	15.64
September 1988 .....	18.23	16.00	December 1988 .....	12.60	15.10
March 1989 .....	8.85	13.93	June 1989 .....	13.04	13.18
September 1989 .....	11.53	11.51	December 1989 .....	10.38	10.95
March 1990 .....	8.91	10.96	June 1990 .....	9.37	10.05
September 1990 .....	9.66	9.58	December 1990 .....	10.58	9.63
March 1991 .....	9.07	9.67	June 1991 .....	10.69	10.00
September 1991 .....	11.57	10.48	December 1991 .....	10.24	10.39
March 1992 .....	9.14	10.41	June 1992 .....	9.12	10.02
September 1992 .....	9.75	9.56	December 1992 .....	7.96	8.99
March 1993 .....	8.53	8.84	June 1993 .....	10.01	9.06
September 1993 .....	10.68	9.30	December 1993 .....	10.03	9.81
March 1994 .....	9.00	9.93	June 1994 .....	10.52	10.06
September 1994 .....	11.10	10.16	December 1994 .....	10.72	10.33
March 1995 .....	9.15	10.37	June 1995 .....	10.51	10.37
September 1995 .....	11.76	10.53	December 1995 .....	11.61	10.76
March 1996 .....	10.14	11.00	June 1996 .....	11.32	11.21
September 1996 .....	13.20	11.57	December 1996 .....	12.58	11.81
March 1997 .....	9.75	11.71	June 1997 .....	15.05	12.65
September 1997 .....	12.18	12.39	December 1997 .....	11.17	12.04

Quarter	Industry CPR rate for the quarter (%)	12-month rolling average (%)	Quarter	Industry CPR rate for the quarter (%)	12-month rolling average (%)
March 1998 .....	10.16	12.14	June 1998 .....	12.05	11.39
September 1998 .....	13.79	11.79	December 1998 .....	13.43	12.36
March 1999 .....	11.14	12.60	June 1999 .....	14.39	13.19
September 1999 .....	15.59	13.64	December 1999 .....	14.94	14.02
March 2000 .....	13.82	14.69	June 2000 .....	13.86	14.55
September 2000 .....	14.89	14.38	December 2000 .....	15.55	14.53
March 2001 .....	15.47	14.94	June 2001 .....	17.36	15.81
September 2001 .....	19.12	16.87	December 2001 .....	19.01	17.74
March 2002 .....	18.68	18.54	June 2002 .....	19.88	19.17
September 2002 .....	22.40	19.99	December 2002 .....	22.16	20.78
March 2003 .....	19.51	20.99	June 2003 .....	20.18	21.06
September 2003 .....	21.65	20.88	December 2003 .....	21.33	20.67
March 2004 .....	19.90	20.77	June 2004 .....	21.42	21.07
September 2004 .....	21.41	21.01	December 2004 .....	18.71	20.36
March 2005 .....	17.76	19.83	June 2005 .....	17.75	18.91
September 2005 .....	20.24	19.62	December 2005 .....	20.36	19.03
March 2006 .....	19.65	19.50	June 2006 .....	19.37	19.90
[●] 20[●] .....	[●]	[●]	[●] 20[●] .....	[●]	[●]

Source: Council of Mortgage Lenders Research

You should note that the CPR table above presents the historical CPR experience only of building societies in the United Kingdom. During the late 1990s, a number of former building societies (including the seller) converted to stock form UK banks and the CPR experience of these banks is therefore not included in the foregoing building society CPR data.

#### 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	1992 .....	0.69	1999 .....	0.27
1986 .....	0.30	1993 .....	0.58	2000 .....	0.20
1987 .....	0.32	1994 .....	0.47	2001 .....	0.15
1988 .....	0.22	1995 .....	0.47	2002 .....	0.11
1989 .....	0.17	1996 .....	0.40	2003 .....	0.07
1990 .....	0.47	1997 .....	0.31	2004 .....	0.05
1991 .....	0.77	1998 .....	0.31	2005 .....	0.09
				20[●] .....	[●]

Source: Council of Mortgage Lenders

#### House price to earnings ratio

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

Year	House Price to Earnings Ratio	Year	House Price to Earnings Ratio
1994 .....	3.45	2000.....	4.46
1995 .....	3.39	2001.....	4.54
1996 .....	3.42	2002.....	5.12
1997 .....	3.64	2003.....	5.67
1998 .....	3.88	2004.....	6.03
1999 .....	4.11	2005.....	6.18
		20[●].....	[●]

Source: Council of Mortgage Lenders

### House price index

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

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

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
March 1985 .....	92.8	5.9	66.2	11.2	112.2	8.7
June 1985.....	95.4	6.7	68.2	10.3	115.9	8.5
September 1985.....	95.4	5.7	69.2	10.5	117.6	7.4
December 1985.....	96.0	5.5	70.7	8.5	120.7	8.4
March 1986 .....	96.7	4.1	71.1	7.1	122.5	8.8
June 1986.....	97.8	2.5	73.8	8.0	128.6	10.4
September 1986.....	98.3	3.0	76.3	9.7	133.1	12.4
December 1986.....	99.6	3.7	79.0	11.1	136.9	12.6
March 1987 .....	100.6	3.9	81.6	13.7	140.6	13.8
June 1987.....	101.9	4.1	85.8	15.0	147.3	13.6
September 1987.....	102.4	4.1	88.6	15.0	152.6	13.7
December 1987.....	103.3	3.6	88.5	11.4	158.2	14.5
March 1988 .....	104.1	3.4	90.0	9.8	164.9	15.9
June 1988.....	106.6	4.5	97.6	13.0	180.2	20.2
September 1988.....	108.4	5.7	108.4	20.1	198.9	26.5
December 1988.....	110.3	6.6	114.2	25.5	212.0	29.3
March 1989 .....	112.3	7.6	118.8	27.8	217.8	27.8
June 1989.....	115.4	7.9	124.2	24.1	226.8	23.0
September 1989.....	116.6	7.3	125.2	14.4	227.3	13.3
December 1989.....	118.8	7.4	122.7	7.2	222.8	5.0
March 1990 .....	121.4	7.8	118.9	0.1	220.7	1.3
June 1990.....	126.7	9.3	117.7	(5.4)	224.3	(1.1)
September 1990.....	129.3	10.3	114.2	(9.2)	224.2	(1.4)
December 1990.....	129.9	8.9	109.6	(11.3)	222.9	0.0
March 1991 .....	131.4	7.9	108.8	(8.8)	220.2	(0.2)
June 1991.....	134.1	5.7	110.6	(6.2)	223.2	(0.5)
September 1991.....	134.6	4.0	109.5	(4.2)	220.8	(1.5)
December 1991.....	135.7	4.4	107.0	(2.4)	217.5	(2.5)
March 1992 .....	136.7	4.0	104.1	(4.4)	210.6	(4.5)

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
June 1992.....	139.3	3.8	105.1	(5.1)	210.4	(5.9)
September 1992.....	139.4	3.5	104.2	(5.0)	208.4	(5.8)
December 1992.....	139.2	2.5	100.1	(6.7)	199.3	(8.7)
March 1993.....	139.3	1.9	100.0	(4.0)	196.9	(6.7)
June 1993.....	141.0	1.2	103.6	(1.4)	203.2	(3.5)
September 1993.....	141.9	1.8	103.2	(1.0)	204.2	(2.0)
December 1993.....	141.9	1.9	101.8	1.7	202.5	1.6
March 1994.....	142.5	2.3	102.4	2.4	202.3	2.7
June 1994.....	144.7	2.6	102.5	(1.1)	204.3	0.5
September 1994.....	145.0	2.2	103.2	0.0	204.3	0.0
December 1994.....	146.0	2.8	104.0	2.1	200.9	(0.8)
March 1995.....	147.5	3.4	101.9	(0.5)	200.3	(1.0)
June 1995.....	149.8	3.5	103.0	0.5	201.0	(1.6)
September 1995.....	150.6	3.8	102.4	(0.8)	199.0	(2.6)
December 1995.....	150.7	3.2	101.6	(2.3)	197.8	(1.6)
March 1996.....	151.5	2.7	102.5	0.6	200.9	0.3
June 1996.....	153.0	2.1	105.8	2.7	208.6	3.7
September 1996.....	153.8	2.1	107.7	5.1	209.8	5.3
December 1996.....	154.4	2.4	110.1	8.0	212.6	7.2
March 1997.....	155.4	2.5	111.3	8.3	215.3	6.9
June 1997.....	157.5	2.9	116.5	9.6	222.6	6.5
September 1997.....	159.3	3.5	121.2	11.8	223.6	6.4
December 1997.....	160.0	3.6	123.3	11.4	224.0	5.2
March 1998.....	160.8	3.4	125.5	12.0	226.4	5.0
June 1998.....	163.4	3.7	130.1	11.0	234.9	5.4
September 1998.....	164.4	3.2	132.4	8.8	236.1	5.4
December 1998.....	164.4	2.7	132.3	7.0	236.3	5.3
March 1999.....	164.1	2.0	134.6	7.0	236.3	4.3
June 1999.....	165.6	1.3	139.7	7.1	247.7	5.3
September 1999.....	166.2	1.1	144.4	8.6	256.7	8.4
December 1999.....	167.3	1.7	148.9	11.8	263.4	10.9
March 2000.....	168.4	2.6	155.0	14.1	270.5	13.5
June 2000.....	171.1	3.3	162.0	14.8	275.6	10.7
September 2000.....	171.7	3.3	161.5	11.2	277.6	7.8
December 2000.....	172.2	2.9	162.8	9.0	278.3	5.5
March 2001.....	172.2	2.2	167.5	7.8	279.0	3.1
June 2001.....	174.4	1.9	174.8	7.6	297.0	7.5
September 2001.....	174.6	1.7	181.6	11.8	305.0	9.4
December 2001.....	173.4	0.7	184.6	12.5	310.9	11.1
March 2002.....	174.5	1.3	190.2	12.7	324.3	15.0
June 2002.....	176.2	1.0	206.5	16.6	346.6	15.4
September 2002.....	177.6	1.7	221.1	19.7	369.1	19.1
December 2002.....	178.5	2.9	231.3	22.6	393.0	23.4
March 2003.....	179.9	3.0	239.3	22.9	400.1	21.0
June 2003.....	181.3	2.9	250.1	19.2	422.5	19.8
September 2003.....	182.5	2.7	258.9	15.8	437.6	17.0
December 2003.....	183.5	2.8	267.1	14.4	453.5	14.3
March 2004.....	184.6	2.6	277.3	14.8	474.0	16.9
June 2004.....	186.8	3.0	296.2	16.9	513.2	19.4
September 2004.....	188.1	3.0	306.2	16.8	527.2	18.6

Quarter	Retail Price Index		Nationwide House Price Index		Halifax House Price Index	
	Index	% annual change	Index	% annual change	Index	% annual change
December 2004 .....	189.9	3.4	304.1	13.0	522.0	14.1
March 2005 .....	190.5	3.1	304.8	9.4	520.2	9.3
June 2005.....	192.2	2.8	314.2	5.9	532.1	3.6
September 2005 .....	193.1	2.6	314.4	2.7	543.1	3.0
December 2005 .....	194.1	2.2	314.0	3.2	548.4	4.9
March 2006 .....	195.0	2.3	319.8	4.8	552.6	6.0
June 2006.....	198.5	3.2	329.2	4.7	582.1	9.0
[●] 20[●]	[●]	[●]	[●]	[●]	[●]	[●]

Source: HBOS plc and Nationwide Building Society

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

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

## Alliance & Leicester plc residential mortgage loans

The following table summarises loans in arrears and repossession experience for loans serviced by Alliance & Leicester, including the loans that were contained in the expected portfolio as at the cut-off date (with the exception of any loans originated before 1991). All of the loans in the table were originated by Alliance & Leicester, but not all of the loans form part of the portfolio. Alliance & Leicester services all of the loans in the portfolio.

Alliance & Leicester identifies a loan as being in arrears where an amount equal to or greater than a full month's contractual payment is past its due date. Alliance & Leicester does not define a loan as defaulted at any particular delinquency level, but rather at the time it takes the related property into possession. Alliance & Leicester does not charge off a loan as uncollectible until it disposes of the property relating to that loan following default. The percentage of loans by total outstanding loan balance which were in arrears by more than 90 days was: [●] of the book as at [●] (compared with 31 December 2005: 0.28%; 31 December 2004: 0.26%; 31 December 2003: 0.28%; 31 December 2002: 0.43%).

	31 December 2002	31 December 2003	31 December 2004	31 December 2005	[●] [●] 20[●]
Outstanding balance (£ millions) .....	£21,298.4	£23,227.6	£26,436.7	£31,643.3	£[●]
Number of loans outstanding (thousands) .....	348.0	355.0	380.0	408.1	[●]
<b>Outstanding balance of loans in arrears (£ millions)</b>					
2 – 3 payments in arrears....	£205.3	£149.7	£158.5	£186.5	£[●]
4 – 5 payments in arrears....	£45.7	£34.0	£34.5	£51.8	£[●]
6 – 7 payments in arrears....	£18.9	£13.1	£17.9	£18.7	£[●]
8 – 9 payments in arrears....	£10.0	£7.3	£7.1	£7.7	£[●]
10 – 11 payments in arrears	£5.7	£2.9	£2.9	£3.2	£[●]
12 or more payments in arrears .....	£10.9	£7.0	£5.8	£8.6	£[●]
Total outstanding balance of loans in arrears (£ millions) .....	<u>£296.5</u>	<u>£214.0</u>	<u>£226.7</u>	<u>£276.5</u>	<u>£[●]</u>
Total outstanding balance of loans in arrears as % of the outstanding balance...	<u>1.4%</u>	<u>0.9%</u>	<u>0.9%</u>	<u>0.9%</u>	<u>[●]%</u>
Outstanding balance of loans relating to properties in possession (£ millions) .....	<u>£2.3</u>	<u>£3.0</u>	<u>£1.6</u>	<u>£2.2</u>	<u>£[●]</u>
Outstanding balance at sale of loans relating to properties sold during the year (£ millions) <sup>(1)</sup> .....	<u>£8.7</u>	<u>£5.6</u>	<u>£3.6</u>	<u>£4.4</u>	<u>£[●]</u>

	31 December 2002	31 December 2003	31 December 2004	31 December 2005	[●] [●] 20[●]
Net loss on sales of all repossessed properties (£ millions) <sup>(2)</sup> .....	£2.4	£1.4	£0.5	£0.2	£[●]
Ratio of aggregate net losses to average aggregate outstanding balance of loans <sup>(3)</sup> .....	0.0113%	0.0058%	0.0019%	0.0008%	[●]%
Average net loss on all properties sold (£ thousands) .....	£11.3	£11.0	£6.2	£3.2	£[●]
<b>Number of loans outstanding in arrears (thousands)</b>					
2 – 3 payments in arrears....	4.3	3.0	3.1	3.3	[●]
4 – 5 payments in arrears....	1.0	0.7	0.7	0.9	[●]
6 – 7 payments in arrears....	0.4	0.3	0.3	0.3	[●]
8 – 9 payments in arrears....	0.2	0.2	0.1	0.1	[●]
10 – 11 payments in arrears	0.1	0.1	0.1	0.1	[●]
12 or more payments in arrears .....	0.2	0.2	0.1	0.2	[●]
Total number of loans outstanding in arrears .....	6.2	4.4	4.5	4.8	[●]
Total number of loans outstanding in arrears as % of the number of loans outstanding .....	1.8%	1.2%	1.2%	1.2%	[●]%
Number of properties in possession .....	0.1	0.1	0.0	0.0	[●]
Number of properties sold during the year .....	0.21	0.12	0.08	0.08	[●]

(1) Properties sold may relate to properties taken into possession in prior periods.

(2) Net loss is net of recoveries in the current period on properties sold in prior periods.

(3) Average of opening and closing balances for the period.

There can be no assurance that the arrears experience with respect to the loans comprising the portfolio will correspond to the experience of Alliance & Leicester's originated loan portfolio as set forth in the foregoing table. The statistics in the preceding table represent only the arrears experience for the periods presented, whereas the arrears experience on the loans in the portfolio depends on results obtained over the life of the loans in the portfolio. The foregoing statistics include loans with a variety of payment and other characteristics that may not correspond to those of the loans in the portfolio. Moreover, if the property market experiences an overall decline in property values so that the value of the properties in the portfolio falls below the principal balances of the loans comprising the overall pool, the actual rates of arrears could be significantly higher than those previously experienced by the servicer. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and, accordingly, the rates of arrears and losses with respect to the loans in the portfolio. Noteholders should observe that the United Kingdom experienced relatively low and



stable interest rates during the periods covered in the preceding table. If interest rates were to rise, it is likely that the rate of arrears would rise.

Alliance & Leicester's level of mortgage arrears has reduced since the recession in the United Kingdom in the early 1990s.

House price inflation has indirectly contributed to the improved arrears situation by enabling borrowers to sell at a profit if they encounter financial hardship. In the late 1980s house prices rose substantially faster than inflation as housing turnover increased to record levels. This was at a time when the economy grew rapidly, which led to falling unemployment and relatively high rates of real income growth. These fed into higher demand for housing, and house prices rose rapidly. Demand was further increased by changes in taxation legislation with regard to tax relief on mortgage payments in 1988. When monetary policy was subsequently tightened (in terms of both "locking in" sterling to the European Exchange Rate Mechanism and higher interest rates), the pace of economic activity first slowed and then turned into recession. Rising unemployment combined with high interest rates led to a fall in housing demand and increased default rates and repossessions. The ability of borrowers to refinance was limited as house prices began to fall and many were in a position of negative equity (borrowings greater than the resale value of the property) in relation to their mortgages.

Alliance & Leicester regularly reviews its lending policies in the light of prevailing market conditions and reviews actions so as to mitigate possible problems. The performance of Alliance & Leicester's new business and the arrears profiles are continuously monitored in monthly reports.

## ANNEX A

### Static Pool Data

The tables on the following pages set out static pool information with respect to all the mortgage loans on the Alliance & Leicester system. These tables show, for each of the last five years of origination, the distribution of such loans originated in that year by origination characteristics.

[One of the characteristics of the mortgages trust is that the seller is able to sell more loans to the mortgages trustee over time, whether in connection with an issuance of notes by an issuer or in order to maintain the minimum seller share. To aid in understanding changes to the mortgages trust over time, the following table sets out information relating to each sale of loans by the seller to the mortgages trustee pursuant to the mortgage sale agreement.

[Date]	[Balance of loans substituted or sold]	[Number of loans substituted or sold]
[●]	[●]	[●]

The sale of new loans by the seller to the mortgages trustee is subject to conditions, including ones required by the rating agencies, designed to maintain certain credit-related and other characteristics of the mortgages trust. These include limits on loans in arrears in the mortgages trust at the time of sale, limits on the aggregate balance of loans sold, limits on changes in the weighted average repossession frequency (**WAFF**) and the weighted average loss severity (**WALS**), minimum yield for the loans in the mortgages trust after the sale and maximum LTV for the loans in the mortgages trust after the sale. See a description of these conditions in "**Summary of the transaction documents – The mortgage sale agreement – Sale of the loans and their related security**" in the prospectus.]

### Origination Characteristics by Year

	2001 Origination	2002 Origination	2003 Origination	2004 Origination	2005 Origination	20[●] Origination
Number of accounts opened (thousands) .....	65.5	69.0	91.3	90.7	97.1	[●]
Aggregate original balance (£) (millions) .....	4,838.3	5,561.4	7,357.4	7,922.8	10,397.2	[●]
Average original balance (£) (thousands) .....	73.8	80.6	80.6	87.4	107.1	[●]
Weighted average original loan-to- value ratio .....	70.3	67.5	62.4	60.7	66.5	[●]
Weighted average original term (years) .....	20.5	20.5	20.1	20.4	21.9	[●]

(1) Data are based on all business written in the period 2001-2005.

(2) Weighted averages are weighed by the original balance.

**Listing and admission to trading application**

These final terms comprise the final terms required for the notes described herein to be admitted to the official list and admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Interest Market pursuant to the residential mortgage backed note programme of Fosse Master Issuer plc.

**Responsibility**

The issuer accepts responsibility for the information contained in these final terms.

Signed on behalf of the issuer:

By: .....

*Duly authorised*

**END OF FINAL TERMS**

## TERMS AND CONDITIONS OF THE NOTES

The following are the terms and conditions (the **Conditions**, and any reference to a **Condition** shall be construed accordingly) of the Notes in the form (subject to amendment) which will be incorporated by reference into each Global Note and each Definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer(s) and/or Manager(s) at the time of issue but, if not so permitted and agreed, such Definitive Note will have endorsed thereon or attached thereto such Conditions. The Final Terms in relation to each Series and Class of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and each Definitive Note.

The Notes are constituted by the Note Trust Deed. The security for the Notes is created pursuant to, and on the terms set out in, the Issuer Deed of Charge. By the Paying Agent and Agent Bank Agreement, provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes.

References herein to the **Notes** shall, unless the context otherwise requires, be references to all the Notes issued by the Issuer and constituted by the Note Trust Deed and shall mean:

- (a) in relation to any Notes of a Series and Class represented by a Global Note, units of the lowest Specified Denomination in the Specified Currency in each case of such Series and Class;
- (b) any Global Note; and
- (c) any Definitive Note issued in exchange for a Global Note.

Notes constituted by the Note Trust Deed are issued in series (each a **Series**) and each Series comprises one or more classes of Notes. Each Series of Notes is subject to the applicable Final Terms. The Final Terms in relation to each Series and Class of Notes (or the relevant provisions thereof) will be endorsed upon, or attached to, such Notes and will supplement these Conditions in respect of such Notes and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with these Conditions, replace or modify these Conditions for the purpose of such Notes. References to the **applicable Final Terms** are, in relation to a Series and Class of Notes, to the Final Terms (or the relevant provisions thereof) attached to or endorsed on such Notes.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Note Trust Deed, the Issuer Deed of Charge and the Paying Agent and Agent Bank Agreement.

Copies of the Note Trust Deed, the Issuer Deed of Charge, the Paying Agent and Agent Bank Agreement and each of the other Transaction Documents are available for inspection during normal business hours at the registered office of the Note Trustee, being 767 Third Avenue – 31st Floor, New York, New York 10017 and at the registered office of the Issuer, being at 35 Great St. Helen's, London EC3A 6AP and the specified office for the time being of (a) the Principal Paying Agent, being at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB and (b) the U.S. Paying Agent, being at 14th Floor, 388 Greenwich Street, New York, New York 10013. Copies of the Final Terms of each Series of Notes are obtainable by Noteholders during normal business hours at the registered office of the Issuer and the specified office for the time being of (i) the Principal Paying Agent and (ii) the U.S. Paying Agent and any Noteholder must produce evidence satisfactory to the relevant Paying Agent as to its holding of Notes and identity.

The Holders of any Series and Class of Notes are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of, and definitions contained or incorporated in, the Note Trust Deed, the Issuer Deed of Charge, the Paying Agent and Agent Bank Agreement, each of the other Transaction Documents and the applicable Final Terms and to have notice of each other Final Terms relating to each other Series and Class of Notes.

A glossary of definitions appears in **Condition 19**.

References herein to the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders shall, in each case and unless specified otherwise, be references to the Holders of the Notes of all Series of the applicable Class.

References herein to the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes or the Class D Notes shall, in each case and unless specified otherwise, be references to the Notes of all Series of the applicable Class.

## **1. FORM, DENOMINATION, REGISTER, TITLE AND TRANSFERS**

### **1.1 Form and Denomination**

Each Series and Class of Notes will be issued in the Specified Currency and in the Specified Denomination. Each Series and Class of Rule 144A Notes will be initially represented by one or more Rule 144A Global Notes, which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of Rule 144A Notes. Each Series and Class of Reg S Notes will be initially represented by one or more Reg S Global Notes which, in the aggregate, will represent the Principal Amount Outstanding from time to time of such Series and Class of the Reg S Notes.

Each Reg S Global Note will be deposited with, and registered in the name of a nominee of, a common depository for Euroclear and Clearstream, Luxembourg. Each Rule 144A Global Note will be deposited with a custodian for, and registered in the name of Cede & Co. (or such other name as may be requested by an authorised representative of DTC) as nominee of, DTC. Each Global Note will be numbered serially with an identifying number which will be recorded on the relevant Global Note and in the Register.

Each Series and Class of Notes may be Fixed Rate Notes, Floating Rate Notes, Zero Coupon Notes or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

Each Series and Class of Notes may be Bullet Redemption Notes, Scheduled Redemption Notes, Pass-Through Notes or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

Global Notes will be exchanged for Notes in definitive registered form (**Definitive Notes**) only under certain limited circumstances as described in the relevant Global Note. If Definitive Notes are issued, they will be serially numbered and issued in an aggregate principal amount equal to the Principal Amount Outstanding of the relevant Global Note and in registered form only.

The Notes (in either global or definitive form) will be issued in such denominations as specified in the applicable Final Terms, save that the minimum denomination of each Note will be such as may be allowed or required from time to time by the relevant central bank or regulatory authority (or equivalent body) or any laws or regulations applicable to the relevant currency and save that the minimum denomination of each Rule 144A Note will be issued in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof (or its equivalent in any other currency as at the date of issue of such Notes), and each Reg S Note will be issued in minimum denominations of £50,000 (or, in the case of Notes denominated in sterling with a minimum maturity of less than 366 days, £100,000) and in integral multiples of £1,000 in excess thereof if denominated in sterling or €50,000 and in integral multiples of €1,000 in excess thereof (or its equivalent in any other currency as at the date of issue of such Notes) if denominated in a currency other than sterling.

In the case of a Series and Class of Notes with more than one Specified Denomination, Notes of one Specified Denomination may not be exchanged for Notes of such Series and Class of another Specified Denomination.

### **1.2 Register**

The Registrar will maintain the Register in respect of the Notes in accordance with the provisions of the Paying Agent and Agent Bank Agreement. In these Conditions, the **Holder** of a

Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A Note will be issued to each Noteholder in respect of its registered holding. Each Note will be numbered serially with an identifying number which will be recorded in the Register.

### 1.3 Title

The Holder of each Note shall (to the fullest extent permitted by applicable law) be treated by the Issuer, the Note Trustee, the Issuer Security Trustee, the Agent Bank and any Agent as the absolute owner of such Note for all purposes (including the making of any payments) regardless of any notice of ownership, theft or loss or any trust or other interest therein or of any writing thereon (other than the endorsed form of transfer).

### 1.4 Transfers

Title to the Notes shall pass by and upon registration in the Register. Subject as provided otherwise in this **Condition 1.4**, a Note may be transferred upon surrender of the relevant Note, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or the Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Note may only be transferred in the specified denominations. Where not all the Notes represented by the surrendered Note are the subject of the transfer, a new Note in respect of the balance of the Notes will be issued to the transferor.

Within five Business Days of such surrender of a Note, the Registrar will register the transfer in question and deliver a new Note of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of the Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (and by airmail if the Holder is overseas) to the address specified for such purpose by such relevant Holder.

The transfer of a Note will be effected without charge by the Registrar, but subject to payment of (or the giving of such indemnity as the Registrar may require for) any tax or other governmental charges which may be imposed in relation to it.

Noteholders may not require transfers of Notes to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Paying Agent and Agent Bank Agreement. The regulations may be changed by the Issuer with the prior written approval of the Note Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

## 2. STATUS, PRIORITY AND SECURITY

### 2.1 Status

The Notes of each Series and Class are direct, secured and unconditional obligations of the Issuer.

Subject to the provisions of **Conditions 4** and **5** and subject to the other payment conditions set out in the applicable Final Terms and the other Transaction Documents:

- (a) the Class A Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class A Notes of each other Series but in priority to the Class B Notes, the Class M Notes, the Class C Notes and the Class D Notes of any Series;
- (b) the Class B Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class B Notes of each other Series but in priority to the Class M Notes, the Class C Notes and the Class D Notes of any Series;



- (c) the Class M Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class M Notes of each other Series but in priority to the Class C Notes and the Class D Notes of any Series;
- (d) the Class C Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class C Notes of each other Series but in priority to the Class D Notes of any Series; and
- (e) the Class D Notes of each Series will rank *pari passu* without any preference or priority among themselves and with the Class D Notes of each other Series.

## 2.2 Conflict between the classes of Notes

The Note Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders equally as regards all powers, trusts, authorities, duties and discretions of the Note Trustee under these Conditions or any of the Transaction Documents (except where expressly provided otherwise), but requiring the Note Trustee to have regard (except as expressly provided otherwise):

- (a) for so long as there are any Class A Notes outstanding (of any Series), only to the interests of the Class A Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class A Noteholders and the interests of the Class B Noteholders and/or the interests of the Class M Noteholders and/or the interests of the Class C Noteholders and/or the interests of the Class D Noteholders (of that Series or of any other Series);
- (b) subject to (a) above and for so long as there are any Class B Notes outstanding (of any Series), only to the interests of the Class B Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class B Noteholders and the interests of the Class M Noteholders and/or the interests of the Class C Noteholders and/or the interests of the Class D Noteholders (of that Series or of any other Series);
- (c) subject to (a) and (b) above and for so long as there are any Class M Notes outstanding (of any Series), only to the interests of the Class M Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class M Noteholders and the interests of the Class C Noteholders and/or the interests of the Class D Noteholders (of that Series or of any other Series); and
- (d) subject to (a), (b) and (c) above and for so long as there are any Class C Notes outstanding (of any Series), only to the interests of the Class C Noteholders if, in the opinion of the Note Trustee, there is or may be a conflict between the interests of the Class C Noteholders and the Class D Noteholders (of that Series or of any other Series).

The Note Trust Deed also contains provisions:

- (i) limiting the powers of the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class A Noteholders (of that Series or of any other Series). Except in certain circumstances described in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class A Noteholders, the exercise of which will be binding on the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders respectively, irrespective of the effect thereof on their respective interests;
- (ii) limiting the powers of the Class M Noteholders, the Class C Noteholders and the Class D Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class B Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the

Note Trust Deed contains no such limitation on the powers of the Class B Noteholders, the exercise of which will be binding on the Class M Noteholders, the Class C Noteholders and the Class D Noteholders, respectively, irrespective of the effect thereof on their respective interests;

- (iii) limiting the powers of the Class C Noteholders and the Class D Noteholders (in each case, of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class M Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class M Noteholders, the exercise of which will be binding on the Class C Noteholders and the Class D Noteholders irrespective of the effect thereof on their respective interests; and
- (iv) limiting the powers of the Class D Noteholders (of any Series), *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the Class C Noteholders (of that Series or of any other Series). Except in certain circumstances described above and in **Condition 11**, the Note Trust Deed contains no such limitation on the powers of the Class C Noteholders, the exercise of which will be binding on the Class D Noteholders irrespective of the effect thereof on their respective interests.

The Note Trustee and the Issuer Security Trustee shall be entitled to assume, for the purpose of exercising any right, power, trust, authority, duty or discretion under or in relation to these Conditions or any of the Transaction Documents, without further investigation or inquiry, that such exercise will not be materially prejudicial to the interests of the Noteholders (or any Series and Class thereof), if each of the Rating Agencies rating the relevant Series and Class has confirmed in writing that the then current ratings of the applicable Series and Class of Notes would not be reduced, withdrawn or qualified by such exercise.

### **2.3 Security**

As security for, *inter alia*, the payment of all monies payable in respect of the Notes, the Issuer has entered into the Issuer Deed of Charge creating the Issuer Security in favour of the Issuer Security Trustee for itself and on trust for, *inter alios*, the Note Trustee and the Noteholders.

## **3. COVENANTS**

Save with the prior written consent of the Note Trustee or unless provided in or contemplated under these Conditions or any of the Transaction Documents to which the Issuer is a party, the Issuer shall not, so long as any Note remains outstanding:

### **3.1 Negative Pledge**

create or permit to subsist any mortgage, standard security, pledge, lien, charge or other security interest whatsoever (unless arising by operation of law), upon the whole or any part of its assets (including any uncalled capital) or its undertakings, present or future except where the same is given in connection with the issue of a Series;

### **3.2 Disposal of Assets**

sell, assign, transfer, lend, lease or otherwise dispose of, or deal with, or grant any option or present or future right to acquire all or any of its properties, assets, or undertakings or any interest, estate, right, title or benefit therein or thereto or agree or attempt or purport to do any of the foregoing;

### **3.3 Equitable Interest**

permit any person other than itself and the Issuer Security Trustee (as to itself and on behalf of the Issuer Secured Creditors) to have any equitable or beneficial interest in any of its assets or undertakings or any interest, estate, right, title or benefit therein;

### **3.4 Bank Accounts**

have an interest in any bank account, other than the Issuer Bank Accounts, except in connection with the issue of a Series where such bank account is immediately charged in favour of the Issuer Security Trustee pursuant to the Issuer Deed of Charge;

### **3.5 Restrictions on Activities**

carry on any business other than as described in the prospectus (as revised, supplemented and/or amended from time to time) relating to the issue of the Notes and the related activities described therein or as contemplated in the Transaction Documents relating to the issue of the Notes;

### **3.6 Borrowings**

incur any indebtedness in respect of borrowed money whatsoever or give any guarantee or indemnity in respect of any indebtedness or obligation of any person, except where the same is incurred or given or the Issuer becomes so obligated in connection with the issue of a Series;

### **3.7 Merger**

consolidate or merge with any other person or convey or transfer substantially all of its properties or assets to any other person;

### **3.8 Waiver or Consent**

permit the validity or effectiveness of any of the Note Trust Deed or the Issuer Deed of Charge or the priority of the security interests created thereby to be amended, terminated, postponed, waived or discharged, or permit any other person whose obligations form part of the Issuer Security to be released from such obligations;

### **3.9 Employees or premises**

have any employees or premises or subsidiaries;

### **3.10 Dividends and Distributions**

pay any dividend or make any other distribution to its shareholders (other than as provided in the Transaction Documents) or issue any further shares or alter any rights attaching to its shares as at the date of the Issuer Deed of Charge;

### **3.11 Purchase Notes**

except pursuant to **Condition 5.6**, purchase or otherwise acquire any Note or Notes; or

### **3.12 United States activities**

engage in any activities in the United States (directly or through agents), or derive any income from United States sources as determined under United States income tax principles, or hold any property if doing so would cause it to be engaged in a trade or business within the United States as determined under United States income tax principles.

## **4. INTEREST**

### **4.1 Interest on Fixed Rate Notes**

Each Fixed Rate Note bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest payable, subject as provided in these Conditions, in arrear on the Interest Payment Date(s) in each year specified for such Note in the applicable Final Terms up to (and including) the Final Maturity Date.

Except as provided in the applicable Final Terms, the amount of interest payable in respect of any Fixed Rate Note on each Interest Payment Date for a Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified for such Note in the applicable Final Terms, amount to the Broken Amount so specified.

As used in these Conditions, **Fixed Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or the first) Interest Payment Date.

If interest is required to be calculated in respect of any Fixed Rate Note for a period other than a Fixed Interest Period, such interest shall be calculated by applying the Rate of Interest specified for such Note in the applicable Final Terms to the Principal Amount Outstanding on such Global Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention and then apportioning the resulting total between the Noteholders in respect of such Global Note, *pari passu* without preference or priority amongst themselves.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for any Fixed Rate Note in accordance with this **Condition 4.1**:

- (a) if "Actual/Actual (ICMA)" is specified for such Note in the applicable Final Terms:
  - (i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date for such Notes (or, if none, the Interest Commencement Date) to (but excluding) the relevant Interest Payment Date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
  - (ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
    - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and
    - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (I) the number of days in such Determination Period and (II) the number of Determination Dates that would occur in one calendar year; and
- (b) if "30/360" is specified for such Note in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date for such Note (or, if none, the Interest Commencement Date) to (but excluding) the relevant Interest Payment Date (such number of days being calculated on the basis of a year of 360 days with twelve 30-day months) divided by 360.

As used in these Conditions, **Determination Period** means each period from and including a Determination Date (as defined in the applicable Final Terms) to but excluding the next Determination Date (including where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

## **4.2 Interest on Floating Rate Notes**

### **(a) Interest Payment Dates**

Each Floating Rate Note bears interest on its Principal Amount Outstanding from (and including) the Interest Commencement Date and such interest will be payable in arrear on the Interest Payment Date(s) in each year specified for such Note in the applicable Final Terms. Such interest will be payable in respect of each Floating Interest Period.

As used in these Conditions, **Floating Interest Period** means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or the first) Interest Payment Date.

If a Business Day Convention is specified for a Floating Rate Note in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (i) the "Following Business Day Convention", the Interest Payment Date for such Note shall be postponed to the next day which is a Business Day; or
- (ii) the "Modified Following Business Day Convention", the Interest Payment Date for such Note shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or
- (iii) the "Preceding Business Day Convention", the Interest Payment Date for such Note shall be brought forward to the immediately preceding Business Day.

In these Conditions, **Business Day** means a day which is both:

- (i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and any Additional Business Centre specified in the applicable Final Terms; and
- (ii) either (1) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre) or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System (the **TARGET System**) is open.

**(b) Rate of Interest**

The Rate of Interest payable from time to time in respect of a Floating Rate Note will be determined in the manner specified for such Note in the applicable Final Terms.

- (i) ISDA Determination for Floating Rate Notes  
Where "ISDA Determination" is specified for such Note in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated for such Note in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Agent Bank or other person specified in the applicable Final Terms under an interest rate swap transaction if the Agent Bank or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
  - (A) the Floating Rate Option is as specified for such Note in the applicable Final Terms;
  - (B) the Designated Maturity is the period specified for such Note in the applicable Final Terms; and
  - (C) the relevant Reset Date is either (i) if the applicable Floating Rate Option is based on LIBOR, USD-LIBOR or EURIBOR for a currency, the first day of that Interest Period, or (ii) in any other case, as specified for such Note in the applicable Final Terms.

For the purposes of this subparagraph (i), **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions.

(ii) **Screen Rate Determination for Floating Rate Notes**

Where "Screen Rate Determination" is specified for a Floating Rate Note in the applicable Final Terms as the manner in which the Rate of Interest is to be determined for such Note, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- (A) the offered quotation (if there is only one quotation on the Relevant Screen Page); or
- (B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR or USD-LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus the Margin (if any), all as determined by the Agent Bank. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Agent Bank for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Paying Agent and Agent Bank Agreement contains provisions for determining the Rate of Interest pursuant to this subparagraph (ii) in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of a Floating Rate Note is specified for such Note in the applicable Final Terms as being other than LIBOR, USD-LIBOR or EURIBOR, the Rate of Interest in respect of such Note will be determined as provided for such Note in the applicable Final Terms.

**(c) Minimum Rate of Interest and/or Maximum Rate of Interest**

If the applicable Final Terms specifies a Minimum Rate of Interest for a Floating Rate Note for any Interest Period, then, in the event that the Rate of Interest for such Note in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Note for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for such Note for any Interest Period, then, in the event that the Rate of Interest for such Note in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Note for such Interest Period shall be such Maximum Rate of Interest.

**(d) Determination of Rate of Interest and calculation of Interest Amounts**

The Agent Bank will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period.

The Agent Bank will calculate the amount of interest payable on the Floating Rate Notes in respect of each Specified Denomination or in respect of each Global Note (each an **Interest Amount**) for the relevant Interest Period. Each Interest Amount shall be calculated by applying the Rate of Interest to the Principal Amount Outstanding of each Global Note, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub unit being rounded upwards or otherwise in accordance with applicable market convention and then apportioning the resulting total between the Noteholders in respect of such Global Note, *pari passu* without preference or priority amongst themselves.

**Day Count Fraction** means, in respect of the calculation of an amount of interest for a Floating Rate Note in accordance with this **Condition 4.2(d)** for any Interest Period:

- (i) if “Actual/365 or Actual/Actual (ISDA)” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (ii) if “Actual/365 (Fixed)” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (iii) if “Actual/365 (Sterling)” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;
- (iv) if “Actual/360” is specified for such Note in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (v) if “30/360”, “360/360” or “Bond Basis” is specified for such Note in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (unless (a) the last day of the Interest Period is the 31st day of a month but the first day of the Interest Period is a day other than the 30th or 31st day of a month, in which case the month that includes that last day shall not be considered to be shortened to a 30-day month, or (b) the last day of the Interest Period is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month)); and
- (vi) if “30E/360” or “Eurobond Basis” is specified for such Note in the applicable Final Terms, the number of days in the Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months, without regard to the date of the first day or last day of the Interest Period unless, in the case of the final Interest Period, the Final Maturity Date is the last day of the month of February, in which case the month of February shall not be considered to be lengthened to a 30-day month).

**(e) Notification of Rate of Interest and Interest Amounts**

The Agent Bank will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Note Trustee, the Issuer Security Trustee, the Issuer Cash Manager, the Paying Agents, the Registrar and to any stock exchange or other relevant competent authority or quotation system on which the relevant Floating Rate Notes are for the time being listed, quoted and/or traded or by which they have been admitted to listing and to be published in accordance with **Condition 14** as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. Any such amendment or alternative arrangements will be promptly notified to the Note Trustee and each stock exchange or other relevant authority on which the relevant Floating Rate Notes are for the time being listed or by which they have been admitted to listing and to Noteholders in accordance with **Condition 14**.

**(f) Determination or Calculation by Note Trustee**

If for any reason at any relevant time, the Agent Bank defaults in its obligation to determine the Rate of Interest for a Floating Rate Note or the Agent Bank defaults in its obligation to calculate any Interest Amount for such Note in accordance with subparagraph (b)(i) or (ii) above or as otherwise specified for such Note in the applicable Final Terms, as the case may be, and in each case in accordance with paragraph (d) above, the Note Trustee (or an agent on its behalf) shall determine the Rate of Interest at such rate as, in its absolute discretion (having such regard

as it shall think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified for such Note in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Note Trustee (or an agent on its behalf) shall calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances and each such determination or calculation shall be deemed to have been made by the Agent Bank or the Calculation Agent, as the case may be.

**(g) Certificates to be final**

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this **Condition 4.2**, whether by the Agent Bank or the Calculation Agent or the Note Trustee (or an agent on its behalf) shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Issuer Cash Manager, the Principal Paying Agent, the Calculation Agent, the other Paying Agents, the Note Trustee and all Noteholders and (in the absence of wilful default or bad faith) no liability to the Issuer or the Noteholders shall attach to the Agent Bank or the Calculation Agent or the Note Trustee in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

**4.3 Accrual of interest**

Interest (if any) will cease to accrue on each Note (or in the case of the redemption of part only of a Note, that part only of such Note) on the due date for redemption thereof unless, upon due presentation thereof, payment of principal is improperly withheld or refused in which event, interest will continue to accrue until the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) the seventh day after notice is duly given by the Principal Paying Agent or the U.S. Paying Agent (as the case may be) to the holder thereof that such payment will be made, provided that subsequently, payment is in fact made.

**4.4 Deferred Interest**

To the extent that, subject to and in accordance with the relevant Issuer Priority of Payments, the funds available to the Issuer to pay interest on any Series and Class of Notes (other than the most senior Class of Notes of any Series then outstanding) on an Interest Payment Date (after discharging the Issuer's liabilities of a higher priority) are insufficient to pay the full amount of such interest, payment of the shortfall attributable to such Series and Class of Notes (**Deferred Interest**) will not then fall due but will instead be deferred until the first Interest Payment Date for such Notes thereafter on which sufficient funds are available (after allowing for the Issuer's liabilities of a higher priority and subject to and in accordance with the relevant Issuer Priority of Payments) to fund the payment of such Deferred Interest to the extent of such available funds.

Such Deferred Interest will accrue interest (**Additional Interest**) at the rate of interest applicable from time to time to the applicable Series and Class of Notes and payment of any Additional Interest will also be deferred until the first Interest Payment Date for such Notes thereafter on which funds are available (after allowing for the Issuer's liabilities of a higher priority subject to and in accordance with the relevant Issuer Priority of Payments) to the Issuer to pay such Additional Interest to the extent of such available funds.

Amounts of Deferred Interest and Additional Interest shall not be deferred beyond the Final Maturity Date of the applicable Series and Class of Notes, when such amounts will become due and payable.

Payments of interest due on an Interest Payment Date in respect of the most senior Class of Notes of any Series then outstanding will not be deferred. In the event of the delivery of a Note Acceleration Notice (as described in **Condition 9**), the amount of interest in respect of such Notes that was due but not paid on such Interest Payment Date will itself bear interest at the applicable rate until both the unpaid interest and the interest on that interest are paid as provided in the Note Trust Deed.



## **5. REDEMPTION AND MANDATORY TRANSFER**

### **5.1 Final Redemption**

Unless previously redeemed in full as provided in this **Condition 5**, the Issuer shall redeem a Series and Class of Notes at their Redemption Amount together with all accrued interest on the Final Maturity Date in respect of such Notes.

The Issuer may not redeem such Notes in whole or in part prior to their Final Maturity Date except as provided in **Conditions 5.2, 5.4, 5.5** or **5.6** below, but without prejudice to **Condition 9**.

### **5.2 Mandatory Redemption of the Notes in Part**

On each Interest Payment Date, other than an Interest Payment Date on which a Series and Class of Notes are to be redeemed under **Conditions 5.1, 5.4, 5.5** or **5.6**, the Issuer shall repay principal in respect of such Notes in an amount equal to the amount (if any) repaid on the corresponding Loan Tranche Payment Date in respect of the related Loan Tranche and pursuant to the Intercompany Loan Agreement converted, where the Specified Currency for such Notes is not Sterling, into the Specified Currency at the Specified Currency Exchange Rate for such Notes.

To the extent that there are insufficient funds available to the Issuer to repay the amount due to be paid on such Interest Payment Date, the Issuer will be required to repay the shortfall, to the extent that it receives funds therefor (and subject to the terms of the Issuer Deed of Charge and the Issuer Cash Management Agreement) on subsequent Interest Payment Dates in respect of such Notes.

### **5.3 Note Principal Payments and Principal Amount Outstanding**

The principal amount redeemable (the **Note Principal Payment**) in respect of each Note of a particular Series and Class on any Interest Payment Date under **Condition 5.2** above shall be a proportion of the amount required as at that Interest Payment Date to be applied in redemption of such Series and Class of Notes on such date equal to the proportion that the Principal Amount Outstanding of the relevant Note bears to the aggregate Principal Amount Outstanding of such Series and Class of Notes rounded down to the nearest sub-unit of the Specified Currency; provided always that no such Note Principal Payment may exceed the Principal Amount Outstanding of the relevant Note.

On each Interest Determination Date the Issuer shall determine (or cause the Agent Bank to determine) (a) the amount of any Note Principal Payment payable in respect of each Note of the relevant Series and Class on the immediately following Interest Payment Date and (b) the Principal Amount Outstanding of each such Note which shall be the Specified Denomination less (in each case) the aggregate amount of all Note Principal Payments in respect of such Note that has been paid since the relevant Closing Date and on or prior to that Interest Determination Date (the **Principal Amount Outstanding**) and (c) the fraction expressed as a decimal to the fifth decimal point (the **Pool Factor**), of which the numerator is the Principal Amount Outstanding of that Note (as referred to in (b) above) and the denominator is the Specified Denomination. Each determination by or on behalf of the Issuer of any Note Principal Payment of a Note, the Principal Amount Outstanding of a Note and the Pool Factor shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

The Issuer will cause each determination of the Note Principal Payment and the Principal Amount Outstanding and the Pool Factor in respect of a Series and Class of Notes to be notified forthwith, and in any event not later than 1.00 p.m. (London time) on the Business Day immediately succeeding the Interest Determination Date, to the Note Trustee, the Issuer Security Trustee, the Paying Agents, the Registrar, the Agent Bank and (for so long as such Notes are listed on one or more stock exchanges) the relevant stock exchanges, and will cause notice of each determination of the Note Principal Payment and the Principal Amount Outstanding to be given to Noteholders in accordance with **Condition 14** by no later than the Business Day after the relevant Interest Payment Date.

If the Issuer does not at any time for any reason determine (or cause the Agent Bank to determine) or if the Agent Bank does not at any time for any reason determine a Note Principal

Payment, the Principal Amount Outstanding or the Pool Factor in accordance with the preceding provisions of this **Condition 5.3**, such Note Principal Payment and/or Principal Amount Outstanding and/or Pool Factor may be determined by the Note Trustee in accordance with this **Condition 5.3** in the manner the Note Trustee in its discretion considers fair and reasonable in the circumstances, having regard to this **Condition 5.3**, and each such determination or calculation shall be deemed to have been made by the Issuer. Any such determination shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer, the Agent Bank and the Noteholders.

#### **5.4 Optional Redemption in Full**

Provided a Note Acceleration Notice has not been served and subject to the provisos below, upon giving not more than 60 nor less than 30 days' prior notice to the Note Trustee and the Noteholders in accordance with **Condition 14**, the Issuer may redeem a Series and Class of Notes at their aggregate Redemption Amount together with any accrued and unpaid interest in respect thereof on the following dates:

- (a) the date specified as the Step-Up Date for such Notes in the applicable Final Terms and on any Interest Payment Date for such Notes thereafter; or
- (b) on such Interest Payment Date on which the aggregate Principal Amount Outstanding of such Notes and all other Classes of Notes of the same Series is less than 10 per cent. of the aggregate Principal Amount Outstanding of such Series of Notes as at the Closing Date on which such Series of Notes were issued,

PROVIDED THAT (in either of the cases above), on or prior to giving any such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that (i) it will have the funds, not subject to any interest of any other person, required to redeem such Notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such Notes outstanding in accordance with the terms and conditions of the Issuer Deed of Charge and the Issuer Cash Management Agreement, and (ii) the Repayment Tests will be satisfied following the making of such redemptions.

#### **5.5 Optional Redemption for Tax and other Reasons**

Provided a Note Acceleration Notice has not been served, if the Issuer at any time satisfies the Note Trustee immediately prior to the giving of the notice referred to below that on the next Interest Payment Date either:

- (a) the Issuer would by virtue of a change in the law or regulations of the United Kingdom or any other jurisdiction (or the application or interpretation thereof) be required to deduct or withhold from any payment of principal or interest or any other amount under a Series and Class of Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (other than where the relevant Holder or beneficial owner has some connection with the relevant jurisdiction other than the holding of the Notes); or
- (b) Funding 1 would be required to deduct or withhold from amounts due in respect of the Loan Tranche under the Intercompany Loan Agreement which was funded by such Notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; and
- (c) in relation to either the events described in (a) and (b) above, such obligation of the Issuer or Funding 1 (as the case may be) cannot be avoided by the Issuer or Funding 1 (as the case may be) taking reasonable measures available to the Issuer or Funding 1 (as the case may be),

then the Issuer shall use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the Note Trustee as principal debtor under such Notes and/or as lender of such Loan Tranche as the case may be, upon the Note Trustee (1) being satisfied that such substitution will not be materially prejudicial to the interests of Noteholders and (2) receiving a certificate signed by two directors of the Issuer or Funding 1, as the case may be, certifying that such substitution would enable the Issuer or Funding 1, as the case may be, to

make payments of principal and interest under the relevant Series or Class of Notes or under the Intercompany Loan, as the case may be, without such deduction or withholding, and upon the Issuer Security Trustee being satisfied that (A) the position of the Issuer Secured Creditors (other than the Noteholders) will not thereby be adversely affected as confirmed in writing by such Issuer Secured Creditors to the Issuer Security Trustee, and (B) such substitution would not require registration of any new security under United States securities laws or materially increase the disclosure requirements under United States law or the costs of issuance as certified by the Issuer to the Issuer Security Trustee in writing. Only if the Issuer is unable to arrange a substitution will the Issuer be entitled to redeem the Notes as described in this **Condition 5.5**.

Subject to the proviso below, if the Issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in (a) or (b) above (as the case may be) is continuing, then the Issuer may, having given not more than 60 nor less than 30 days' notice to the Note Trustee and the Noteholders in accordance with **Condition 14**, redeem all (but not some only) of such Notes on the immediately succeeding Interest Payment Date for such Notes at their aggregate Redemption Amount together with any accrued and unpaid interest in respect thereof provided that (in either case), prior to giving any such notice, the Issuer shall have provided to the Note Trustee:

- (i) a certificate signed by two directors of the Issuer stating the circumstances referred to in (a) or (b) and (c) above prevail and setting out details of such circumstances; and
- (ii) an opinion in form and substance satisfactory to the Note Trustee of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to deduct or withhold such amounts as a result of such change or amendment.

The Note Trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstance set out in (a) or (b) and (c) above, in which event they shall be conclusive and binding on the Noteholders. The Issuer may only redeem such Notes as aforesaid, if on or prior to giving such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that (A) it will have the funds, not subject to any interest of any other person, required to redeem such Notes as aforesaid and any amounts required to be paid in priority to or *pari passu* with such Notes outstanding in accordance with the terms and conditions of the Issuer Deed of Charge and the Issuer Cash Management Agreement, and (B) the Repayment Tests will be satisfied following the making of such redemptions.

In addition to the foregoing, if at any time the Issuer delivers a certificate to Funding 1, the Note Trustee and the Issuer Security Trustee to the effect that it would be unlawful for the Issuer to make, fund or allow to remain outstanding a Loan Tranche under the Intercompany Loan Agreement, then the Issuer may require Funding 1 to prepay the relevant Loan Tranche on a Loan Tranche Payment Date subject to and in accordance with the provisions of the Intercompany Loan Agreement to the extent necessary to cure such illegality and the Issuer may redeem all (but not some only) of the relevant Notes at their Redemption Amount together with any accrued interest upon giving not more than 60 nor less than 30 days' (or such shorter period as may be required under any relevant law) prior written notice to the Issuer Security Trustee, the Funding 1 Security Trustee, the Note Trustee, the relevant Issuer Swap Provider(s) and the Noteholders in accordance with **Condition 14**, provided that, prior to giving any notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that it will have the funds, not subject to the interest of any other person, required to redeem the relevant Notes as provided above and any amount to be paid in priority to or *pari passu* with the relevant Notes. Such monies received by the Issuer shall be used to redeem the relevant Notes in full, together with any accrued and unpaid interest, on the equivalent Interest Payment Date.

## 5.6 Optional Redemption for Implementation of Capital Requirements Directive

- (a) If:
- (i) the Basel II Framework (as described in the document titled "Basel II The International Convergence of Capital Measurement and Capital Standards: A Revised Framework" published in June 2004 by the Basel Committee on Banking Supervision) has been implemented in the United Kingdom, whether by rule of law, recommendation of best practices or by any other regulation (including pursuant to implementation in the United Kingdom of the EU Capital Requirements Directive);
  - (ii) a Note Acceleration Notice has not been served in respect of the relevant Interest Payment Date for the exercise of the Purchase Option or Redemption Option, as the case may be;
  - (iii) the Issuer has given not more than 60 days' and not less than 30 days' (or such shorter period as may be required by any relevant law) prior written notice to the Note Trustee, the Issuer Swap Providers and the Noteholders, in accordance with **Condition 14** of the exercise of the Purchase Option or Redemption Option, as the case may be (each as defined below);
  - (iv) prior to giving any such notice, the Issuer shall have provided to the Note Trustee a certificate signed by two directors of the Issuer to the effect that the Issuer will have sufficient funds to purchase or redeem, as the case may be, the Called Notes in accordance with this **Condition 5.6** and to pay any amounts under the Issuer *Priority of Payments* required to be paid in priority to or *pari passu* with payments on the Notes on the relevant Interest Payment Date; and
  - (v) the FSA has approved the exercise of the Purchase Option or Redemption Option, as the case may be, if such approval is required by rule of law, recommendations or best practice or by any applicable regulator;
- then:
- (y) the Issuer has the right (the **Purchase Option**) to require holders of all but not some only of the Class B Notes and/or the Class M Notes and/or the Class C Notes and/or the Class D Notes of a Series (collectively, the **Called Notes**) to transfer the Called Notes to the Issuer on any Interest Payment Date (falling on or prior to 31 December 2010 or any other date as may be permitted by the FSA) falling on or after the Interest Payment Date specified in the applicable Final Terms (if any) for a price equal to the aggregate Redemption Amount, together with any accrued interest on the Called Notes; or
  - (z) the Issuer may redeem (the **Redemption Option**) the Called Notes on any Interest Payment Date (falling on or prior to 31 December 2010 or any other date permitted by the FSA) at the aggregate Redemption Amount, together with any accrued interest on the Called Notes.
- (b) The Called Notes transferred to the Issuer pursuant to the Purchase Option shall, subject as provided in (c) below, remain outstanding until the date on which they would otherwise be redeemed or cancelled in accordance with the Conditions.
- (c) The Note Trustee shall concur in, execute and do all such deeds, instruments, acts and things, and shall consent to any amendment, modification or waiver of the provisions of the Transaction Documents to which it is a party, which may be necessary or desirable to permit and give effect to the exercise of the Purchase Option and the transfer of the Called Notes to the Issuer, including any waiver of consents of the Issuer and any suspension or termination of the rights of the holders of the Called Notes from (and including) the Interest Payment Date specified for the exercise of the Purchase Option, for as long as the Called Notes have been transferred to the Issuer, other than the right to receive the price payable for such transfer.

- (d) Each holder of Called Notes shall be deemed to have authorised and instructed DTC, Euroclear, or, as the case may be Clearstream, Luxembourg to effect the transfer of its Called Notes on the relevant Interest Payment Date to the Issuer, in accordance with the rules for the time being of DTC, Euroclear, or, as the case may be, Clearstream, Luxembourg.

### 5.7 Redemption Amounts

For the purposes of this **Condition 5**, **Redemption Amount** means, in respect of any Series and Class of Notes, the amount specified in relation to such Notes in the applicable Final Terms or, if not so specified:

- (a) in respect of each Note (other than a Zero Coupon Note), the Principal Amount Outstanding of such Note; and
- (b) in respect of each Zero Coupon Note, an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP = the Reference Price;

AY = the Accrual Yield expressed as a decimal; and

y = a fraction, the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the first Closing Date of the applicable Series and Class of Notes to (but excluding) the date fixed for redemption or, as the case may be, the date upon which such Note becomes due and payable and the denominator of which is 360.

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to **Condition 5.1, 5.2, 5.4, 5.5 or 5.6** above or upon its becoming due and repayable as provided in **Condition 9** is improperly withheld or refused, the amount due and repayable in respect of such Note shall be the amount calculated as provided in paragraph (b) above as though the reference therein to the date fixed for the redemption or, as the case may be, the date upon which such Note becomes due and payable were replaced by reference to the date which is the earlier of:

- (i) the date on which all amounts due in respect of such Note have been paid; and
- (ii) the date on which the full amount of the monies payable in respect of such Note has been received by the Principal Paying Agent or the Note Trustee or the Registrar and notice to that effect has been given to the Noteholders in accordance with **Condition 14**.

### 5.8 Mandatory Transfer of Remarketable Notes

- (a) The Remarketable Notes shall be transferred in accordance with paragraph (ii) below on each relevant Mandatory Transfer Date prior to the occurrence of a Mandatory Transfer Termination Event (as confirmed by the Remarketing Agent or Tender Agent by the provision of a Conditional Purchaser Confirmation to the Issuer and the Principal Paying Agent) in exchange for payment of the Mandatory Transfer Price, and the Issuer will procure payment of the Mandatory Transfer Price to the Holders of the Remarketable Notes on the relevant Mandatory Transfer Date, provided that the Issuer shall not be liable for the failure to make payment of the Mandatory Transfer Price to the extent that such failure is a result of the failure of the Remarketing Agent or the Conditional Purchaser to perform its obligations under the relevant agreements.
- (ii) Subject to paragraph (i) above, all the Noteholders' interests in the Remarketable Notes shall be transferred on the relevant Mandatory Transfer Date to the account of the Remarketing Agent on behalf of the relevant purchasers or as otherwise notified by or on behalf of the Remarketing Agent prior to such date or, if Definitive Notes are then issued with respect to the Remarketable Notes, the Remarketable Notes will be registered in the

name of the Remarketing Agent or as otherwise notified by or on behalf of the Remarketing Agent by the Registrar and the Register will be amended accordingly with effect from the relevant Mandatory Transfer Date.

## **6. PAYMENTS**

### **6.1 Payment of Interest and Principal**

Payments of principal shall be made by cheque in the Specified Currency, drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date (as defined in **Condition 6.7**), by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

Payments of interest shall be made by cheque in the Specified Currency drawn on a Designated Bank, or upon application by a Holder of the relevant Note to the Specified Office of the Principal Paying Agent not later than the fifth Business Day before the Record Date, by transfer to a Designated Account maintained by the payee with a Designated Bank and (in the case of interest payable on final redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note at the Specified Office of any Paying Agent.

### **6.2 Laws and Regulations**

Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto. Noteholders will not be charged commissions or expenses on payments.

### **6.3 Payment of Interest following a failure to pay Principal**

If payment of principal is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with **Condition 4** will be paid in accordance with this **Condition 6**.

### **6.4 Change of Agents**

The initial Principal Paying Agent, the Registrar, the Transfer Agent and the US Paying Agents are listed in these Conditions. The Issuer reserves the right, subject to the prior written approval of the Note Trustee, at any time to vary or terminate the appointment of the Principal Paying Agent, the Registrar, the Transfer Agent and the U.S. Paying Agent and to appoint additional or other Paying Agents. The Issuer will at all times maintain a Paying Agent with a Specified Office in London and a U.S. Paying Agent with a Specified Office in New York and a Registrar. Except where otherwise provided in the Note Trust Deed, the Issuer will cause at least 30 days' notice of any change in or addition to the Paying Agents, the Transfer Agent or the Registrar or their Specified Offices to be given in accordance with **Condition 14** and will notify the Rating Agencies of such change or addition. For as long as any Note is outstanding, the Issuer will endeavour to maintain 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.

### **6.5 No payment on non-Business Day**

Where payment is to be made by transfer to a Designated Account, payment instructions (for value the due date or, if the due date is not a Business Day, for value the next succeeding Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (a) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (b) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment

resulting from (i) the due date for a payment not being a Business Day or (ii) a cheque mailed in accordance with this **Condition 6.5** arriving after the due date for payment or being lost in the mail.

## **6.6 Partial Payment**

If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure and the Registrar will ensure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note, that a statement indicating the amount and date of such payment is endorsed on the relevant Note.

## **6.7 Record Date**

Each payment in respect of a Note will be made to the persons shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the **Record Date**). Where payment in respect of a Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the opening of business on the relevant Record Date.

## **6.8 Payment of Interest**

Subject as provided otherwise in these Conditions, if interest is not paid in respect of a Note of any Class on the date when due and payable (other than because the due date is not a Business Day) or by reason of non-compliance with **Condition 6.1**, then such unpaid interest shall itself bear interest at the Rate of Interest applicable from time to time to such Note until such interest and interest thereon are available for payment and notice thereof has been duly given in accordance with **Condition 14**.

## **7. PRESCRIPTION**

Claims against the Issuer for payment of interest and principal on redemption shall be prescribed and become void if the relevant Notes are not surrendered for payment within a period of 10 years from the relevant date in respect thereof. After the date on which a payment under a Note becomes void in its entirety, no claim may be made in respect thereof. In this **Condition 7**, the **relevant date**, in respect of a payment under a Note, is the date on which the payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of those payments under all the Notes due on or before that date has not been duly received by the Principal Paying Agent, the U.S. Paying Agent or the Note Trustee (as the case may be) on or prior to such date) the date on which the full amount of such monies having been so received or notice to that effect is duly given to Noteholders in accordance with **Condition 14**.

## **8. TAXATION**

All payments in respect of the Notes will be made without withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature unless the Issuer or any relevant Paying Agent is required by applicable law to make any payment in respect of the Notes subject to any such withholding or deduction. In that event, the Issuer or such Paying Agent shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted. Neither the Issuer nor any Paying Agent will be obliged to make any additional payments to Noteholders in respect of such withholding or deduction.

## **9. EVENTS OF DEFAULT**

### **9.1 Class A Noteholders**

The Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class A Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.1** means the Class A Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class A Notes shall), subject in each case to being indemnified and/or secured to its satisfaction,

give notice (a **Class A Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) declaring (in writing) the Class A Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events which is continuing or unwaived:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class A Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class A Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the Issuer failing duly to perform or observe any other obligation binding upon it under the Class A Notes of any Series, the Note Trust Deed, the Issuer Deed of Charge or any other Transaction Document and, in any such case (except where the Note Trustee certifies that, in its opinion, such failure is incapable of remedy, in which case no notice will be required), such failure is continuing unremedied for a period of 20 days following the service by the Note Trustee on the Issuer of notice requiring the same to be remedied and the Note Trustee has certified that the failure to perform or observe is *materially prejudicial to the interests of the Holders of the Class A Notes of such Series*; or
- (c) the Issuer, otherwise than for the purposes of such amalgamation or reconstruction as is referred to in subparagraph (d) below, ceases or threatens to cease to carry on its business or a substantial part of its business or the Issuer is deemed unable to pay its debts within the meaning of Section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as amended, modified or re-enacted) or becomes unable to pay its debts as they fall due or the value of its assets falls to less than the amount of its liabilities (taking into account for both these purposes its contingent and prospective liabilities) or otherwise becomes insolvent; or
- (d) an order being made or an effective resolution being passed for the winding-up of the Issuer except a winding-up for the purposes of or pursuant to an amalgamation, restructuring or merger the terms of which have previously been approved by the Note Trustee in writing or by an Extraordinary Resolution of the Holders of the Class A Notes; or
- (e) proceedings being otherwise initiated against the Issuer under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including, but not limited to, presentation of a petition for an administration order, the filing of documents with the court for an administration or the service of a notice of intention to appoint an administrator) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the sole opinion of the Note Trustee, being disputed in good faith with a reasonable prospect of success, or an administration order being granted or the appointment of an administrator takes effect or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the Issuer or in relation to the whole or any substantial part of the undertaking or assets of the Issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the Issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the Issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the Issuer initiating or consenting to the foregoing proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally or a composition or similar arrangement with the creditors or takes steps with a view to obtaining a moratorium in respect of its indebtedness, including without limitation, the filing of documents with the court; or



- (f) if an Intercompany Loan Acceleration Notice is served under the Intercompany Loan Agreement while the Class A Notes of any Series are outstanding.

### 9.2 Class B Noteholders

This **Condition 9.2** shall have no effect if, and for as long as, any Class A Notes of any Series are outstanding. Subject thereto, for so long as any Class B Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class B Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.2**, means the Class B Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class B Notes shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class B Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class B Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class B Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class B Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e)** or **(f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class B Notes.

### 9.3 Class M Noteholders

This **Condition 9.3** shall have no effect if, and for as long as, any Class A Notes or Class B Notes of any Series are outstanding. Subject thereto, for so long as any Class M Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class M Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.3**, means the Class M Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class M Notes shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class M Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class M Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class M Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class M Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e)** or **(f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d)** and **Condition 9.1(f)** to Class A Notes shall be read as references to Class M Notes.

### 9.4 Class C Noteholders

This **Condition 9.4** shall have no effect if, and for as long as, any Class A Notes, Class B Notes or Class M Notes of any Series are outstanding. Subject thereto, for so long as any Class C Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class C Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.4**, means the Class C Notes of all Series constituted by the Note Trust

Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class C Notes shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class C Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class C Notes and all other Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class C Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class C Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class C Notes.

#### **9.5 Class D Noteholders**

This **Condition 9.5** shall have no effect if, and for as long as, any Class A Notes, Class B Notes, Class M Notes or Class C Notes of any Series are outstanding. Subject thereto, for so long as any Class D Notes are outstanding, the Note Trustee in its absolute discretion may (and if so requested in writing by the Holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Class D Notes (which for this purpose and the purpose of any Extraordinary Resolution referred to in this **Condition 9.5**, means the Class D Notes of all Series constituted by the Note Trust Deed) or if so directed by or pursuant to an Extraordinary Resolution passed at a meeting of the Holders of the Class D Notes shall), subject in each case to it being indemnified and/or secured to its satisfaction, give notice (a **Class D Note Acceleration Notice**) to the Issuer, the Issuer Security Trustee and the Funding 1 Security Trustee of a Note Event of Default (as defined below) and declaring (in writing) the Class D Notes to be due and repayable (and they shall forthwith become due and repayable) at any time after the happening of any of the following events:

- (a) default being made for a period of three Business Days in the payment of any amount of principal of the Class D Notes of any Series when and as the same ought to be paid in accordance with these Conditions or default being made for a period of three Business Days in the payment of any amount of interest on the Class D Notes of any Series when and as the same ought to be paid in accordance with these Conditions; or
- (b) the occurrence of any of the events in **Condition 9.1(b), (c), (d), (e) or (f)** above provided that the references in **Condition 9.1(b), Condition 9.1(d) and Condition 9.1(f)** to Class A Notes shall be read as references to Class D Notes.

#### **9.6 Following Service of a Note Acceleration Notice**

In these Conditions, a **Note Acceleration Notice** means any of the Class A Note Acceleration Notice, the Class B Note Acceleration Notice, the Class M Note Acceleration Notice, the Class C Note Acceleration Notice and the Class D Note Acceleration Notice. For the avoidance of doubt, upon any Note Acceleration Notice being given by the Note Trustee in accordance with **Condition 9.1, 9.2, 9.3, 9.4 or 9.5** all Notes shall immediately become due, without further action, notice or formality at their Principal Amount Outstanding together with accrued interest (or, in the case of a Zero Coupon Note, at its Redemption Amount, calculated in accordance with **Condition 5.7**).

### **10. ENFORCEMENT OF NOTES**

#### **10.1 Enforcement**

The Note Trustee may, at its discretion and without notice at any time and from time to time, take such steps and institute such proceedings against the Issuer or any other person as it may think fit to enforce the provisions of the Notes, the Note Trust Deed (including these Conditions) or

any of the other Transaction Documents to which it is a party and the Note Trustee may, at its discretion at any time after the Issuer Security has become enforceable (including after the service of a Note Acceleration Notice in accordance with **Condition 9**), instruct the Issuer Security Trustee to take such steps as it may think fit to enforce the Issuer Security. The Note Trustee shall not be bound to take such steps or institute such proceedings or give such instructions unless:

- (a) (subject in all cases to restrictions contained in the Note Trust Deed to protect the interests of any higher ranking Class of Noteholders) it shall have been so directed by an Extraordinary Resolution of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders, the Class C Noteholders or the Class D Noteholders (which for this purpose means the Holders of all Series of the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes or the Class D Notes (as applicable)) or so requested in writing by the Holders of at least one quarter in aggregate Principal Amount Outstanding of the Class A Notes, Class B Notes, Class M Notes, Class C Notes or Class D Notes (as applicable) of all Series; and
- (b) it shall have been indemnified and/or secured to its satisfaction.

The Issuer Security Trustee shall not be bound to and shall not take such steps or take any such other action unless it is so directed by the Note Trustee and indemnified and/or secured to its satisfaction.

Amounts available for distribution after enforcement of the Issuer Security shall be distributed in accordance with the terms of the Issuer Deed of Charge.

No Noteholder may institute any proceedings against the Issuer to enforce its rights under or in respect of the Notes, the Note Trust Deed or the Issuer Deed of Charge unless (i) the Note Trustee or the Issuer Security Trustee, as applicable, has become bound to institute proceedings and has failed to do so within 30 days of becoming so bound and (ii) such failure is continuing; provided that, no Class B Noteholder, Class M Noteholder, Class C Noteholder or Class D Noteholder will be entitled to commence proceedings for the winding up or administration of the Issuer unless there are no outstanding Notes of a Class with higher priority, or if Notes of a class with higher priority are outstanding, there is consent of Noteholders of not less than one quarter of the aggregate principal amount of the Notes outstanding (as defined in the Note Trust Deed) of the Class or Classes of Notes with higher priority or pursuant to an Extraordinary Resolution of the Holders of such Class of Notes. Notwithstanding the foregoing and notwithstanding any other provision of the Note Trust Deed, the right of any Noteholder to receive payment of principal and interest on its Notes on or after the due date for such principal or interest, or to institute suit for the enforcement of payment of that principal or interest, may not be impaired or affected without the consent of that Noteholder.

## 10.2 Post-Enforcement Call Option

In the event that:

- (a) the Issuer Security is enforced and the Issuer Security Trustee determines that (i) the proceeds of such enforcement, after distribution of such proceeds to the persons entitled thereto ranking in priority to the Notes under the Issuer Deed of Charge and to the Noteholders (to the extent entitled thereto), are insufficient to pay in full all principal and interest and other amounts whatsoever due in respect of the Notes and all other claims ranking *pari passu* therewith (ii) such proceeds of enforcement have been so distributed in accordance with the terms of the Issuer Deed of Charge and (iii) there are no further assets available to pay principal and interest and other amounts whatsoever due in respect of the Notes; or
- (b) within 20 days following the Final Maturity Date of the latest maturing Note, the Issuer Security Trustee certifies that there is no further amount outstanding under the Intercompany Loan Agreement,

then the Note Trustee is required (without any liability on its part to any person or any warranty as to due authority), at the request of the Post-Enforcement Call Option Holder, for a nominal amount, to transfer or (as the case may be) procure transfer of all (but not some only) of the Notes to the

Post-Enforcement Call Option Holder pursuant to the option granted to it by the Note Trustee (as agent for the Noteholders) under the terms of the Post-Enforcement Call Option Agreement. Immediately upon such transfer, no such former Noteholder shall have any further interest in the Notes. Each of the Noteholders acknowledges that the Note Trustee has the authority and the power to bind the Noteholders in accordance with the terms and conditions set out in the Post-Enforcement Call Option Agreement and each Noteholder, by subscribing for or purchasing Notes, agrees to be so bound. The Note Trustee shall give notice of the exercise of such option to the Noteholders in accordance with **Condition 14**.

## **11. MEETINGS OF NOTEHOLDERS, MODIFICATIONS AND WAIVER**

### **11.1 Meetings of Noteholders**

The Note Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provision of these Conditions or the provisions of any of the Transaction Documents.

#### **(a) Class A Notes**

In respect of the Class A Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class A Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class A Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class A Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class A Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class A Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class A Notes, it shall be passed at separate meetings of the Holders of each such Class of Class A Notes.

#### **(b) Class B Notes**

In respect of the Class B Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class B Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class B Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class B Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class B Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class B Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class B Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class B Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class B Notes, it shall be passed at separate meetings of the Holders of each such Class of Class B Notes.

**(c) Class M Notes**

In respect of the Class M Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class M Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class M Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class M Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class M Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class M Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class M Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class M Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class M Notes, it shall be passed at separate meetings of the Holders of each such Class of Class M Notes.

**(d) Class C Notes**

In respect of the Class C Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class C Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class C Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class C Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class C Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class C Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class C Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class C Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class C Notes, it shall be passed at separate meetings of the Holders of each such Class of Class C Notes.

**(e) Class D Notes**

In respect of the Class D Notes, the Note Trust Deed provides that, subject to **Condition 11.2**:

- (i) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class D Notes of one Class only shall be deemed to have been duly passed if passed at a meeting of the Holders of the Class D Notes of that Class;
- (ii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class D Notes of any two or more Classes but does not give rise to a conflict of interest between the Holders of any such two or more Classes of Class D Notes, shall be deemed to have been duly passed if passed at a single meeting of the Holders of such two or more Classes of Class D Notes; and
- (iii) a resolution which, in the sole opinion of the Note Trustee, affects the interests of the Holders of the Class D Notes of any two or more Classes and gives or may give rise to a conflict of interest between the Holders of any such Classes of Class D Notes, shall be deemed to have been duly passed only if, in lieu of being passed at a single meeting of the Holders of such two or more Classes of Class D Notes, it shall be passed at separate meetings of the Holders of each such Class of Class D Notes.

The quorum for any meeting of the Holders of any Series and Class of Notes or of any Class of Notes of more than one Series convened to consider a resolution (except for the purpose of

passing an Extraordinary Resolution or a Programme Resolution) will be one or more persons holding or representing not less than one-twentieth of the aggregate Principal Amount Outstanding of such Series and Class of Notes or such Class of Notes of more than one Series or, at any adjourned meeting, one or more persons being or representing Noteholders of such Series and Class of Notes or such Class of Notes for the time being outstanding of more than one Series, whatever the aggregate Principal Amount Outstanding of the relevant Notes for the time being outstanding so held or represented. A **resolution** means a resolution (excluding an Extraordinary Resolution or a Programme Resolution) passed at a meeting of Noteholders duly convened and held in accordance with the provisions of the Note Trust Deed by a simple majority of the persons voting thereat upon a show of hands or if a poll is duly demanded by a simple majority of the votes cast on such poll.

Subject as provided in the following paragraph, the quorum at any meeting of the Holders of any Series and Class of Notes or of any Class of Notes of more than one Series of Notes convened to consider an Extraordinary Resolution will be one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of such Series and Class of Notes or such Class of Notes of more than one Series or, at any adjourned meeting, one or more persons being or representing Noteholders of such Series and Class of Notes or such Class of Notes of more than one Series of Notes, whatever the aggregate Principal Amount Outstanding of the relevant Notes so held or represented.

The quorum at any meeting of the Noteholders for passing an Extraordinary Resolution which includes the sanctioning of a modification which would have the effect of altering the amount or timing of payments of principal on the Notes of such Series and Class or of such Class or the rate, the day or the timing of payments of interest thereon or of the currency of payment of the Notes of such Series and Class or of such Class or altering the priority of payments or altering the quorum or majority required in relation to any resolution (each a **Basic Terms Modification**, as more fully defined in the Note Trust Deed) shall be one or more persons holding or representing not less than 75 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Series and Class or of the Class of Notes of more than one Series of Notes or, at any adjourned and reconvened meeting, not less than 25 per cent. of the aggregate Principal Amount Outstanding of the Notes of the relevant Series and Class or of the Class of Notes of more than one Series of Notes.

An Extraordinary Resolution passed at any meeting of Noteholders shall be binding on all of the Noteholders of the relevant Series and Class or of the Class of Notes of more than one Series of Notes whether or not they are present or represented at the meeting.

In connection with any meeting of Noteholders where the relevant Notes (or any of them) are not denominated in Sterling, the Principal Amount Outstanding of any Note not denominated in Sterling shall be converted into Sterling at the relevant Specified Currency Exchange Rate.

A resolution signed by or on behalf of all the Noteholders of the relevant Series and Class or of the relevant Class of more than one Series of Notes who for the time being are entitled to receive notice of a meeting under the Note Trust Deed shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Holders of such Series and Class or of the relevant Class of more than one Series of Notes.

## **11.2 Programme Resolution**

Notwithstanding the provisions of **Condition 11.1**, any Extraordinary Resolution of the Noteholders of any Class to direct the Note Trustee to give a Note Acceleration Notice pursuant to **Condition 9** or take any enforcement action or instruct the Issuer Security Trustee to enforce the Issuer Security pursuant to **Condition 10** (a **Programme Resolution**) shall only be capable of being passed at a single meeting of the Noteholders of all Series of such Class of Notes. The quorum at any such meeting for passing a Programme Resolution shall be one or more persons holding or representing not less than 50 per cent. of the aggregate Principal Amount Outstanding of the Notes of such Class or, at any adjourned and reconvened meeting, one or more persons being or representing Noteholders of such Class of Notes, whatever the aggregate Principal Amount Outstanding of such Class of Notes so held or represented by them.

A Programme Resolution passed at any meeting of all Series of any Class of Notes shall be binding on all Noteholders of all Series of that Class of Notes, whether or not they are present or represented at the meeting.

### 11.3 Limitations on Noteholders

Subject as provided in **Condition 11.4**:

- (a) an Extraordinary Resolution of the Class A Noteholders of any Series shall be binding on all Class B Noteholders, all Class M Noteholders, all Class C Noteholders and all Class D Noteholders (in each case, of that Series or of any other Series);
- (b) no Extraordinary Resolution of the Class B Noteholders of any Series shall take effect for any purpose while any Class A Notes (of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class A Noteholders of any Series (as applicable) and subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class B Noteholders of any Series will be binding on the Class M Noteholders, the Class C Noteholders and the Class D Noteholders in each case, of that or of any other Series irrespective of the effect upon them;
- (c) no Extraordinary Resolution of the Class M Noteholders of any Series shall take effect for any purpose while any Class A Notes or Class B Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders and an Extraordinary Resolution of the Class B Noteholders, in each case of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders and/or the Class B Noteholders of any Series (as applicable) and subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class M Noteholders of any Series will be binding on the Class C Noteholders and the Class D Noteholders in each case, of that or of any other Series irrespective of the effect upon them;
- (d) no Extraordinary Resolution of the Class C Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes or Class M Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders and an Extraordinary Resolution of the Class M Noteholders, in each case of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders and/or the Class M Noteholders of any Series (as applicable) and subject hereto and to **Condition 11.4**, an Extraordinary Resolution of the Class C Noteholders of any Series will be binding on the Class D Noteholders of that or of any other Series irrespective of the effect upon them; and
- (e) no Extraordinary Resolution of Class D Noteholders of any Series shall take effect for any purpose while any Class A Notes, Class B Notes, Class M Notes or Class C Notes (in each case, of that Series or of any other Series) remain outstanding unless it shall have been sanctioned by an Extraordinary Resolution of the Class A Noteholders, an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders and an Extraordinary Resolution of the Class C Noteholders, in each case of each Series or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class A Noteholders, the Class B Noteholders, the Class M Noteholders and/or the Class C Noteholders of any Series (as applicable).

### 11.4 Approval of Modifications and Waivers by Noteholders

No Extraordinary Resolution of the Noteholders of any one or more Series of Class A Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of,

any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class B Noteholders, an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class B Noteholders, the Class M Noteholders, the Class C Noteholders and the Class D Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class B Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class M Noteholders, an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class M Noteholders, the Class C Noteholders and the Class D Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class M Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class C Noteholders and an Extraordinary Resolution of the Class D Noteholders, in each case of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the respective interests of the Class C Noteholders and the Class D Noteholders of any Series.

No Extraordinary Resolution of the Noteholders of any one or more Series of Class C Notes to sanction a modification of, or any waiver or authorisation of any breach or proposed breach of, any of the provisions of the Transaction Documents or the Conditions of the Notes shall take effect unless it has been sanctioned by an Extraordinary Resolution of the Class D Noteholders of each Series, or the Note Trustee is of the opinion that it would not be materially prejudicial to the interests of the Class D Noteholders of any Series.

#### **11.5 Modifications and Determinations by Note Trustee**

The Note Trustee, may, without the consent of the Noteholders:

- (a) agree to any modification (other than a Basic Terms Modification) of, or to the waiver or authorisation of any breach or proposed breach of, the Conditions of any Series and Class of Notes or any of the Transaction Documents which is not in the opinion of the Note Trustee, materially prejudicial to the interests of the Noteholders of any Series and Class of Notes; or
- (b) determine that any Note Event of Default shall not be treated as such provided that it is not in the opinion of the Note Trustee materially prejudicial to the interests of the Holders of the most senior Class of Notes then outstanding; or
- (c) agree to any modification (including a Basic Terms Modification) of these Conditions or any of the Transaction Documents which, in the opinion of the Note Trustee, is of a formal, minor or technical nature or is to correct a manifest error or proven error established as such to the satisfaction of the Note Trustee or is to comply with the mandatory provisions of law; or
- (d) agree to any modification of any of these Conditions or any Transaction Documents as expressly provided for in the Transaction Documents.

For the avoidance of doubt, the Note Trustee shall be entitled to assume, without further investigation or inquiry, that such modification, waiver, determination or authorisation will not be materially prejudicial to the interests of the Noteholders or any Class or Series thereof if each of the Rating Agencies rating the relevant Series and/or Class of Notes has confirmed in writing that the then current ratings of the applicable Series and/or Class of Notes would not be reduced, withdrawn or qualified by such modification, waiver, determination or authorisation. Any such modification, waiver, authorisation or determination shall be binding on the Noteholders and, unless



the Note Trustee agrees otherwise, any such modification shall be notified to the Noteholders and the Rating Agencies in accordance with **Condition 14** as soon as practicable thereafter.

#### **11.6 Redenomination**

The Note Trustee may agree, without the consent of the Holders of the Sterling Notes on or after the Specified Date (as defined below), to such modifications to the Sterling Notes and the Note Trust Deed in respect of redenomination of such Notes in euro and associated reconventioning, renominatisation and related matters in respect of such Notes as may be proposed by the Issuer (and confirmed by an independent financial institution approved by the Note Trustee to be in conformity with then applicable market conventions) and to provide for redemption at the euro equivalent of the Sterling principal amount of the Sterling Notes. For these purposes, **Specified Date** means the date on which the United Kingdom participates in the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union, or otherwise participates in European economic and monetary union in a manner with an effect similar to such third stage.

Any such modification shall be binding on the Holders of the Sterling Notes and, unless the Note Trustee agrees otherwise, any such modification shall be notified to such Noteholders in accordance with **Condition 14** as soon as practicable thereafter.

#### **11.7 Exercise of Note Trustee's Functions**

Where the Note Trustee is required, in connection with the exercise of its powers, trusts, authorities, duties and discretions under these Conditions or any Transaction Document, to have regard to the interests of the Noteholders of any Class, it shall have regard to the interests of such Noteholders as a class and, in particular but without prejudice to the generality of the foregoing, the Note Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for individual Noteholders resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Note Trustee shall not be entitled to require, and no Noteholder shall be entitled to claim, from the Issuer or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders.

### **12. INDEMNIFICATION OF THE NOTE TRUSTEE AND THE ISSUER SECURITY TRUSTEE**

The Note Trust Deed, the Issuer Deed of Charge and the Funding 1 Deed of Charge set out certain provisions for the benefit of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee. The following is a summary of such provisions and is subject to the more detailed provisions of the Note Trust Deed, the Issuer Deed of Charge and the Funding 1 Deed of Charge.

The Transaction Documents contain provisions governing the responsibility (and relief from responsibility) of the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee and providing for their indemnification in certain circumstances, including, among others, provisions relieving the Issuer Security Trustee, the Note Trustee and the Funding 1 Security Trustee from taking enforcement proceedings or enforcing the Issuer Security and/or the Funding 1 Security, as the case may be, unless indemnified to its satisfaction.

The Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee and their related companies are entitled to enter into business transactions with the Issuer, any member of the Alliance & Leicester's group of companies, the Issuer Cash Manager and/or the related companies of any of them and to act as note trustee or security trustee for the holders of any new notes and/or any other person who is a party to any Transaction Document or whose obligations are comprised in the Issuer Security or the Funding 1 Security and/or any of its subsidiary or associated companies without accounting for any profit resulting therefrom.

Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Issuer Security or the Funding 1 Security, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by clearing organisations or their

operators or by intermediaries such as banks, brokers or other similar persons on behalf of the Note Trustee or the Issuer Security Trustee or the Funding 1 Security Trustee, as applicable.

Furthermore, the Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee will be relieved of liability for making searches or other inquiries in relation to the assets comprising the Issuer Security and Funding 1 Security. The Note Trustee, the Issuer Security Trustee and the Funding 1 Security Trustee do not have any responsibility in relation to the legality and the enforceability of the trust arrangements and the related Issuer Security and Funding 1 Security. Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be obliged to take any action that might result in its incurring personal liabilities. Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee is obliged to monitor or investigate the performance of any other person under the Transaction Documents and is entitled to assume, until it has actual knowledge to the contrary, that all such persons are properly performing their duties, unless it receives express notice to the contrary.

Neither the Note Trustee, the Issuer Security Trustee nor the Funding 1 Security Trustee will be responsible for any deficiency that may arise because it is liable to tax in respect of the proceeds of any Issuer Security or any Funding 1 Security.

Law Debenture Trust Company of New York (the **Initial Trustee**) is acting as Note Trustee under the Note Trust Deed and as Issuer Security Trustee under the Issuer Deed of Charge and as Funding 1 Security Trustee under the Funding 1 Deed of Charge (and while doing so the Initial Trustee and any successor which acts in all such capacities are referred to in this Condition as the **Trustee**). No entity may act as a trustee in any such capacity unless it is also the Trustee or unless the Trustee agrees otherwise or unless the Trustee resigns its office as trustee in one or more of such capacities. In its capacity as Trustee, the Trustee will not be liable to any Noteholder for any loss which he may suffer by reason of any conflict which may arise between the interests of the Noteholders and any other person to whom the Trustee owes duties as a result of the Trustee acting in all such capacities.

Neither the Initial Trustee nor any of its successors has any responsibility to Noteholders, the Issuer Secured Creditors or the Funding 1 Secured Creditors for the validity, sufficiency or enforceability of the Issuer Security and the Funding 1 Security (which the Initial Trustee has not investigated) and shall accept such title and interest as any chargor or mortgagor has without responsibility for investing the same or any defect there may be therein. Neither the Initial Trustee nor any of its successors are responsible for monitoring the performance by any person of its obligations to the Issuer, Funding 1, any Further Funding Companies or any obligor and each may assume until it has actual knowledge to the contrary that such obligations are being duly performed.

### **13. REPLACEMENT OF NOTES**

If Definitive Notes are lost, stolen, mutilated, defaced or destroyed, the Noteholder can replace them at the Specified Office of any Paying Agent subject to all applicable laws and stock exchange requirements. The Noteholder will be required both to pay the expenses of producing a replacement and to comply with the Issuer's, the Registrar's and the Paying Agents' reasonable requests for evidence and indemnity.

If a Global Note is lost, stolen, mutilated, defaced or destroyed, the Issuer will deliver a replacement Global Note to the registered holder upon receipt of satisfactory evidence and surrender of any defaced or mutilated Global Note. A replacement will only be made upon payment of the expenses for a replacement and compliance with the Issuer's, Registrar's and Paying Agents' reasonable requests as to evidence and indemnity.

Defaced or mutilated Notes must be surrendered before replacements will be issued.

### **14. NOTICE TO NOTEHOLDERS**

#### **14.1 Publication of Notice**

Any notice to Noteholders shall be validly given if such notice is:

- (a) sent to them by first class mail (or its equivalent) or (if posted to a non-UK address) by airmail at the respective addresses on the Register; and

(b) published in *The Financial Times*;

or, if any of such newspaper set out above shall cease to be published or timely publication therein shall not be practicable, in a leading English language daily newspaper having general circulation in the United Kingdom provided that if, at any time, the Issuer procures that the information concerned in such notice shall be published on the Relevant Screen, publication in the newspaper set out above or such other newspaper or newspapers shall not be required with respect to such information.

#### **14.2 Date of Publication**

Any notices so published shall be deemed to have been given on the fourth day after the date of posting, or as the case may be, on the date of such publication or, if published more than once on different dates, on the first date on which publication shall have been made in the newspaper or newspapers in which (or on the Relevant Screen on which) publication is required.

#### **14.3 Global Notes**

While the Notes are represented by Global Notes, any notice to Noteholders will be validly given if such notice is provided in accordance with **Condition 14.1** or (at the option of the Issuer) if delivered to DTC (in the case of the Rule 144A Notes) or Euroclear and/or Clearstream, Luxembourg (in the case of the Reg S Notes) or (if specified in the applicable Final Terms) if delivered through any **Alternative Clearing System** specified therein. Any notice delivered to the DTC and/or Euroclear and/or Clearstream, Luxembourg and/or such Alternative Clearing System will be deemed to be given on the day of such delivery.

#### **14.4 Note Trustee's Discretion to Select Alternative Method**

The Note Trustee shall be at liberty to sanction some other method of giving notice to the Noteholders or any Series or Class or category of them if, in its opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchanges on which the Notes are then admitted for trading and provided that notice of such other method is given to the Noteholders in such manner as the Note Trustee shall require.

#### **15. NOTES ISSUES**

The Issuer shall (subject to satisfaction of the Issuance Tests) be at liberty, without the consent of the Noteholders, to create and issue Notes from time to time.

#### **16. RATING AGENCIES**

If:

- (a) a confirmation of rating or other response by a Rating Agency is a condition to any action or step under any Transaction Document; and
- (b) a written request for such confirmation or response is delivered to each Rating Agency by the Issuer (copied to the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable) and either one or more Rating Agency (each a **Non-Responsive Rating Agency**) indicates that it does not consider such confirmation or response necessary in the circumstances or within 30 days of delivery of such request elicits no confirmation or response and/or such request elicits no statement by such Rating Agency that such confirmation or response could not be given; and
- (c) at least one Rating Agency gives such a confirmation or response based on the same facts,

then such condition shall be deemed to be modified with respect to the facts set out in the request referred to in (b) so that there shall be no requirement for the confirmation or response from the Non-Responsive Rating Agency.

The Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall be entitled to treat as conclusive a certificate by any director, officer or

employee of the Issuer, Funding 1, the Seller, any investment bank or financial adviser acting in relation to the Notes as to any matter referred to in (b) in the absence of manifest error or the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, having facts contradicting such certificates specifically drawn to his attention and the Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee, as applicable, shall not be responsible for any loss, liability, costs, damages, expenses or inconvenience that may be caused as a result.

#### **17. GOVERNING LAW AND JURISDICTION**

The Transaction Documents and the Notes are governed by English law unless specifically stated to the contrary. Certain provisions in the Transaction Documents relating to property situated in Scotland are governed by Scots law. Certain provisions in the Transaction Documents relating to property situated in Northern Ireland are governed by Northern Irish law. Unless specifically stated to the contrary:

- (a) the courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and the Transaction Documents; and
- (b) the Issuer and the other parties to the Transaction Documents irrevocably submit to the non-exclusive jurisdiction of the courts of England.

#### **18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999, but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

#### **19. DEFINITIONS**

Unless otherwise defined in these Conditions or unless the context otherwise requires, in these Conditions the following words shall have the following meanings and any other capitalised terms used in these Conditions shall have the meanings ascribed to them or incorporated in the Note Trust Deed or the Master Definitions and Construction Schedule. The provisions of **Clause 2** (Interpretation and Construction) of the Master Definitions and Construction Schedule are incorporated into and shall apply to these Conditions.

**Additional Business Centre** means, in respect of any Series and Class of Notes, each place specified as such for such Notes in the applicable Final Terms;

**Agents** means the Paying Agents, the Transfer Agent, the Registrar and the Agent Bank;

**Agent Bank** means Citibank, N.A., in its capacity as agent bank at its Specified Office or such other person for the time being acting as agent bank under the Paying Agent and Agent Bank Agreement;

**Alliance & Leicester** means Alliance & Leicester plc (registered number 03263713), a public limited company incorporated under the laws of England and Wales, whose registered office is at Carlton Park, Narborough, Leicester LE19 0AL;

**Basel II Framework** means the regulatory capital framework described in the Basel Committee on Banking Supervision's publication, Basel II: The International Convergence of Capital Measurement and Capital Standards: a Revised Framework;

**Broken Amount** means, in respect of any Series and Class of Notes, the amount specified as such (if any) for such Notes in the applicable Final Terms;

**Business Day** means a day that is a London Business Day, a New York Business Day and a TARGET Business Day;

**Cash Management Agreement** means the cash management agreement entered into on the Initial Closing Date between the Cash Manager, the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (as the same may be amended and/or supplemented from time to time);

**Cash Manager** means Alliance & Leicester acting, pursuant to the Cash Management Agreement, as agent for the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (amongst others) to, *inter alia*, manage all cash transactions and maintain certain ledgers on behalf of the Mortgages Trustee, Funding 1 and the Funding 1 Security Trustee (which expression shall include such other person as may be appointed from time to time as Cash Manager pursuant to the Cash Management Agreement);

**Class** or **class** means, in relation to the Notes of any Series and the Noteholders, the Class A Notes, the Class B Notes, the Class M Notes, the Class C Notes or the Class D Notes, as the context requires, and the respective holders thereof;

**Class A Noteholders** means the Holders of the Class A Notes;

**Class A Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class B Noteholders** means the Holders of the Class B Notes;

**Class B Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class C Noteholders** means the Holders of the Class C Notes;

**Class C Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class D Noteholders** means the Holders of the Class D Notes;

**Class D Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

**Class M Noteholders** means the Holders of the Class M Notes;

**Class M Notes** means Notes of any Series designated as such (or a sub-class of such) in the applicable Final Terms;

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

**Closing Date** has the meaning given to it in the applicable Final Terms;

**Conditional Purchaser** means, in respect of any Series and Class of Remarketable Notes, the Conditional Purchaser specified in the applicable Final Terms;

**Conditional Purchaser Confirmation** means, in respect of any Series and Class of Remarketable Notes, the confirmation given by the Remarketing Agent or the Tender Agent to the Issuer and the Principal Paying Agent that the Conditional Purchaser has purchased an interest in or has had transferred to it or on its behalf an interest in all such Remarketable Notes;

**Corporate Services Agreement** means the agreement dated the Initial Closing Date between (amongst others) the Corporate Services Provider, Funding 1, Holdings, Alliance & Leicester and the Funding 1 Security Trustee for the provision by the Corporate Services Provider of certain *corporate services and personnel to Funding 1 and Holdings (as the same may be amended and/or supplemented from time to time)*;

**Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to Funding 1 and Holdings under the Corporate Services Agreement;

**Dealers** means the institutions specified as such in the applicable Final Terms;

**Definitive Notes** means the note certificates representing the Notes while in definitive form;

**Designated Account** means the account maintained by a Holder with a Designated Bank and identified as such in the Register;

**Designated Bank** means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency and (in the case of a payment in euro) any bank which processes payments in euro;

**Determination Date** means, in respect of any Series and Class of Notes, the date(s) specified as such (if any) for such Notes in the applicable Final Terms;

**Dollars, U.S.\$, U.S. Dollars or \$** means the lawful currency for the time being of the United States of America;

**DTC** means The Depository Trust Company;

**EURIBOR** means the Euro-zone inter-bank offered rate;

**Euro, euro or €** means the currency of the member states of the European Union that adopt the single currency in accordance with the Treaty of Rome of 25 March 1957, establishing the European Community, as amended from time to time;

**Euroclear** means Euroclear Bank S.A./N.V.;

**Extraordinary Resolution** means a resolution passed at a meeting of the Noteholders of a particular Class, Series or Series and Class duly convened and held in accordance with the provisions of the Note Trust Deed by a majority consisting of not less than three-fourths of the persons voting thereat upon a show of hands or if a poll is duly demanded by a majority consisting of not less than three-fourths of the votes cast on such poll;

**FSA** means the Financial Services Authority;

**Final Maturity Date** means, in respect of any Series and Class of Notes, the date specified as such for such Notes in the applicable Final Terms;

**Final Terms** means, in relation to any Series of Notes, the final terms issued in relation to such Series of Notes as a supplement to these Conditions and giving details of, *inter alia*, the amount and price of such Series of Notes and which forms a part of the prospectus in relation to such Series of Notes;

**Fixed Coupon Amount** means, in respect of any Series and Class of Notes, the amount specified as such (if any) for such Notes in the applicable Final Terms;

**Funding 1** means Fosse Funding (No. 1) Limited;

**Funding 1 Account Bank** means the bank at which the Funding 1 Bank Accounts are maintained from time to time (being, as at the Initial Closing Date, Alliance & Leicester acting through its offices at Carlton Park, Narborough, Leicester LE19 0AL and, thereafter, such other replacement account banks as Funding 1 may choose with the prior written approval of the Funding 1 Security Trustee in accordance with the Funding 1 Bank Account Agreement);

**Funding 1 Bank Account Agreement** means the agreement entered into on the Initial Closing Date between (amongst others) the Funding 1 Account Bank and Funding 1, which governs the operation of the Funding 1 Bank Accounts (as the same may be amended and/or supplemented from time to time);

**Funding 1 Bank Accounts** means the Funding 1 GIC Account and the Funding 1 Transaction Account and such other bank account(s) held in the name of Funding 1 with the approval of the Funding 1 Security Trustee from time to time;

**Funding 1 Deed of Charge** means the deed of charge entered into on the Initial Closing Date, as amended and restated from time to time, between, among others, Funding 1, the Funding 1 Security Trustee, the Issuer and the Note Trustee and each deed of accession or supplement entered into in connection therewith;

**Funding 1 GIC Account** means the account in the name of Funding 1 held at the Funding 1 Account Bank and maintained subject to the terms of the Funding 1 Bank Account Agreement and the Funding 1 Deed of Charge or such additional or replacement account as may for the time being be in place;

**Funding 1 Interest Payment Date** means, in relation to a Loan Tranche, the Quarter Dates specified in the Final Terms in each year (or, if such day is not a Business Day, the next succeeding Business Day) for so long as the Notes (other than the Monthly Payment Notes) issued by the Issuer have Quarterly Interest Payment Dates which correspond to the Quarterly Interest Payment Dates of the Notes (other than the Monthly Payment Notes) issued by the Issuer on the

Initial Closing Date and, thereafter, or following the occurrence of a Pass-Through Trigger Event, the 18th day of each calendar month in each year (or, if such day is not a Business Day, the next succeeding Business Day);

**Funding 1 Secured Creditors** means the Funding 1 Security Trustee, the Funding 1 Swap Provider, the Cash Manager, the Funding 1 Account Bank, the Seller, the Corporate Services Provider, each Start Up Loan Provider, the Issuer and any other entity that accedes to the terms of the Funding 1 Deed of Charge from time to time;

**Funding 1 Security** means the security created under the Funding 1 Deed of Charge;

**Funding 1 Security Trustee** means Law Debenture Trust Company of New York and its successors or any other security trustee under the Funding 1 Deed of Charge;

**Funding 1 Start-Up Loan Agreements** means the Funding 1 start-up loan agreement entered into on or about the Initial Closing Date between Funding 1, the Funding 1 Start-Up Loan Provider and the Funding 1 Security Trustee (as the same may be amended and/or supplemented from time to time) and each other start-up loan agreement entered into in connection with the issuance of a Series of Notes;

**Funding 1 Swap Agreement** means the ISDA Master Agreement and Schedule entered into on the Initial Closing Date between Funding 1, the Funding 1 Swap Provider and the Funding 1 Security Trustee and any confirmation documented thereunder from time to time between Funding 1, the Funding 1 Swap Provider and the Funding 1 Security Trustee (as each of the same may be amended, restated, novated or supplemented from time to time);

**Funding 1 Swap Provider** means Alliance & Leicester acting in its capacity as the Funding 1 Swap Provider pursuant to the Funding 1 Swap Agreement;

**Funding 1 Transaction Account** means the account in the name of Funding 1 held with the Funding 1 Account Bank and maintained subject to the terms of the Funding 1 Bank Account Agreement and the Funding 1 Deed of Charge or such additional or replacement account as may for the time being be in place;

**Funding Companies** means Funding 1 and each Further Funding Company (if any);

**Further Funding Company** means any funding entity (other than Funding 1) established in the future by Holdings;

**Global Notes** means the Rule 144A Global Notes and the Reg S Global Notes;

**Holdings** means Fosse (Master Issuer) Holdings Limited (registered number 5925689), a limited company incorporated under the laws of England and Wales, whose registered office is at 35 Great St. Helen's, London EC3A 6AP;

**Initial Closing Date** means 28 November 2006;

**Intercompany Loan** means, at any time, the aggregate of all Loan Tranches advanced under the Intercompany Loan Agreement;

**Intercompany Loan Agreement** means the loan agreement entered into on the Initial Closing Date between, amongst others, Funding 1, the Issuer and the Funding 1 Security Trustee;

**Interest Commencement Date** means, in respect of any Series and Class of Notes, the Closing Date of such Notes or such other date as may be specified as such for such Notes in the applicable Final Terms;

**Interest Determination Date** means the date two Business Days prior to each Interest Payment Date;

**Interest Payment Date** means, in respect of a Series and Class of Notes (other than Monthly Payment Notes), the Quarterly Interest Payment Dates and (in the case of Monthly Payment Notes) the Monthly Interest Payment Dates, subject, in each case, to the applicable Final Terms;

**ISDA Definitions** means the 2000 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Closing Date of the first Series of Notes;

**Issuer** means Fosse Master Issuer plc;

**Issuer Account Bank** means Alliance & Leicester or such other person for the time being acting as account bank to the Issuer under the Issuer Bank Account Agreement;

**Issuer Bank Accounts** means the Issuer Transaction Account, the Issuer Share Capital Account and any other account opened and maintained by the Issuer with the Issuer Account Bank pursuant to the Transaction Documents (including without limitation the Issuer GIC Account);

**Issuer Bank Account Agreement** means the bank account agreement entered into on the Initial Closing Date between the Issuer, the Issuer Cash Manager, the Issuer Account Bank and the Issuer Security Trustee;

**Issuer Cash Management Agreement** means the cash management agreement dated the Initial Closing Date between, amongst others, the Issuer Cash Manager, the Issuer and the Issuer Security Trustee;

**Issuer Cash Manager** means Alliance & Leicester or such other person or persons for the time being acting, under the Issuer Cash Management Agreement, as agent, *inter alia*, for the Issuer;

**Issuer Corporate Services Agreement** means the agreement entered into on or about the Initial Closing Date and made between (amongst others) the Issuer Corporate Services Provider and the Issuer for the provision by the Issuer Corporate Services Provider of certain corporate services and personnel to the Issuer (as the same may be amended, restated, supplemented, replaced and/or novated from time to time);

**Issuer Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the Issuer under the Issuer Corporate Services Agreement;

**Issuer Deed of Charge** means the deed of charge entered into on the Initial Closing Date, as amended and restated from time to time, between, among others, the Issuer and the Issuer Security Trustee and each deed of accession or supplement entered into in connection therewith;

**Issuer Priority of Payments** means the Issuer Pre-acceleration Revenue Priority of Payments, the Issuer Pre-acceleration Principal Priority of Payments, the Issuer Post-acceleration Principal Priority of Payments or the Issuer Priority of Payments following an intercompany loan acceleration notice, as the case may be, each as set out in the Issuer Cash Management Agreement or the Issuer Deed of Charge (as the case may be);

**Issuer Secured Creditors** means the Issuer Security Trustee, the Note Trustee, the Issuer Swap Providers, the Issuer Corporate Services Provider, the Issuer Account Bank, the Issuer Cash Manager, the Paying Agents, the Agent Bank, the Exchange Rate Agent, the Transfer Agent, the Registrar and the Noteholders and any new Issuer Secured Creditor who accedes to the Issuer Deed of Charge from time to time under a deed of accession or a supplemental deed;

**Issuer Security** means the security created by the Issuer pursuant to the Issuer Deed of Charge;

**Issuer Security Trustee** means Law Debenture Trust Company of New York and its successors or any other security trustee under the Issuer Deed of Charge;

**Issuer Swap Agreement** means the ISDA master agreements, schedules and confirmations relating to the currency and/or interest rate swaps to be entered into on or prior to each Closing Date, as amended, restated, supplemented, replaced and/or novated from time to time, between the Issuer, the applicable Issuer Swap Provider and the Issuer Security Trustee in connection with the Notes;

**Issuer Swap Providers** means in respect of a Series and Class of Notes, the institutions identified in the applicable Final Terms;

**LIBOR** means the London inter-bank offered rate;

**Loan** means each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all Further



Advances) due or owing with respect to that loan under the relevant Mortgage Conditions by a Borrower on the security of a Mortgage from time to time outstanding or, as the context may require, the Borrower's obligations in respect of the same;

**London Business Day** means a day (other than a Saturday or Sunday) on which banks are open for general business in London;

**Mandatory Transfer Date** means, in respect of any Series and Class of Remarketable Notes, the Interest Payment Date specified as such for such Remarketable Notes in the applicable Final Terms;

**Mandatory Transfer Price** means, in respect of any Series and Class of Remarketable Notes, the Principal Amount Outstanding of such Remarketable Notes on the relevant Mandatory Transfer Date following the application of Note Principal Payments on such date;

**Mandatory Transfer Termination Event** shall occur in respect of any Series and Class of Remarketable Notes if the Conditional Purchaser has purchased an interest in all such Remarketable Notes;

**Managers** means the entities specified as such in the applicable Final Terms;

**Margin** means, in respect of any Series and Class of Notes, the amount specified as such for such Notes in the applicable Final Terms and, in the case of Remarketable Notes, shall include the Reset Margin;

**Maximum Reset Margin** means, in respect of any Series and Class of Remarketable Notes, the amount specified as such for such Remarketable Notes in the applicable Final Terms;

**Maximum Rate of Interest** means, in respect of any Series and Class of Notes, the rate of interest specified as such for such Notes in the applicable Final Terms;

**Minimum Rate of Interest** means, in respect of any Series and Class of Notes, the rate of interest specified as such for such Notes in the applicable Final Terms;

**Money Market Notes** means Notes which will be "Eligible Securities" within the meaning of Rule 2a-7 under the United States Investment Company Act of 1940, as amended;

**Monthly Dates** means the 18th day of each calendar month in each year (or, if such day is not a Business Day, the next succeeding Business Day);

**Monthly Interest Payment Dates** means, in respect of any Monthly Payment Notes, the Monthly Dates specified in the applicable Final Terms for the payment of interest and/or principal subject, in each case, to the appropriate Business Day Convention, if any, specified in the applicable Final Terms;

**Monthly Payment Notes** means either Money Market Notes or any other Notes in respect of which Monthly Interest Payment Dates are specified in the applicable Final Terms;

**Mortgage Sale Agreement** means the mortgage sale agreement entered into on the Initial Closing Date and made between the Seller, Funding 1, the Mortgages Trustee and the Funding 1 Security Trustee in relation to the sale of Loans to the Mortgages Trustee from time to time, as amended and restated from time to time;

**Mortgages Trust Deed** means the mortgages trust deed entered into between (amongst others) the Mortgages Trustee, Funding 1 and the Seller on or about the Initial Closing Date, as amended and restated from time to time;

**Mortgages Trustee** means Fosse Trustee Limited (registered number 94410), a private company with limited liability incorporated in Jersey, Channel Islands, whose registered office is at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands;

**Mortgages Trustee Account Bank** means the bank at which the Mortgages Trustee GIC Account is maintained from time to time (being, as at the Initial Closing Date, Alliance & Leicester acting through its offices at Carlton Park, Narborough, Leicester LE19 0AL and, thereafter, such other replacement account bank as the Mortgages Trustee may appoint in accordance with the Transaction Documents);

**Mortgages Trustee Bank Account Agreement** means the agreement entered into on or about the Initial Closing Date between (amongst others) the Mortgages Trustee Account Bank; and the Mortgages Trustee which governs the operation of the Mortgages Trustee GIC Account (as the same may be amended and/or supplemented from time to time);

**Mortgages Trustee Corporate Services Agreement** means the agreement entered into on or about the Initial Closing Date between the Mortgages Trustee Corporate Services Provider, Alliance & Leicester and the Mortgages Trustee for the provision by the Mortgages Trustee Corporate Services Provider of certain corporate services to the Mortgages Trustee;

**Mortgages Trustee Corporate Services Provider** means Mourant & Co. Limited or such other person or persons for the time being acting as corporate services provider to the Mortgages Trustee under the Mortgages Trustee Corporate Services Agreement;

**Mortgages Trustee GIC Account** means the account in the name of the Mortgages Trustee maintained with the Mortgages Trustee Account Bank pursuant to the Mortgages Trustee Bank Account Agreement or such additional or replacement bank account of the Mortgages Trustee as may for the time being be in place;

**New York Business Day** means a day (other than a Saturday or a Sunday) on which banks are open for general business (including dealings in foreign currency) in the city of New York;

**Note Event of Default** means the occurrence of an event of default by the Issuer as specified in **Condition 9**;

**Note Trust Deed** means the trust deed entered into on the Initial Closing Date as amended and restated from time to time between the Issuer and the Note Trustee, and each supplemental deed entered into in connection therewith;

**Note Trustee** means Law Debenture Trust Company of New York and its successors or any further or other note trustee under the Note Trust Deed, as trustee for the Noteholders;

**Noteholders** means the Holders for the time being of the Notes;

**Notes** means any Global Notes or Definitive Notes;

**Pass-Through Trigger Event** means any of the following events:

- (a) a Trigger Event;
- (b) the service of a Note Acceleration Notice by the Note Trustee on the Issuer; or
- (c) the service of an Intercompany Loan Acceleration Notice by the Funding 1 Security Trustee on Funding 1;

**Paying Agent and Agent Bank Agreement** means the paying agent and agent bank agreement entered into on the Initial Closing Date between, among others, the Issuer, the Paying Agents, the Transfer Agent, the Registrar, the Agent Bank and the Issuer Security Trustee (as amended, restated, supplemented, replaced and/or novated from time to time);

**Paying Agents** means the Principal Paying Agent and the U.S. Paying Agent, together with any further or other paying agents for the time being appointed under the Paying Agent and Agent Bank Agreement;

**PECOH Corporate Services Provider** means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the Post Enforcement Call Option Holder under the PECOHO Corporate Services Agreement;

**Post-Enforcement Call Option Agreement** means the post-enforcement call option agreement entered into on the Initial Closing Date between the Issuer, the Post-Enforcement Call Option Holder and the Note Trustee;

**Post-Enforcement Call Option Holder or PECOHO** means Fosse PECOHO Limited;

**Post-Enforcement Call Option Holder Corporate Services Agreement or PECOHO Corporate Services Agreement** means the agreement entered into on the Initial Closing Date between (amongst others) the PECOHO Corporate Services Provider, PECOHO and the Note Trustee

for the provision by the PECO Corporate Services Provider of certain corporate services and personnel to PECO (as the same may be amended and/or supplemented from time to time);

**Principal Amount Outstanding** has the meaning indicated in **Condition 5.3**;

**Principal Paying Agent** means Citibank, N.A., in its capacity as principal paying agent at its Specified Office or such other person for the time being acting as principal paying agent under the Paying Agent and Agent Bank Agreement;

**Programme Agreement** means the agreement entered into on or around the Initial Closing Date, as amended from time to time, between (amongst others) the Issuer, and the Dealers named therein (or deemed named therein);

**Quarter Dates** means the 18th day of any of the following dates as specified in the Final Terms for the payment of interest and/or principal on the Notes and any corresponding Loan Tranche:

- (a) January, April, July and October; or
- (b) February, May, August and November; or
- (c) March, June, September and December;

**Quarterly Interest Payment Dates** means, in respect of a Series and Class of Notes (other than Monthly Payment Notes), the Quarter Dates specified in the Final Terms for the payment of interest and/or principal until the occurrence of a Pass-Through Trigger Event and, following such occurrence, the Monthly Dates, subject, in each case, to the appropriate Business Day Convention, if any, specified in the applicable Final Terms;

**Rate of Interest and Rates of Interest** means, in respect of any Series and Class of Notes, the rate or rates (expressed as a percentage per annum) of interest payable in respect of such Notes specified in the applicable Final Terms or calculated and determined in accordance with the applicable Final Terms;

**Rating Agencies** means Standard & Poor's Rating Services, a division of The McGraw-Hill Companies Inc., Moody's Investors Service Limited and Fitch Ratings Ltd.;

**Reference Price** means, in respect of any Series and Class of Notes, the price specified as such for such Notes in the applicable Final Terms;

**Reference Rate** means, in respect of any Series and Class of Notes, the rate specified as such for such Notes in the applicable Final Terms;

**Reg S** means Regulation S under the United States Securities Act of 1933, as amended;

**Reg S Notes** means each Series and Class of Notes that are sold outside the United States to non-U.S. persons in reliance on Reg S;

**Reg S Global Notes** means the note certificates representing the Reg S Notes while in global form;

**Register** means the register of Noteholders kept by the Registrar and which records the identity of each Noteholder and the number of Notes that each Noteholder owns;

**Registrar** means Citibank, N.A., in its capacity as registrar at its Specified Office or such other person for the time being acting as registrar under the Paying Agent and Agent Bank Agreement;

**Relevant Screen** means a page of the Reuters service or Bloomberg service, or any other medium for electronic display of data as may be previously approved in writing by the Note Trustee and has been notified to Noteholders in the manner set out in **Condition 14**;

**Relevant Screen Page** means, in respect of any Series and Class of Notes, the screen page specified as such for such Notes in the applicable Final Terms;

**Remarketing Agent** means, in respect of any Series and Class of Remarketable Notes, the Remarketing Agent specified in the applicable Final Terms, or such other agent appointed to act as remarketing agent under the terms of the relevant Remarketing Agreement;

**Remarketing Agreement** means, in respect of any Series and Class of Remarketable Notes, the agreement between the Issuer and the Remarketing Agent pursuant to which the Remarketing Agent agrees to use reasonable efforts to identify third party purchasers for such Remarketable Notes on each Mandatory Transfer Date prior to the occurrence of a Mandatory Transfer Termination Event;

**Remarketable Notes** means any Series and Class of Notes identified as such in the applicable Final Terms;

**Repayment Tests** means Rules 1 and 2 under the Funding 1 Pre-acceleration principal priority of payments as set out in the Funding 1 Deed of Charge;

**Reset Margin** means, in respect of any Series and Class of Remarketable Notes, (i) for each Reset Period a percentage not exceeding the Maximum Reset Margin determined by the Remarketing Agent in accordance with the Remarketing Agreement or (ii) if the Remarketing Agreement has been terminated, the Maximum Reset Margin;

**Reset Period** means, in respect of any Series and Class of Remarketable Notes, the period commencing on the first Mandatory Transfer Date specified in the applicable Final Terms up to but excluding the next Mandatory Transfer Date and thereafter the period from each Mandatory Transfer Date up to but excluding the next Mandatory Transfer Date;

**Rule 144A Global Notes** means the note certificates representing the Rule 144A Notes while in global form;

**Rule 144A Notes** means each Series and Class of Notes which are sold in the United States only to qualified institutional buyers within the meaning of Rule 144A under the United States Securities Act of 1933, as amended;

**Scottish Declaration of Trust** means each declaration of trust in relation to Scottish Loans and their Related Security granted by the Seller in favour of the Mortgages Trustee pursuant to the Mortgage Sale Agreement;

**Scottish Loan** means a Loan secured by a standard security over a Property located in Scotland;

**Seller** means Alliance & Leicester;

**Series** means, in relation to the Notes, all Notes (of any Class) issued on a given day and designated as such;

**Series and Class** means a particular Class of Notes of a given Series or, where such Class of such Series comprises more than one sub-class, **Series and Class** means any sub-class of such Class;

**Servicer** means Alliance & Leicester, or such other person as may from time to time be appointed as servicer of the Portfolio pursuant to the Servicing Agreement;

**Servicing Agreement** means the agreement entered into on the Initial Closing Date between the Servicer, the Mortgages Trustee, the Funding 1 Security Trustee, Funding 1, and the Seller pursuant to which the Servicer agrees to administer the Loans and their Related Security comprised in the Portfolio (as the same may be amended, supplemented, replaced and/or novated from time to time);

**Specified Currency** means, in respect of any Series and Class of Notes, the currency or currencies specified as such for such Notes in the applicable Final Terms;

**Specified Currency Exchange Rate** means, in relation to a Series and Class of Notes, the exchange rate specified in the Issuer Swap Agreement relating to such Series and Class of Notes or, if the Issuer Swap Agreement has been terminated, the applicable spot rate;

**Specified Denomination** means, in respect of any Series and Class of Notes, the denomination specified as such for such Notes in the applicable Final Terms which shall be in the case of Rule 144A Notes a minimum of \$100,000 (or its equivalent in any other currency as at the date of issue of such Notes) and in the case of Reg S Notes a minimum of £50,000 if denominated in sterling (or, in the case of notes denominated in sterling with a minimum maturity of less than

366 days, £100,000) or €50,000 or more (or its equivalent in any other currency as at the date of issue of such Notes) if denominated in a currency other than sterling;

**Specified Office** means, as the context may require, in relation to any of the Agents, the office specified against the name of such Agent in the Paying Agent and Agent Bank Agreement or such other specified office as may be notified to the Issuer and the Note Trustee pursuant to the Paying Agent and Agent Bank Agreement;

**Step-Up Date** means:

- (a) in respect of any Loan Tranche, the Funding 1 Interest Payment Date on which the interest rate payable in respect of the relevant Loan Tranche made under the Intercompany Loan increases by a pre-determined amount; and
- (b) in respect of any Notes, the date on which the interest rate payable by the Issuer in respect of those Notes increases by a pre-determined amount;

**Sterling, Pounds Sterling or £** means the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland;

**Sterling Notes** means each Series and Class of Notes denominated in Sterling;

**Subscription Agreement** means an agreement supplemental to the Programme Agreement in or substantially in the form set out in the Programme Agreement or such other form as may be agreed between the Issuer, Managers and the Dealers;

**sub-Unit** means, with respect to any currency other than Sterling, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to Sterling, one pence;

**TARGET Business Day** means a day on which the Trans-European Automated Real-time Gross settlement Express (TARGET) system is open;

**Tender Agent** means, in respect of any Series and Class of Remarketable Notes, the Tender Agent specified in the applicable Final Terms;

**Transaction Documents** means the Cash Management Agreement, the Funding 1 Bank Account Agreement, the Corporate Services Agreement, the Controlling Beneficiary Deed, the Funding 1 Deed of Charge, each Funding 1 Deed of Charge Deed of Accession, the Funding 1 Swap Agreement, the Intercompany Loan Agreement, the Issuer Deed of Charge, each Issuer Deed of Charge Deed of Accession, the Master Definitions and Construction Schedule, the Issuer Bank Account Agreement, the Issuer Cash Management Agreement, the Issuer Corporate Services Agreement, the Issuer Master Definitions and Construction Schedule, each Issuer Swap Agreement and any related Issuer Swap Guarantees, the Mortgage Sale Agreement, the Mortgages Trust Deed, the Mortgages Trustee Bank Account Agreement, the Mortgages Trustee Corporate Services Agreement, the Post-Enforcement Call Option Holder Corporate Services Agreement, the Paying Agent and Agent Bank Agreement, the Post-Enforcement Call Option Agreement, the Programme Agreement, each Scottish Declaration of Trust, the Servicing Agreement, each Funding 1 Start-Up Loan Agreement, each Subscription Agreement, the Note Trust Deed, each Loan Tranche Supplement, each Conditional Purchase Agreement, each Remarketing Agreement, any other deeds of accession or supplemental deeds relating to any such documents and any other agreement or document from time to time designated as such by the Issuer and Note Trustee and/or the Issuer Security Trustee and/or the Funding 1 Security Trustee.

**Transfer Agent** means Citibank, N.A., in its capacity as transfer agent at its Specified Office or such other person for the time being acting as transfer agent under the Paying Agent and Agent Bank Agreement;

**USD-LIBOR** means the London inter-bank offered rate for deposits in U.S. dollars; and

**U.S. Paying Agent** means Citibank, N.A., acting in its capacity as U.S. paying agent through its New York office or such other person for the time being acting as U.S. paying agent under the Paying Agent and Agent Bank Agreement.

## **MATERIAL LEGAL ASPECTS OF THE LOANS AND THEIR RELATED SECURITY**

*The following discussion is a summary of the material legal aspects of English, Northern Irish and Scottish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law.*

### **English Loans**

#### **General**

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each English loan will be secured by a mortgage which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the seller's mortgage in priority.

#### **Nature of property as security**

There are two forms of title to land in England and Wales: registered and unregistered. Both systems of title can include both freehold and leasehold land.

#### **Registered title**

Title to registered land is registered at the Land Registry. Each parcel of land is given a unique title number. Prior to 13 October 2003, title to the land was established by a land certificate or (in the case of land which is subject to a mortgage or charge) charge certificate containing official copies of the entries on the register relating to that land. However, pursuant to the Land Registration Act 2002, which came into force on 13 October 2003, the provision of land certificates and charge certificates has now been abolished. Title to land is now established by reference to entries on the registers held by the Land Registry.

There are four classes of registered title. The most common is title absolute. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act 2002 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

#### **Unregistered title**

All land in England and Wales is now subject to compulsory registration on the occurrence of any of a number of trigger events, which includes the granting of a first legal mortgage. However, a small proportion of land in England and Wales (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights would have to be registered at the Central Land Charges Registry in order to be effective against a subsequent purchaser of the land.

#### **Taking security over land**

Where land is registered, a mortgagee must register its mortgage at the Land Registry in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is

governed by the date of registration of the mortgage rather than date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register his mortgage. If the mortgagee submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the mortgagee protects its interest by retaining possession of the title deeds to the property. Without the title deeds to the property, the borrower is unable to establish the necessary chain of ownership, and is therefore effectively prevented from dealing with its land without the consent of the mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds, and, in relation to subsequent mortgages, by the registration of a land charge.

### ***The seller as mortgagee***

The sale of the English mortgages by the seller to the mortgages trustee will take effect in equity only. The mortgages trustee will not apply to the Land Registry or the Central Land Charges Registry to register or record its equitable interest in the mortgages. The consequences of this are explained in **Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above.

### ***Enforcement of mortgages***

If a borrower defaults under a loan, the English mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the English mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.
- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, because of procedural constraints, rarely used.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Law of Property Act 1925. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

A court order under Section 126 of the CCA is necessary to enforce a land mortgage in certain circumstances as described under **“Risk factors – Certain regulatory considerations”** above.

## **Scottish loans**

### ***General***

A standard security is the only means of creating a fixed charge over heritable or long leasehold property in Scotland. Its form must comply with the requirements of the Conveyancing and Feudal Reform (Scotland) Act 1970 (the **1970 Act**). There are two parties to a standard security. The first party is the grantor, who is the borrower and homeowner. The grantor grants the standard security over its property (and is generally the only party to execute the standard security). The second party is the grantee of the standard security, who is the lender and is called the heritable creditor. Each Scottish loan will be secured by a standard security which has a first ranking priority over all other standard securities secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent standard security over the relevant

property without the consent of the seller. Upon intimation to the seller (in its capacity as trustee for the mortgages trustee pursuant to the relevant Scottish declaration of trust) of any subsequent standard security the prior ranking of the seller's standard security shall be restricted to security for advances made prior to such intimation and advances made subsequent to such intimation which the seller or the mortgages trustee is obliged to advance, and for interest and expenses in respect thereof.

The 1970 Act automatically imports a statutory set of "**Standard Conditions**" into all standard securities, although the majority of these may be varied by agreement between the parties. The seller, along with most major lenders in the residential mortgage market in Scotland, has elected to vary the Standard Conditions by means of its own set of Scottish mortgage conditions, the terms of which are in turn imported into each standard security. The main provisions of the Standard Conditions which cannot be varied by agreement relate to redemption and enforcement, and in particular to the notice and other procedures that are required to be carried out prior to the exercise of the heritable creditor's rights on a default by the borrower.

### ***Nature of property as security***

While title to all land in Scotland is registered there are currently two possible forms of registration, namely the Land Register and the Sasine Register. Both systems of registration can include both heritable (the Scottish equivalent to freehold) and long lease land.

### ***Land Register***

This system of registration was established by the Land Registration (Scotland) Act 1979 and now applies to the whole of Scotland. Any sale of land (including a long lease interest in land) the title to which has not been registered in the Land Register or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Land Register, when it is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the Land Register relating to that land. Similarly, the holder of any standard security over the land in question receives a charge certificate containing official copies of the entries relating to that security. A person registered in the Land Register owns the land free from all interests other than those entered on the Register, those classified as overriding interests and any other interests implied by law.

The land certificate will reveal the present owners of the land, together with any standard securities and other interests (other than certain overriding interests) affecting the land. The land certificate will also contain a plan indicating the location and extent of the land. While this plan is not in all circumstances conclusive as to the extent of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless the statutory indemnity in respect of such amendments has been expressly excluded in the land certificate itself.

### ***Sasine Register***

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register is recorded in the General Register of Sasines. Title to such land is proved by establishing a chain of documentary evidence of title going back at least ten years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However, other rights (including standard securities) would have to be recorded in the Sasine Register in order to be effective against a subsequent purchaser of the land.

### ***Taking security over land***

A heritable creditor must register its standard security in the Land Register or the Sasine Register (as applicable) in order to perfect its security and to secure priority over any subsequent standard security. Until such registration occurs, a standard security will not be effective against a subsequent purchaser or the heritable creditor under another standard security over the property. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by their date of registration rather than their date of execution. There is no



equivalent in Scotland to the priority period system which operates in relation to registered land in England and Wales.

### ***The seller as heritable creditor***

The sale of the Scottish mortgages by the seller to the mortgages trustee on the first sale date will be given effect by a declaration of trust by the seller in favour of the mortgages trustee (and any further sale of Scottish mortgages in the future will be given effect by further declarations of trust), by which the beneficial interest in the Scottish mortgages will be transferred to the mortgages trustee. Such beneficial interest (as opposed to the legal title) cannot be registered in the Land Register or the Sasine Register. The consequences of this are explained in “**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**” above.

### ***Enforcement of mortgages***

If a borrower defaults under a Scottish loan, the Scottish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assignees would then be entitled to recover all outstanding principal, interest and fees under the obligation of the borrower contained in the Scottish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assignees may enforce its standard security in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following (all of which arise under the 1970 Act):

- The heritable creditor may enter into possession of the property. If it does so, it does so in its own right and not as agent of the borrower, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The heritable creditor may grant a lease of the property of up to seven years (or longer with the courts' permission) to third parties.
- The heritable creditor may sell the property, subject to various duties to ensure that the sale price is the best that can reasonably be obtained. The purchaser of a property sold pursuant to a heritable creditor's power of sale becomes the owner of the property.
- The heritable creditor may, in the event that a sale cannot be achieved, foreclose on the property. Under foreclosure procedures the borrower's title to the property is extinguished so that the heritable creditor becomes the owner of the property. However, this remedy is rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

A court order under Section 126 of the CCA is necessary to enforce a standard security in certain circumstances as described under “**Risk factors – Certain regulatory considerations**” above.

### ***Borrower's right of redemption***

Under Section 11 of the Land Tenure Reform (Scotland) Act 1974 the grantor of any standard security has an absolute right, on giving appropriate notice, to redeem that standard security once it has subsisted for a period of 20 years, subject only to the payment of certain sums specified in Section 11 of that Act. These specified sums consist essentially of the principal monies advanced by the lender, interest thereon and expenses incurred by the lender in relation to that standard security.

## **Northern Irish Loans**

### ***General***

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. The mortgagor grants the mortgage over its property (and is generally the only party to execute the mortgage). The second party is the mortgagee, who is the lender. Each Northern Irish loan will be secured by a mortgage which has a first ranking priority over all other mortgages

secured on the property and over all unsecured creditors of the borrower. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the seller, though such other mortgage or interest will rank below the seller's mortgage in priority but only to the extent of advances made by the seller prior to receipt of notice of the other mortgage together with interest and expenses in respect thereof.

### ***Nature of property as security***

There are two forms of title to land in Northern Ireland: registered and unregistered. Both systems of title can include both freehold and leasehold land.

### ***Registered title***

Title to registered land is registered at the Land Registry of Northern Ireland. Each parcel of land is given a unique title number. Title to the land is established by a land certificate containing official copies of the entries on the register relating to that land.

There are four classes of registered title namely Good Fee Farm Grant, Good Leasehold, Absolute (leasehold, freehold under a fee farm grant or fee simple) and a Qualified or Possessory class. The most common is title absolute although Good Fee Farm Grant and Good Leasehold titles are also common. A person registered with title absolute owns the land free from all interests other than those entered on the register and those classified as unregistered interests which override first registration and unregistered interests which override registered dispositions.

Title information documents provided by the Land Registry of Northern Ireland will reveal the present owner of the land, together with any legal charges and other interests affecting the land. However, the Land Registration Act (Northern Ireland) 1970 provides that some interests in the land will bind the land even though they are not capable of registration at the Land Registry of Northern Ireland such as unregistered interests which override first registration and unregistered interests which override registered dispositions. The title information documents will also contain a plan indicating the location of the land. However, this plan is not conclusive as to matters such as the location of boundaries.

### ***Unregistered title***

From 1 May 2003 all land in Northern Ireland is now subject to compulsory registration on the occurrence of any of a number of trigger events, which does not include the granting of a first legal mortgage alone. A substantial proportion of land in Northern Ireland (typically where the land has been in the same ownership for a number of years) is still unregistered. Title to all land in Northern Ireland where no event has occurred to trigger registration at the Land Registry of Northern Ireland is registered at the Registry of Deeds. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 15 years. Where the land is affected by third party rights, some of those rights can be proved by documentary evidence or by proof of continuous exercise of the rights for a prescribed period and do not require registration. However other rights would have to be registered at the Registry of Deeds in order to be effective against a subsequent purchaser of the land.

### ***Taking security over registered land***

The position in relation to further advances where the security is taken over registered land is governed by Section 43(1) of the Land Registration Act 1970. Borrowers may create a subsequent mortgage or other secured interest over the relevant property without the consent of the lender, though such other mortgage or interest will rank below the lender's mortgage in priority but only to the extent of further advances made by the lender prior to receipt of notice of the other mortgage (together with interest and expenses in respect thereof). Thus a mortgagee (i.e. a lender) must register its mortgage at the Land Registry of Northern Ireland in order to secure priority over any subsequent mortgagee. Prior to registration, the mortgage will take effect only as an equitable mortgage or charge. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than the date of creation. However, a prospective mortgagee is able to obtain a priority period within which to register its mortgage. The priority period is 40 days and a priority search may only be lodged if the mortgagee is in contract to lend. If the mortgagee

submits a proper application for registration during this period, its interest will take priority over any application for registration of another interest which is received by the Land Registry of Northern Ireland during this priority period.

### ***Taking security over unregistered land***

In the system of unregistered land, a mortgagee (i.e. a lender) must register its mortgage at the Registry of Deeds in order to secure priority over a subsequent mortgagee. Priority of mortgages over unregistered land is governed by the date of registration of the mortgage rather than the date of creation unless there is actual notice of a prior unregistered mortgage. There is no equivalent priority period system which operates in relation to registered land.

The position regarding priority of security for further advances where the security is taken over unregistered land is not governed by statute in Northern Ireland. Where unregistered land is involved, the equitable doctrine of tacking survives. A mortgagee's (i.e. a lender's) right to "tack" is a right, in certain circumstances, to add further advances to the original security (taken to secure earlier advances) so as to obtain priority over any intermediate security taken by a subsequent lender over the same property. The application of the doctrine of tacking means that the first lender is allowed to "tack" for further advances (so ensuring that such further advances are secured with priority over any intermediate charge) only in the following circumstances: (i) if an intervening lender has agreed to postpone its mortgage to further advances by the first lender, or (ii) if the first lender is under an obligation to make further advances. However, even in the event that the obligation to make further advances is contained in the relevant mortgage deed, if the first lender making the further advances has been notified of an intervening mortgage at the time of making the further advance, that further advance cannot be "tacked" to the original security. The effect of this is that if the first lender receives notice from an intervening lender of an intermediate charge over the relevant property, then the further advances made by the first lender will not be secured with priority over such intermediate charge.

By virtue of Article 51 of The Judgments Enforcement (Northern Ireland) Order 1981 an order charging land, i.e. a judgment mortgage, if founded on a judgment in respect of rates payable in respect of that land, shall have priority over all other charges and encumbrances whatever affecting that land except other debts owing to the crown.

### ***The seller as mortgagee***

The sale of the Northern Irish loans by the seller to the mortgages trustee will take effect in equity only and any sale of Northern Irish loans in the future will take effect in equity only. The mortgages trustee will not apply to the Land Registry of Northern Ireland or the Registry of Deeds to register or record its equitable interest in the mortgages. The consequences of this are explained in the section "**Risk factors – There may be risks associated with the fact that the mortgages trustee has no legal title to the loans and their related security, which may adversely affect payments on your notes**" above.

### ***Enforcement of mortgages***

If a borrower defaults under a Northern Irish loan, the Northern Irish mortgage conditions provide that all monies under the loan will become immediately due and payable. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees under the covenant of the borrower contained in the Northern Irish mortgage conditions to pay or repay those amounts. In addition, the seller or its successors or assigns may enforce its mortgage in relation to the defaulted loan. Enforcement may occur in a number of ways, including the following:

- The mortgagee may enter into possession of the property. If it does so, it does so in its own right and not as agent of the mortgagor, and so may be personally liable for mismanagement of the property and to third parties as occupier of the property.
- The mortgagee may lease the property to third parties.

- The mortgagee may foreclose on the property. Under foreclosure procedures, the mortgagor's title to the property is extinguished so that the mortgagee becomes the owner of the property. The remedy is, in theory, available, but in modern times it has not been granted by the courts.
- The mortgagee may sell the property, subject to various duties to ensure that the mortgagee exercises proper care in relation to the sale. This power of sale arises under the Conveyancing and Law of Property Act 1881. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

## 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. 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.*

### **Payment of 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 are and continue to be listed on a "recognised stock exchange" within the meaning of Section 841 of the Income and Corporation Taxes Act 1988. The London Stock Exchange is a recognised stock exchange. Under HM Revenue and Customs published practice, securities will be treated as listed on the London Stock Exchange if they are admitted to the official list by the United Kingdom listing authority and admitted to trading by the London Stock Exchange. Provided, therefore, that the notes are and 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 to a person who belongs in the United Kingdom for United Kingdom tax purposes 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 of the interest is within the charge to United Kingdom corporation tax as regards the payment of interest, provided that HM Revenue and Customs has not given a direction (in circumstances where it has reasonable grounds to believe that it is likely 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.

Interest on the notes may also be paid without withholding or deduction for or on account of United Kingdom tax where the maturity of the notes is less than 365 days.

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 lower rate (currently 20 per cent.), subject to any other available exemption or reliefs. 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 interest paid to a noteholder, HM Revenue and Customs 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).

Any discount element in respect of notes that are issued at an issue price of less than 100 per cent. of their principal amount will not be subject to United Kingdom withholding tax.

Where notes are issued with a redemption premium (as opposed to being issued at a discount), then any such premium element may constitute a payment of interest which will generally be subject to United Kingdom withholding tax, subject to any available exemption or relief, as outlined above.

Noteholders may wish to note that, in certain circumstances, HM Revenue and Customs has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays or credits interest to or receives interest for the benefit of a noteholder or who either pays amounts payable on the redemption of notes to or receives such amounts for the benefit of another person. HM Revenue and Customs' published practice indicates that it will not exercise the power referred to above where such amounts were paid on or before 5 April 2007. Any information so obtained may, in certain circumstances, be exchanged by HM Revenue and Customs with the tax authorities of the jurisdiction in which the noteholder is resident for tax purposes.

**EU savings directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, a Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being 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 agreed to adopt similar measures (a withholding system in the case of Switzerland).

## UNITED STATES FEDERAL INCOME TAXATION

### General

To ensure compliance with IRS Circular 230, investors are hereby notified that: (a) any discussion of federal tax issues contained or referred to in this prospectus or any applicable final terms is not intended or written to be used, and cannot be used, by investors for the purpose of avoiding penalties that may be imposed on them under the Internal Revenue Code of 1986, as amended; (b) such discussion is written to support the promotion or marketing of the transactions or matters addressed herein; and (c) prospective investors should seek advice based on their particular circumstances from an independent tax adviser.

The following is a general summary of certain material U.S. federal income tax consequences that may be relevant with respect to the purchase, ownership and disposition of the Rule 144A notes, subject to the qualifications set forth in the applicable final terms. In general, the discussion assumes that a holder acquires the Rule 144A notes at original issuance and holds the Rule 144A notes as capital assets. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase the Rule 144A notes. In particular, it does not discuss special tax considerations that may apply to certain types of taxpayers, including, without limitation, the following: (i) financial institutions; (ii) insurance companies; (iii) dealers or traders in stocks, securities, notional principal contracts or currencies; (iv) tax-exempt entities; (v) regulated investment companies; (vi) real estate investment trusts; (vii) persons that will hold the Rule 144A notes as part of a “hedging” or “conversion” transaction or as a position in a “straddle” for U.S. federal income tax purposes; (viii) partnerships, pass-through entities or persons who hold Rule 144A notes through partnerships or other pass-through entities; and (ix) persons that have a “functional currency” other than the U.S. dollar. This discussion also does not address alternative minimum tax consequences, or the indirect effects on the holders of equity interests in holders of Rule 144A notes, nor does it describe any tax consequences arising under the laws of any taxing jurisdiction other than the U.S. federal government. In addition, please consult the applicable final terms in the event that the Rule 144A notes are denominated in a currency other than the U.S. dollar.

This discussion is based on the U.S. Internal Revenue Code of 1986, as amended (the **Code**), U.S. Treasury regulations and judicial and administrative interpretations thereof, all as currently in effect and subject to change at any time, possibly with retroactive effect.

As described below under “– **Tax status of the issuer, Funding 1, mortgages trustee and mortgages trust**”, unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, Allen & Overy LLP, U.S. federal income tax advisers to the issuer (**U.S. tax counsel**), will deliver an opinion that the mortgages trustee acting as trustee of the mortgages trust, Funding 1 and the issuer will not be subject to U.S. federal income tax as a result of their contemplated activities. As described further below under “– **Characterisation of the Rule 144A notes**”, unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, U.S. tax counsel will deliver an opinion that, although there is no authority on the treatment of instruments substantially similar to the Rule 144A notes, the class A, class B and class M Rule 144A notes, when issued, will be treated as debt for U.S. federal income tax purposes, and the class C Rule 144A notes, when issued, should be treated as debt for U.S. federal income tax purposes. Unless otherwise specified in the final terms, the class D Rule 144A notes will not be treated as debt for U.S. federal income tax purposes.

An opinion of U.S. tax counsel is not binding on the U.S. Internal Revenue Service (the **IRS**) or the courts, and no rulings will be sought from the IRS on any of the issues discussed in this section and there can be no assurance that the IRS or courts will agree with the conclusions expressed herein. **Accordingly, investors are encouraged to consult their own tax advisers as to the personal U.S. federal income tax consequences to the investor of the purchase, ownership and disposition of the Rule 144A notes, including the possible application of state, local, non-U.S. or other tax laws, and other U.S. tax issues affecting the transaction.**

As used in this section, the term **United States holder** means a beneficial owner of Rule 144A notes that is for U.S. federal income tax purposes: (i) a citizen or resident of the United States; (ii) a corporation (or other entity treated as a corporation) created or organised in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) any estate the income of which is subject to U.S. federal income tax regardless of the source of its income; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust. A **Non-United States holder** is a beneficial owner of the Rule 144A notes that is not a United States holder. If a partnership holds Rule 144A notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding Rule 144A notes are encouraged to consult their own tax advisers regarding the personal tax consequences to them.

### **Tax status of the issuer, Funding 1, mortgages trustee and mortgages trust**

Under the transaction documents, each of the issuer, Funding 1 and the mortgages trustee acting in its capacity as trustee of the mortgages trust covenants not to engage in any activities in the United States (directly or through agents), not to derive any income from sources within the United States as determined under U.S. federal income tax principles, and not to hold any property if doing so would cause it to be engaged or deemed to be engaged in a trade or business within the United States as determined under U.S. federal income tax principles. Unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, U.S. tax counsel will deliver an opinion that, assuming compliance with the transaction documents, none of the issuer, Funding 1 or the mortgages trustee acting in its capacity as trustee of the mortgages trust will be subject to U.S. federal income tax. See “ – **General**” above for further information regarding this opinion. No election will be made to treat the issuer, Funding 1 or the mortgages trustee or any of their assets as a REMIC (a type of securitisation vehicle having a special tax status under the Code).

### **Characterisation of the Rule 144A notes**

Although there is no authority regarding the treatment of instruments that are substantially similar to the Rule 144A notes, unless otherwise indicated in the applicable final terms, upon issuance of the Rule 144A notes, U.S. tax counsel will deliver an opinion that the class A, class B and class M Rule 144A notes, when issued, will be treated as debt for U.S. federal income tax purposes, and the class C Rule 144A notes, when issued, should be treated as debt for U.S. federal income tax purposes (see “– **Alternative Characterisation of the Rule 144A notes**” and see “– **General**” above for further information regarding this opinion). The treatment of the class D Rule 144A notes for U.S. federal income tax purposes will be set forth in the applicable final terms. The issuer intends to treat the Rule 144A notes (other than notes that will not be treated as debt for U.S. federal income tax purposes as indicated in the applicable final terms) as indebtedness of the issuer for all purposes, including U.S. federal income tax purposes.

The Rule 144A notes will not be qualifying real property loans in the hands of domestic savings and loan associations, real estate investment trusts, or REMICs under Sections 7701(a)(19)(C), 856(c) or 860G(a)(3) of the Code, respectively.

For the purposes of the discussions below, the term **Rule 144A notes** excludes notes that will not be treated as debt for U.S. federal income tax purposes as indicated in the applicable final terms.

### **Taxation of United States holders of the notes**

#### ***Qualified Stated Interest and Original Issue Discount***

The issuer intends to treat interest on the Rule 144A notes as “qualified stated interest” under U.S. Treasury regulations relating to original issue discount (hereafter the **OID regulations**). As a consequence, discount on the Rule 144A notes arising from an issuance at less than par will only be required to be accrued under the OID regulations if such discount exceeds a statutorily defined de minimis amount. Qualified stated interest, which generally must be unconditionally payable at



least annually, is taxed under a holder's normal method of accounting as ordinary interest income. De minimis original issue discount (**OID**) is included in income on a *pro rata* basis as principal payments are made on the Rule 144A notes.

It is possible that interest on the Rule 144A notes that are class B notes, class M notes or class C notes (or, if treated as debt for U.S. federal income tax purposes, class D notes) could be treated as OID because such interest is subject to deferral in certain limited circumstances. A United States holder of an offered issuer note issued with OID must include OID in income over the term of such offered issuer note under a constant yield method that takes into account the compounding of interest. Under the Code, OID is calculated and accrued using prepayment assumptions where payments on a debt instrument may be accelerated by reason of prepayments of other obligations securing such debt instrument. Moreover, the legislative history to the provisions provides that the same prepayment assumptions used to price a debt instrument be used to calculate OID, as well as to accrue market discount and to amortise premiums. Here, prepayment of the loans is not expected to alter the scheduled principal payments on the Rule 144A notes that are class B notes, class M notes or class C notes (or, if treated as debt for U.S. federal income tax purposes, class D notes) and accordingly, the issuer intends to assume that such Rule 144A notes will have their principal repaid according to the schedule for the purposes of accruing any OID. No representation is made that the loans will pay on the basis of such prepayment assumption or in accordance with any other prepayment scenario.

Rule 144A notes with a term of one year or less (**short-term obligations**), such as the money market notes, will be treated as having been issued with OID. In general, United States holders who report income for U.S. federal income tax purposes under the accrual method are required to accrue OID on short-term obligations on a straight-line basis unless an election is made to accrue the OID under a constant yield method (based on daily compounding). A United States holder who is an individual or other cash method holder is not required to accrue such OID unless such holder elects to do so. If such an election is not made, any gain recognised by such holder on the sale, exchange or maturity of such short-term obligations will be ordinary income to the extent of the holder's rateable share of OID accrued on a straight-line basis, or upon election under the constant yield method (based on daily compounding), through the date of the sale, exchange or maturity.

As an alternative to the above treatments, United States holders may elect to include in gross income all interest with respect to the Rule 144A notes, including stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount, and unstated interest, as adjusted by any amortisable bond premium or acquisition premium, using the constant yield method described above.

Interest income on the Rule 144A notes will be treated as foreign source income for U.S. federal income tax purposes, which may be relevant in calculating a United States holder's foreign tax credit limitation for US federal income tax purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. The foreign tax credit rules are complex, and United States holders are encouraged to consult their own tax advisers regarding the availability of a foreign tax credit and the application of the limitation in their particular circumstances.

### ***Sales and retirement***

In general, a United States holder of a Rule 144A note will have a basis in such Rule 144A note equal to the cost of the Rule 144A note to such holder, and reduced by any payments thereon other than payments of qualified stated interest. Upon a sale or exchange of the Rule 144A note, a United States holder will generally recognise gain or loss equal to the difference between the amount realised (less any accrued interest, which would be taxable as such) and the holder's tax basis in the Rule 144A note. Such gain or loss will be long-term capital gain or loss if the United States holder has held the Rule 144A note for more than one year at the time of disposition. **Prospective investors are encouraged to consult their own tax advisers regarding the treatment of capital gains (which may be taxed at lower rates than ordinary income for taxpayers who are individuals, trusts or estates that hold the notes for more than one year)**

**and capital losses (the deductibility of which is subject to limitations) for them as a consequence of an investment in the Rule 144A notes.**

#### **Taxation of Non-United States holders of the Rule 144A notes**

Subject to the backup withholding rules discussed below, a Non-United States holder generally should not be subject to U.S. federal income or withholding tax on any payments on a Rule 144A note and gain from the sale, redemption or other disposition of a Rule 144A note unless: (i) that payment and/or gain is effectively connected with the conduct by that Non-United States holder of a trade or business in the United States; (ii) in the case of any gain realised on the sale or exchange of an offered Rule 144A note by an individual Non-United States holder, that holder is present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement and certain other conditions are met; or (iii) the Non-United States holder is subject to tax pursuant to provisions of the Code applicable to certain expatriates. **Non-United States holders are encouraged to consult their own tax advisers regarding the U.S. federal income and other tax consequences to them of owning Rule 144A notes.**

#### **Alternative characterisation of the Rule 144A notes**

The proper characterisation of the arrangement involving the issuer and the holders of the Rule 144A notes is not clear because there is no authority on transactions comparable to that contemplated herein. The issuer intends to treat the Rule 144A notes as debt for all U.S. federal income tax purposes. Prospective investors are encouraged to consult their own tax advisers regarding the personal tax consequences with respect to the potential impact of an alternative characterisation of the Rule 144A notes for U.S. federal income tax purposes.

One possible alternative characterisation is that the IRS could assert that the class C Rule 144A notes or any other class of Rule 144A notes should be treated as equity in the issuer for U.S. federal income tax purposes because the issuer may not have substantial equity. If the class C Rule 144A notes or any other class of the Rule 144A notes were treated as equity, United States holders of such notes would be treated as owning equity in a passive foreign investment company (**PFIC**) which, depending on the level of ownership of such United States holders and certain other factors, might also constitute an interest in a controlled foreign corporation (**CFC**) for such United States holder. An issuer note that is treated as an equity interest in a PFIC or CFC rather than a debt instrument for U.S. federal income tax purposes would have certain timing and character consequences to a United States holder and could require certain elections and disclosures that would need to be made shortly after acquisition to avoid potentially adverse U.S. tax consequences.

If a United States holder were treated as owning an equity interest in a PFIC, unless a United States holder makes a "QEF election" or "mark-to-market election", a United States holder will be subject to a special tax regime: (i) in respect of gains realised on the sale or other disposition of the relevant Rule 144A notes; and (ii) in respect of distributions on the relevant Rule 144A notes held for more than one taxable year to the extent those distributions constitute "excess distributions". Although not free from doubt, the PFIC rules should not apply to gain realised in respect of any Rule 144A notes disposed of during the same taxable year in which such Rule 144A notes are acquired. An excess distribution generally includes dividends or other distributions received from a PFIC in any taxable year to the extent the amount of such distributions exceeds 125 per cent. of the average distributions for the three preceding years (or, if shorter, the investor's holding period). Because the Rule 144A notes pay interest at a floating rate, it is possible that a United States holder will receive excess distributions as a result of fluctuations in the rate of USD-LIBOR over the term of the Rule 144A notes. In general, under the PFIC rules, a United States holder will be required to allocate such excess distributions and any gain realised on a sale of its Rule 144A notes to each day during the United States holder's holding period for the Rule 144A notes, and such distribution or gain will be taxable at the highest rate of taxation applicable to the Rule 144A notes for the year to which the excess distribution or gain is allocable (without regard to the United States holder's other items of income and loss for such taxable year) (the **deferred tax**). The deferred tax (other than the tax on amounts allocable to the year of disposition or receipt of

the distribution) will then be increased by an interest charge computed by reference to the rate generally applicable to underpayments of tax (which interest charge generally will be a non-deductible interest expense for individual taxpayers). The issuer does not intend to provide information that would enable a holder of a Rule 144A note to make a QEF election, and the mark-to-market election will only be available during any period in which the Rule 144A notes are traded on a qualifying exchange or market. The issuer encourages persons considering the purchase or ownership of 10 per cent. or more of any class of Rule 144A notes (or combination of classes) that is treated as equity for U.S. federal income tax purposes to consult their own tax advisers regarding the personal U.S. tax consequences resulting from such an acquisition under the special rules applicable to CFCs under the Code.

### **Backup withholding and information reporting**

Backup withholding and information reporting requirements may apply to certain payments on the Rule 144A notes and to proceeds of the sale or redemption of the Rule 144A notes to United States holders. The issuer, its agent, a broker, or any paying agent, as the case may be, may be required to withhold tax from any payment that is subject to backup withholding if the United States holder fails to furnish the United States holder's taxpayer identification number (usually on IRS Form W-9), to certify that such United States holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain United States holders (including, among others, corporations) are not subject to the backup withholding and information reporting requirements. Non-United States holders may be required to comply with applicable certification procedures (usually on IRS Form W-8BEN) to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding.

Payments of principal or interest made to or through a foreign office of a custodian, nominee or other agent acting on behalf of a beneficial owner of a Rule 144A note generally will not be subject to backup withholding. However, if such custodian, nominee or other agent is: (i) a United States person (as defined in Section 7701(a)(30) of the Code); (ii) a controlled foreign corporation (as defined in Section 957(a) of the Code); (iii) a foreign person 50 per cent. or more of whose gross income is effectively connected with a U.S. trade or business for a specified three-year period; or (iv) a foreign partnership if: (A) at any time during its tax year, one or more of its partners are United States persons (as defined in applicable Treasury regulations) who in the aggregate hold more than 50 per cent. of the income or capital interest in the partnership; or (B) at any time during its taxable year, it is engaged in a U.S. trade or business (each of (i) through (iv), a **U.S. connected holder**), such custodian, nominee or other agent may be subject to certain information reporting requirements with respect to such payment unless it has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Principal and interest paid by the U.S. office of a custodian, nominee or agent will be subject to both backup withholding and information reporting unless the beneficial owner certifies its non-U.S. status under penalty of perjury or otherwise establishes an exemption. Payments of proceeds on the sale of an offered Rule 144A note made to or through a foreign office of a broker will not be subject to backup withholding. However, if such broker is a U.S. connected holder, information reporting will be required unless the broker has in its records documentary evidence that the beneficial owner is not a United States holder and certain conditions are met or the beneficial owner otherwise establishes an exemption. Payments of proceeds on the sale of an offered Rule 144A note made to or through the U.S. office of a broker will be subject to backup withholding and information reporting unless the beneficial owner certifies, under penalty of perjury, that it is not a U.S. holder or otherwise establishes an exemption.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be refunded or credited against the United States holder's U.S. federal income tax liability, provided that the required information is furnished to the IRS. **Holders of Rule 144A notes are encouraged to consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.**

### **IRS disclosure reporting requirements**

U.S. Treasury Regulations (the **disclosure regulations**) meant to require the reporting of certain tax shelter transactions (**reportable transactions**) could be interpreted to cover transactions generally not regarded as tax shelters. Under the disclosure regulations it may be possible that certain transactions with respect to the Rule 144A notes may be characterised as reportable transactions requiring a United States holder to disclose such transactions, such as sales, exchanges, retirements or other taxable dispositions of Rule 144A notes that result in losses that exceed certain thresholds and other specified conditions are met. **Accordingly, investors are encouraged to consult with their own tax advisers to determine the tax return obligations, if any, with respect to an investment in the Rule 144A notes, including any requirement to file IRS Form 8886 (Reportable Transaction Statement).**

## MATERIAL JERSEY (CHANNEL ISLANDS) TAX CONSIDERATIONS

### Tax status of the mortgages trustee and the mortgages trust

Jersey is not subject to the EU Savings Tax Directive. However, in keeping with Jersey's policy of constructive international engagement and in line with steps taken by other relevant third countries and territories, the States of Jersey introduced with effect from 1st July, 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey (the terms "beneficial owner" and "paying agent" are defined in the EU Savings Tax Directive). The retention tax system will apply for a transitional period prior to the implementation of a system of automatic information exchange with EU Member States regarding such payments. During the transitional period, an individual beneficial owner resident in an EU Member State who does not wish interest payments to be subject to the retention tax system is entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The transitional period will end only after all EU Member States and other relevant third countries and territories have agreed to automatic exchange of information and the EU Member States unanimously agree that the United States of America has committed to exchange of information upon request as defined in the 2002 OECD Model Agreement on Exchange of Information on Tax Matters.

The retention tax system and the disclosure arrangements are implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey.

It is the opinion of Mourant du Feu & Jeune, our Jersey (Channel Islands) tax counsel, that the mortgages trustee is resident in Jersey for taxation purposes and will be liable to income tax in Jersey at a rate of 20 per cent. in respect of the profits it makes from acting as trustee of the mortgages trust. The mortgages trustee will not be liable for any income tax in Jersey in respect of any income it receives in its capacity as mortgages trustee on behalf of the beneficiaries of the mortgages trust.

## ERISA CONSIDERATIONS

Certain Rule 144A notes specified in the final terms will be eligible for purchase by employee benefit plans and other plans subject to the U.S. Employee Retirement Income Security Act of 1974, as amended (**ERISA**), and/or the provisions of Section 4975 of the Code and by governmental plans that are subject to state, local or other federal law of the United States that is substantially similar to ERISA or Section 4975 of the Code, subject to consideration of the issues described in this section. ERISA imposes certain requirements on **employee benefit plans** (as defined in Section 3(3) of ERISA (**ERISA-eligible notes**)) subject to ERISA, including entities such as collective investment funds and separate accounts whose underlying assets include the assets of such plans (collectively, **ERISA Plans**) and on those persons who are fiduciaries with respect to ERISA Plans. The class A Rule 144A notes, the class B Rule 144A notes, the class M Rule 144A notes and the class C Rule 144A notes will be ERISA-eligible notes unless otherwise set forth in the applicable final terms. The ERISA-eligibility of the class D Rule 144A notes will be set forth in the applicable final terms. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirements of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the Plan. The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed under "**Risk factors**" and the fact that in the future there may be no market in which such fiduciary will be able to sell or otherwise dispose of the ERISA-eligible notes.

Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, the **Plans**)) and certain persons (referred to as **parties in interest** or **disqualified persons**) having certain relationships to such Plans, unless a statutory or administrative exemption is applicable to the transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code.

The seller, the issuer, the servicer, the mortgages trustee, Funding 1 or any other party to the transactions contemplated by the transaction documents may be parties in interest or disqualified persons with respect to many Plans. Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if any of the ERISA-eligible notes is acquired or held by a Plan with respect to which the issuer, the servicer, the mortgages trustee, Funding 1 or any other party to such transactions is a party in interest or a disqualified person. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may be applicable, however, depending in part on the type of Plan fiduciary making the decision to acquire any such ERISA-eligible notes and the circumstances under which such decision is made. Included among these exemptions are Prohibited Transaction Class Exemption (**PTCE**) 91-38 (relating to investments by bank collective investment funds), PTCE 84-14 (relating to transactions effected by a qualified professional asset manager), PTCE 95-60 (relating to transactions involving insurance company general accounts), PTCE 90-1 (relating to investments by insurance company pooled separate accounts) and PTCE 96-23 (relating to transactions determined by in-house asset managers). There can be no assurance that any of these class exemptions or any other exemption will be available with respect to any particular transaction involving any such Rule 144A notes.

Each purchaser and subsequent transferee of any ERISA-eligible note will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that: (A) it is not a Plan or an entity whose underlying assets include the assets of any Plan or a governmental plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code; or (B) its purchase, holding and disposition of such note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of

the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available.

In addition, the U.S. Department of Labor has promulgated a regulation, 29 C.F.R. Section 2510.3-101 (the **Plan Asset Regulation**), describing what constitutes the assets of a Plan with respect to the Plan's investment in an entity for purposes of certain provisions of ERISA, including the fiduciary responsibility provisions of Title I of ERISA, and Section 4975 of the Code. Under the Plan Asset Regulation, if a Plan invests in an equity interest of an entity that is neither a publicly-offered security nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless one of the exceptions to such treatment described in the Plan Asset Regulation applies. Under the Plan Asset Regulation, a security which is in debt form may be considered an equity interest if it has substantial equity features. If the issuer were deemed under the Plan Asset Regulation to hold plan assets by reason of a Plan's investment in any of the ERISA-eligible notes, such plan assets would include an undivided interest in the assets held by the issuer and transactions by the issuer would be subject to the fiduciary responsibility provisions of Title I of ERISA and the prohibited transaction provisions of ERISA and Section 4975 of the Code. The Plan Asset Regulation provides, however, that if equity participation in any entity by "Benefit Plan Investors" is not significant, then the "look-through" rule will not apply to such entity. The term "Benefit Plan Investors" is defined in the Plan Asset Regulation, as modified by ERISA, to include: (1) any employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA; (2) any plan described in Section 4975(e)(1) of the Code; and (3) any entity whose underlying assets include "plan assets" by reason of any such plan's investment in the entity. Equity participation by Benefit Plan Investors in any entity is significant if, immediately after the most recent acquisition of any equity interest in the entity, 25 per cent. or more of the value of any class of equity interests in the entity (excluding the value of any interests held by certain persons, other than Benefit Plan Investors, exercising control over the assets of the entity or providing investment advice to the entity for a fee or any affiliates of such persons) is held by Benefit Plan Investors.

There is little pertinent authority in this area and securities may change character from debt to equity over time due to changing circumstances. Fiduciaries of Plans considering the purchase of Rule 144A notes should consult their counsel in this regard. As noted above, it is expected that the class A notes, the class B notes and the class M notes, when issued, will be treated as debt for U.S. federal income tax purposes and, thus, will not constitute "equity interests". There is less certainty that the class C notes will be treated as debt for US federal income tax purposes. If any class C notes are specified to be ERISA-eligible in the applicable final terms, no measures will be taken to restrict investment in such class C notes by Benefit Plan Investors. The ERISA-eligibility of the class D notes will be as set forth in the applicable final terms.

Any insurance company proposing to purchase any of the ERISA-eligible notes using the assets of its general account should consider the extent to which such investment would be subject to the requirements of ERISA in light of the U.S. Supreme Court's decision in *John Hancock Mutual Life Insurance Co. v. Harris Trust and Savings Bank* and under any subsequent guidance that may become available relating to that decision. In particular, such an insurance company should consider the retroactive and prospective exemptive relief granted by the Department of Labor for transactions involving insurance company general accounts in PTCE 95-60, 60 Fed. Reg. 35925 (12 July 1995), the enactment of Section 401(c) of ERISA by the Small Business Job Protection Act of 1996 (including, without limitation, the expiration of any relief granted thereunder) and the Insurance Company General Account Regulations, 65 Fed. Reg. No. 3 (5 January 2000) (codified at 29 C.F.R. pt. 2550) that became generally applicable on 5 July 2001.

Each Plan fiduciary who is responsible for making the investment decisions whether to purchase or commit to purchase and to hold any of the ERISA-eligible notes should determine whether, under the documents and instruments governing the Plan, an investment in such notes is appropriate for the Plan, taking into account the overall investment policy of the Plan and the composition of the Plan's investment portfolio and liquidity needs in view of the Plan's benefit obligations. Any Plan proposing to invest in such notes (including any governmental plan) should

consult with its counsel to confirm that such investment will not result in a non-exempt prohibited transaction and will satisfy the other requirements of ERISA and the Code (or, in the case of a governmental plan, any substantially similar state, local or other federal law).

The sale of any ERISA-eligible notes to a Plan is in no respect a representation by the seller, the issuer, the servicer, the mortgages trustee, Funding 1 or any other party to the transactions that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.



## UNITED STATES LEGAL INVESTMENT CONSIDERATIONS

None of the notes will constitute “mortgage related securities” under the United States Secondary Mortgage Market Enhancement Act of 1984, as amended.

No representation is made as to the proper characterisation of the notes for legal investment purposes, financial institutional regulatory purposes, or other purposes, or as to the ability of particular investors to purchase the notes under applicable legal investment restrictions. These uncertainties may adversely affect the liquidity of the notes. Accordingly, all institutions whose investment activities are subject to legal investment laws and regulations, regulatory capital requirements or review by regulatory authorities should consult with their legal advisers in determining whether and to what extent the notes constitute legal investments or are subject to investment, capital or other restrictions.

Any money market notes of the issuer (as detailed in the final terms) will be “Eligible Securities” within the meaning of Rule 2a-7 under the Investment Company Act. Money market notes designated as remarketable notes in the relevant final terms will be sold subject to **condition 5.8**, which provides for mandatory transfer on each Note mandatory transfer date in respect of the period up to and including the first mandatory transfer date. Thereafter, if a remarketing termination event has not occurred, it is expected that the remarketable notes will be “Eligible Securities” within the meaning of Rule 2a-7 in respect of the period up to and including the next following mandatory transfer date if the eligibility requirements of Rule 2a-7 remain unchanged.

## SUBSCRIPTION AND SALE

Each of the **initial dealers** the managers and any **other dealers** appointed from time to time (together, the **dealers**) in accordance with the programme agreement dated the closing date (as amended from time to time) have agreed with the issuer a basis upon which such dealers or any of them may from time to time agree to purchase the notes. The issuer may pay the dealers a commission and a fee from time to time in connection with the sale of any notes. In the programme agreement, the issuer has agreed to reimburse and indemnify the dealers for certain of their expenses and liabilities in connection with the establishment and any future update of the programme and the issue of the notes under the programme. The dealers are entitled to be released and discharged from their obligations in relation to any agreement to issue and purchase the notes under the programme agreement in certain circumstances prior to the payment to the issuer.

### United Kingdom

Each dealer has represented and agreed and each further dealer appointed under the programme agreement will be required to represent and agree that:

- in relation to any notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the notes would otherwise constitute a contravention of Section 19 of the FSMA by the issuer;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

### United States

Each dealer has acknowledged, and each dealer appointed under the programme agreement will be required to acknowledge, that the notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States, and may not be offered or sold, directly or indirectly, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Reg S or in certain transactions exempt from the registration requirements of the Securities Act and applicable state securities laws. In addition, the notes cannot be resold in the United States or to U.S. persons unless they are subsequently registered or an exemption from registration is available. Each dealer has agreed, and each further dealer appointed under the programme agreement will be required to agree, that with respect to the relevant Reg S notes for which it has subscribed that it will not offer or sell the Reg S notes (or any beneficial interest in a Reg S global note): (a) as part of its distribution at any time; or (b) otherwise until 40 days after the later of the commencement of the offering of the Reg S notes and the closing date (the **distribution compliance period**) within the United States or to, or for the account or benefit of, U.S. persons, except in accordance with Reg S, and that it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Reg S notes from it during the distribution compliance period (other than resales pursuant to Rule 144A) a confirmation or other notice setting forth the restrictions on offers and sales of the Reg S notes

within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Reg S.

In addition, until the expiration of the distribution compliance period, an offer or sale of the Reg S notes within the United States by any dealer, that is not participating in the offering, may violate the registration requirements of the Securities Act (if such offer is made otherwise than in accordance with Rule 144A).

This prospectus has been prepared by the issuer for use in connection with the offer and sale of the notes outside the United States pursuant to Reg S and for the sale of the notes in the United States pursuant to Rule 144A. The issuer and the dealers reserve the right to reject any offer to purchase the notes, in whole or in part, for any reason. This prospectus does not constitute an offer to any person in the United States or to any U.S. person, other than any QIB within the meaning of Rule 144A to whom an offer has been made directly by one of the dealers or its U.S. broker-dealer affiliate. Distribution of this prospectus by any non-U.S. person outside the United States or by any QIB in the United States to any U.S. person or to any other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the issuer of any of its contents to any such U.S. person or other person within the United States, other than any QIB and those persons, if any, retained to advise such non-U.S. person or QIB, is prohibited.

Each dealer has acknowledged that the Reg S notes and any Rule 144A notes that are not ERISA-eligible notes are not designed for, and may not be purchased or held by, any "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject thereto, or any "plan" as defined in Section 4975 of the Code, or by any person any of the assets of which are, or are deemed for purposes of ERISA or Section 4975 of the Code to be, assets of such an "employee benefit plan" or "plan" and each purchaser of a Reg S note will be deemed to have represented, warranted and agreed that it is not, and for so long as it holds a Reg S note will not be, such an "employee benefit plan", "plan" or person.

Further, in connection with any notes which are offered or sold in the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Rule 144A, each dealer has represented and agreed, and each dealer appointed under the programme agreement will be required to represent and agree, that:

- (a) offers, sales, resales and other transfers of notes made in the United States made or approved by a dealer (including offers, resales or other transfers made or approved by a dealer in connection with secondary trading) shall be effected pursuant to an exemption from the registration requirements of the Securities Act;
- (b) offers, sales, resales and other transfers of notes made in the United States will be made only in private transactions to institutional investors that are reasonably believed to qualify as QIBs;
- (c) no general solicitation or general advertising within the meaning of Rule 502(c) under the Securities Act will be used in connection with the offering of the notes in the United States;
- (d) no sale of notes in the United States to any one QIB will be for less than \$100,000 principal amount or its equivalent rounded upwards and no note will be issued in connection with such a sale in a smaller principal amount. If such purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least \$100,000 principal amount of the notes; and
- (e) it may resell the Rule 144A notes in the United States only if such dealer is a registered broker-dealer in the United States or through its selling agent which is a registered broker-dealer in the United States in compliance with the Exchange Act.

## The Netherlands

Each dealer has represented and agreed that this document has not and will not be distributed and the notes (including rights representing an interest in a note in global form) have not and will not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who are established, domiciled or have their residence in The Netherlands (**Dutch Residents**) other than to the following entities (**Professional Market Parties** or **PMPs**) provided they acquire the notes for their own account or for the account of a Professional Market Party and trade or invest in securities in the conduct of a business or profession:

- (a) anyone who is subject to supervision of the Dutch Central Bank (De Nederlandsche Bank N.V.), the Dutch Authority for the Financial Markets (Stichting Autoriteit Financiële Markten) or a supervisory authority from another state and who is authorised to be active on the financial markets;
- (b) anyone who otherwise performs a regulated activity on the financial markets;
- (c) the State of the Netherlands (de Staat der Nederlanden), the Dutch Central Bank, a foreign central government body, a foreign central bank, Dutch regional and local governments and comparable foreign decentralised government bodies, international treaty organisations and supranational organisations;
- (d) a company or entity which, according to its last annual (consolidated) accounts, meets at least two of the following three criteria: an average number of employees during the financial year of at least 250; a total balance sheet of at least €43,000,000; and an annual net turnover of at least €50,000,000;
- (e) a company or entity with its statutory seat in the Netherlands other than a company as referred to in (d) above, which has requested the Dutch Authority for the Financial Markets to be treated as a professional market party;
- (f) a natural person, living in the Netherlands, who has requested the Dutch Authority for the Financial Markets to be treated as a professional market party, and who meets at least two of the following three criteria: the person has carried out transactions of a significant size on securities markets at an average frequency of, at least, ten per quarter over the previous four quarters; the size of the securities portfolio is at least €500,000; and the person works or has worked for at least one year in the financial sector in a professional position which requires knowledge of securities investment;
- (g) a company or entity whose only purpose is investing in securities;
- (h) a company or entity whose purpose is to acquire assets and issue asset backed securities;
- (i) an enterprises or entity with total assets of at least €500,000,000 (or the equivalent thereof in another currency) as per the balance sheet as of the year end preceding the obtaining of the repayable funds;
- (j) an enterprise, entity or individual with net assets of at least €10,000,000 (or the equivalent thereof in another currency) as of the year end preceding the obtaining of the repayable funds who has been active in the financial markets on average twice a month over a period of at least two consecutive years preceding the obtaining of the repayable funds;
- (k) a subsidiary of any of the persons or entities referred to under (a)-(h) above, provided such subsidiaries are subject to consolidated supervision; and
- (l) an enterprise or entity which has a rating from a rating agency that, in the opinion of the Dutch Central Bank, has sufficient expertise, or which issues securities that have a rating from a rating agency that, in the opinion of the Dutch Central Bank, has sufficient expertise.

All notes (whether or not offered to Dutch Residents) shall bear the following legend:

"THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO OR WHICH ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (**DUTCH RESIDENTS**) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION PURSUANT TO THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 (AS AMENDED) (**PMPs**).

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS A PMP AND IS ACQUIRING THIS NOTE (OR ANY INTEREST HEREIN) FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT: (1) THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY DUTCH RESIDENT OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP; AND THAT (2) IT WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE."

#### Italy

Each Dealer has acknowledged that the offer of the Notes has not been registered with the Commissione Nazionale per le Società e la Borsa (**CONSOB**) (the **Italian Securities and Exchange Commission**) pursuant to Italian securities legislation and, accordingly, Notes may not be offered, sold or delivered, nor may copies of this document or of any other document relating to the Notes be distributed in the Republic of Italy in a solicitation to the public (*sollecitazione all'investimento*) within the meaning of Article 1, paragraph 1, letter (t) of Legislative Decree no. 58 of 24 February 1998, unless an exemption applies. Accordingly, in the Republic of Italy, the Notes:

- (a) shall only be offered or sold to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended and effected in compliance with the terms and procedures provided therein (**Regulation No. 11522**); or
- (b) shall only be offered or sold in circumstances which are exempted from the rules on solicitations of investments pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998 (the **Financial Services Act**) and Article 33, first paragraph, of CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Moreover, and subject to the foregoing, each Dealer has acknowledged that any offer, sale or delivery of the Notes or distribution of copies of this document or any other document relating to the Notes in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, Legislative Decree No. 385 of 1 September 1993 (the **Banking Act**), Regulation No. 11522 and any other applicable laws and regulations; and
- (ii) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the issue or the offer of securities (such as the Notes) in the Republic of Italy may need to be preceded and followed by an appropriate notice to be filed with the Bank of Italy depending, *inter alia*, on the aggregate value of the securities issued or offered in the Republic of Italy and their characteristics; and
- (iii) in compliance with any other applicable laws and regulations including any relevant limitations which may be imposed by CONSOB or the Bank of Italy.

Insofar as the requirements above are based on laws which are superseded at any time pursuant to the implementation of the Prospectus Directive, such requirements shall be replaced by the applicable requirements under the Prospectus Directive.

## **Spain**

Each dealer has represented and agreed that the proposed offer of the notes has not been registered with the Spanish Comision Nacional del Mercado de Valores. Accordingly, each dealer has represented and agreed that the notes have not and will not be offered, sold, distributed or proposed in Spain nor any document or offer material be distributed in Spain or targeted to Spanish resident investors (including any legal entity set up, incorporated, domiciled or resident in the Kingdom of Spain), save in compliance and in accordance with the provisions of the Spanish Security Markets Act of 28 July 1998 (*Ley 24/1998 de 28 de julio, del Mercado de Valores*), as amended, and the Royal Decree 291/1992 dated 27 March 1992 (*Real Decreto 291/1992 de 27 de marzo sobre Emisiones y Ofertas Publicas de Valores*) as amended and restated or as further amended, supplemented or restated from time to time.

## **General**

Except for the listing of the notes during a period of 12 months from the date of this prospectus on the official list of the UK listing authority, and the admission to trading of the notes on the London Stock Exchange's Gilt-Edged and Fixed Interest Market, no action is being taken by the issuer or the dealers in any jurisdiction which would or is intended to permit a public offering of the notes or the possession, circulation or distribution of this prospectus or any other material relating to the issuer or 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 purposes of, an offer or solicitation in or from any jurisdiction where such an offer or solicitation is not authorised. Accordingly, notes may not be offered or sold, directly or indirectly, and neither this prospectus nor any other prospectus, form of application, advertisement or other offering material in connection with the notes may be distributed in or from or published in any country or jurisdiction except under circumstances which will result in compliance with applicable laws and regulations of any such country or jurisdiction.

The dealers have represented and agreed, and each dealer appointed under the programme agreement will be required to represent and agree, that they have complied, and will comply, with all applicable laws and regulations in force in any jurisdiction in which they purchase, offer, sell or deliver the notes or possess them or distribute this prospectus or any part thereof, and the issuer shall have no responsibility for such activities by the dealers. Furthermore, the dealers, and each dealer appointed under the programme agreement, will not directly or indirectly offer, sell or deliver any of the notes or distribute or publish this prospectus or any prospectus, form of application, offering document, advertisement or other offering material in connection with the notes except under circumstances that will, to the best of their knowledge and belief, result in compliance with all applicable laws and regulations, and all offers, sales and deliveries of the notes by them will be made on the same terms.

Neither the issuer nor the dealers represent that the notes may at any time lawfully be sold in compliance with any application, registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assume any responsibility for facilitating such sale.

With regard to the issue of each series and class of notes, the relevant dealers will be required to comply with such other additional or modified restrictions (if any) as the issuer and the dealers shall agree.

The dealers will, unless prohibited by applicable law, furnish to each person to whom they offer or sell notes, a copy of this prospectus as then amended or supplemented or, unless delivery of this prospectus is required by applicable law, inform each such person that a copy will be made available upon request. The dealers are not authorised to give any information or to make any

representation not contained in this prospectus in connection with the offer and sale of notes to which this prospectus relates.

This prospectus and the final terms may be used by the dealers for offers and sales related to market making transactions in the notes. All or any one of the dealers may act as principal or agent in these transactions. These sales will be made at prices relating to prevailing market prices at the time of sale. None of the dealers has any obligation to make a market in the notes, and any market making may be discontinued at any time without notice.

## TRANSFER RESTRICTIONS AND INVESTOR REPRESENTATIONS

### Offers and sales by the initial purchasers

The notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States, and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons except pursuant to an effective registration statement or in accordance with an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable laws. Accordingly, the notes (and any interests therein) will only be offered and sold in the United States to QIBs in reliance on Rule 144A and in accordance with any state securities law and will only be offered and sold outside the United States to non-U.S. persons pursuant to Reg S.

The Reg S global notes may be transferred only to another common depository for Euroclear and Clearstream, Luxembourg and the Rule 144A global notes may be transferred only to another custodian for DTC or DTC's nominee.

On or prior to the expiration of the distribution compliance period, ownership of interests in Reg S global notes will be limited to persons who have accounts with Euroclear or Clearstream, Luxembourg, or persons who hold interests through Euroclear or Clearstream, Luxembourg, and any sale or transfer of such interests to U.S. persons shall not be permitted during such period unless such resale or transfer is made pursuant to Rule 144A as provided below.

### Investors' representations and restrictions on resale

Each purchaser of the notes (which term for the purposes of this section will be deemed to include any purchaser of beneficial interests in the notes, including interests represented by a global note and book-entry interests) will be deemed to have represented and agreed as follows:

- (1) (A) it is a QIB and is acquiring such notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) for investment purposes and not for distribution in violation of the Securities Act, it is able to bear the economic risk of an investment in the Rule 144A notes and has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of purchasing the notes and it is aware, and each beneficial owner of the notes has been advised, that the sale of such notes is being made in reliance on Rule 144A; or (B) it is not a U.S. person or an affiliate of the issuer or a person acting on behalf of such an affiliate and is acquiring such notes for its own account or as a fiduciary or agent for other non-U.S. persons in an offshore transaction (as defined in Reg S, an **offshore transaction**) pursuant to an exemption provided by Reg S;
- (2) such notes are being offered only in a transaction that does not require registration under the Securities Act and, if such purchaser decides to resell or otherwise transfer 144A notes, then it agrees that it will resell or transfer such notes only: (A) in accordance with Rule 144A to a person whom the seller reasonably believes is a QIB acquiring the notes for its own account or as a fiduciary or agent for others (which others must also be QIBs) to whom notice is given that the resale or other transfer is being made in reliance on Rule 144A; (B) pursuant to an exemption from registration provided by Rule 144 under the Securities Act (if available); (C) to a non-U.S. person acquiring the notes in an offshore transaction pursuant to an exemption from registration in accordance with Rule 903 or Rule 904 of Reg S; or (D) pursuant to an effective registration statement under the Securities Act, in each case in accordance with any applicable securities laws of any State or other jurisdiction of the United States; provided that the agreement of such purchaser is subject to any requirement of law that the disposition of the purchaser's property shall at all times be and remain within its control;
- (3) each purchaser and subsequent transferee of any ERISA-eligible note will be deemed by such purchase or acquisition of any such note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such note through and including the date on which the purchaser or transferee disposes of such note, either that (A) it is not a Plan or an entity whose underlying assets include the assets of any



Plan or a governmental plan which is subject to any federal, state or local law of the United States that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (B) its purchase, holding and disposition of such note will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar federal, state or local law of the United States) for which an exemption is not available;

- (4) each purchaser and subsequent transferee of any Reg S note or any Rule 144A note that is not an ERISA-eligible note will be deemed by such purchase or acquisition of any such Reg S note to have represented and warranted, on each day from the date on which the purchaser or transferee acquires such Reg S note through and including the date on which the purchaser or transferee disposes of such Reg S note, that it is not and will not be a Plan and that in purchasing and holding the Reg S note it is not and will not be acting on behalf of a Plan or using assets of a Plan;
- (5) it understands that the issuer, the registrar, the dealers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any notes for the account of one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;
- (6) it understands that the notes offered in reliance on Rule 144A will be represented by the Rule 144A global notes. Before any interest in the Rule 144A global note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Reg S global note, it will be required to provide a transfer agent with a written certification (in the form provided in the note trust deed) as to compliance with applicable securities laws; and
- (7) it also understands that the notes offered in reliance on Reg S will be represented by the Reg S global notes. Before any interest in the Reg S global note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Rule 144A global note, it will be required to provide a transfer agent with a written certification (in the form provided in the note trust deed) as to compliance with applicable securities laws.

The Reg S global notes that represent interests sold outside the United States to purchasers that are not U.S. persons in compliance with Reg S will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND, AS A MATTER OF U.S. LAW (1) AS PART OF THEIR DISTRIBUTION AT ANY TIME OR (2) PRIOR TO THE DATE THAT IS 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE NOTES AND THE CLOSING DATE, MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS OF THE OFFERING OF THE NOTES OUTSIDE THE UNITED STATES THAT NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED."

Set out below is a form of notice which may be used to notify the transferees of the foregoing restrictions on transfer. Such notice will be set out in the form of a legend on each Rule 144A global note. Additional copies of such notice may be obtained from the principal paying agent, the registrar or the transfer agent (if any).

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE **SECURITIES ACT**), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND, AS A MATTER OF U.S. LAW, MAY NOT BE OFFERED OR SOLD IN VIOLATION OF THE SECURITIES ACT OR SUCH STATE LAWS. THIS NOTE MAY BE TRANSFERRED ONLY IN INITIAL PRINCIPAL AMOUNTS OF \$100,000 AND INTEGRAL MULTIPLES OF \$1,000 IN EXCESS THEREOF (OR ITS EQUIVALENT IN ANY OTHER CURRENCY AS AT THE DATE OF ISSUE OF SUCH NOTES). THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUER AND THE MANAGERS OF THE OFFERING OF THE NOTES OUTSIDE THE UNITED STATES THAT IT WILL OFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE, ONLY (A) (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (**RULE 144A**), TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, AS DEFINED IN RULE 144A (A **QUALIFIED INSTITUTIONAL BUYER**), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR AS A FIDUCIARY OR AGENT FOR OTHERS (WHICH OTHERS MUST BE QUALIFIED INSTITUTIONAL BUYERS) TO WHOM NOTICE IS GIVEN THAT THE RESALE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) PURSUANT TO AN EXEMPTION FROM REGISTRATION IN ACCORDANCE WITH RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (3) TO A NON-U.S. PERSON (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT), AND WHO IS NOT ACQUIRING THE NOTE FOR THE ACCOUNT OR BENEFIT OF A U.S. PERSON, IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND (B) WITH RESPECT TO THE NOTES SPECIFIED IN THE APPLICABLE FINAL TERMS TO BE ERISA-ELIGIBLE, TO A PURCHASER WITH RESPECT TO WHOM (X) NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (**ERISA**), OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE **CODE**), OR (Y) PART OR ALL OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTE ASSETS OF AN EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF ERISA OR SECTION 4975 OF THE CODE IF AND ONLY IF THE USE OF SUCH ASSETS WILL NOT CONSTITUTE, CAUSE OR RESULT IN THE OCCURRENCE OF A NON-EXEMPT PROHIBITED TRANSACTION UNDER ERISA OR SECTION 4975 OF THE CODE PROVIDED THAT THE AGREEMENT OF THE HOLDER HEREOF IS SUBJECT TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF THE PURCHASER’S PROPERTY SHALL AT ALL TIMES BE AND REMAIN WITHIN ITS CONTROL. IF THE NOTE REPRESENTED HEREBY IS NOT SPECIFIED IN THE APPLICABLE FINAL TERMS AS ERISA-ELIGIBLE, THE HOLDER HEREOF, BY PURCHASING OR ACCEPTING THIS NOTE, AGREES FOR THE BENEFIT OF THE ISSUING ENTITY AND THE RELEVANT DEALERS THAT NO PART OF THE ASSETS USED TO PURCHASE THIS NOTE CONSTITUTES ASSETS OF ANY EMPLOYEE BENEFIT PLAN, OTHER PLAN OR INDIVIDUAL RETIREMENT ACCOUNT SUBJECT TO TITLE I OF THE UNITED STATES EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, OR SECTION 4975 OF THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED. THIS NOTE AND RELATED DOCUMENTATION MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME TO MODIFY THE RESTRICTIONS ON AND PROCEDURES UNDERTAKEN OR

REPRESENTED BY THE HOLDER, FOR RESALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OR RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS NOTE AND ANY BENEFICIAL OWNER OF ANY INTEREST HEREIN SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS NOTE AND ANY NOTES ISSUED IN EXCHANGE OR SUBSTITUTION HEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON) AND AGREES TO TRANSFER THIS NOTE ONLY IN ACCORDANCE WITH ANY SUCH AMENDMENT OR SUPPLEMENT IN ACCORDANCE WITH APPLICABLE LAW IN EFFECT AT THE DATE OF SUCH TRANSFER. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS NOTE.”

Prospective purchasers are hereby notified that sellers of the notes may be relying on the exemptions from the provisions of Section 5 of the Securities Act provided by Rule 144A.

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

## LISTING AND GENERAL INFORMATION

### Authorisation

The issue of each series of notes from time to time has been authorised by resolution of the board of directors of the issuer passed on 20 November 2006.

### Listing of notes

Application has been made to the UK listing authority for the notes issued during the period of 12 months from the date of this prospectus to be admitted to the official list maintained by the UK listing authority. Application will also be made to the London Stock Exchange for the notes to be admitted to trading on the London Stock Exchange's Gilt Edged and Fixed Income Market. Admission to the official list together with admission to the London Stock Exchange's Gilt Edged and Fixed Interest Market (being a regulated market for the purposes of the Investment Services Directive) constitute official listing on the London Stock Exchange.

It is expected that each series and class of notes which is to be admitted to the official list and to trading on the London Stock Exchange's Gilt Edged and Fixed Income Market will be admitted separately, as and when issued, subject only to the issue of a global note certificate or individual note certificates representing the notes of each series and class and to making the final terms relating to such notes available to the public in accordance with the Prospectus Directive and associated UK and EU implementing legislation.

This prospectus has been prepared in compliance with the prospectus rules made under Part VI of the FSMA.

The issuer accepts responsibility for the information contained in this prospectus. To the best of the knowledge of the issuer (who has 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. The issuer accepts responsibility accordingly.

### Clearing and settlement

Transactions in respect of the Rule 144A notes will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the date of the transaction. Prior to listing, however, dealings will be permitted by the London Stock Exchange in accordance with its rules.

The Rule 144A notes have been accepted for clearance through DTC, Clearstream, Luxembourg and Euroclear. The appropriate CUSIP numbers, common codes and ISINs for each series and class of notes will be specified in the applicable final terms.

### Litigation

Currently, none of the issuer, Funding 1, Holdings, the post-enforcement call option holder, PECO share trustee, the UK share trustee, the Jersey share trustee or the mortgages trustee is or has been involved in the preceding 12 calendar months (or, in the case of the issuer Funding 1, Holdings, the post-enforcement call option holder and the mortgages trustee since 5 September 2006 (being the date of its incorporation)) involved in any governmental, legal or arbitration proceedings or enforcement proceedings which may have or have had in the recent past a significant effect upon the financial position or profitability of the issuer, Funding 1, Holdings, the post-enforcement call option holder, PECO share trustee, the UK share trustee, the Jersey share trustee or the mortgages trustee (as the case may be).

There are currently no legal or arbitration proceedings pending (or known by Alliance & Leicester to be contemplated by governmental authorities) against Alliance & Leicester or in which any property of Alliance & Leicester is the subject, that is material to holders of the notes.

### Accounts

No statutory or non-statutory accounts within the meaning of the Companies Act 1985 in respect of any financial year of the issuer nor Funding 1 have been prepared. So long as the notes are listed on the official list of the UK listing authority and are trading on the London Stock

Exchange's Gilt Edged and Fixed Interest Market, the most recently published audited annual accounts of the issuer and Funding 1 from time to time shall be available at the specified office of the principal paying agent in London. Neither the issuer nor Funding 1 publishes interim accounts.

Since the date of its incorporation, neither the issuer nor Funding 1 has entered into any contracts or arrangements not being in the ordinary course of business.

### **Significant or material change**

Since 5 September 2006 (the date of incorporation of the issuer), 5 September 2006 (the date of incorporation of Funding 1), 5 September 2006 (the date of incorporation of Holdings), 5 September 2006 (the date of incorporation of the post-enforcement call option holder) and 1 September 2006 (the date of incorporation of the mortgages trustee), there has been (1) no material adverse change in the financial position or prospects of the issuer, Funding 1, Holdings, the post-enforcement call option holder or the mortgages trustee and (2) no significant change in the financial or trading position of the issuer, Funding 1, Holdings, the post-enforcement call option holder or the mortgages trustee.

### **Documents available**

From the date of this prospectus and for so long as any series and class of notes issued by the issuer is listed on the London Stock Exchange's Gilt Edged and Fixed Interest Market, copies of the following documents may, when published, be inspected at the registered office of the issuer and from the specified office of the principal paying agent during usual business hours, on any weekday (public holidays excepted):

1. the memorandum and articles of association of each of the issuer, Funding 1, Holdings, the mortgages trustee and the post-enforcement call option holder;
2. a copy of the prospectus and the related final terms;
3. any future offering circulars, prospectuses, information memoranda and including final terms (as applicable) (save that a final terms relating to an unlisted series and class of notes will be available for inspection only by the dealers and managers as specified in the final terms or, upon proof satisfactory to the principal paying agent or the registrar, as the case may be, as to the identity of the holder of any note to which the final terms relates) to the prospectus and any other documents incorporated therein or therein by reference;
4. each of the following documents:
  - the cash management agreement;
  - each conditional purchase agreement;
  - the controlling beneficiary deed;
  - the corporate services agreement;
  - the Funding 1 bank account agreement;
  - the Funding 1 deed of charge;
  - each Funding 1 deed of charge deed of accession;
  - each Funding 1 start-up loan agreement;
  - the Funding 1 swap agreement;
  - the intercompany loan agreement;
  - the issuer bank account agreement;
  - the issuer cash management agreement;
  - the issuer corporate services agreement;
  - the issuer deed of charge;
  - each issuer deed of charge deed of accession;

- the issuer master definitions and construction schedule;
- each issuer swap agreement and any related issuer swap guarantees;
- each loan tranche supplement;
- the master definitions and construction schedule;
- the mortgage sale agreement;
- the mortgages trust deed;
- the mortgages trustee bank account agreement;
- the mortgages trustee corporate services agreement;
- the note trust deed;
- the paying agent and agent bank agreement;
- the post-enforcement call option agreement;
- the post-enforcement call option holder corporate services agreement;
- the programme agreement;
- each remarketing agreement;
- each Scottish declaration of trust;
- the secretarial services agreement;
- the servicing agreement;
- each subscription agreement; and
- any other deeds of accession or supplemental deeds relating to any such documents and any other agreement or document from time to time designated as such by the issuer and the note trustee and/or the issuer security trustee and/or the Funding 1 security trustee.

The issuer confirms that the assets backing the notes, taken together with other arrangements to be entered into by the issuer on the initial closing date, have the characteristics that demonstrate capacity to produce funds to service any payments due and payable on the notes. This confirmation is based on the information available to the issuer as at the date of this prospectus and may be affected by the future performance of such assets backing the notes. Consequently you are advised to review carefully any disclosure in the prospectus together with any amendments or supplements thereto.

## GLOSSARY

<b>\$, U.S.\$, U.S. dollars and dollars</b>	the lawful currency for the time being of the United States of America
<b>€, euro and Euro</b>	the single currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended from time to time
<b>£, pounds and sterling</b>	the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland
<b>2006-1 notes</b>	the notes issued by the issuer on the initial closing date
<b>1970 Act</b>	the Conveyancing and Feudal Reform (Scotland) Act 1970, as amended
<b>1999 Regulations</b>	the Unfair Terms in Consumer Contracts Regulations 1999, as amended
<b>A loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class M notes
<b>AA loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class B notes
<b>AAA loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class A notes
<b>A principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any A loan tranches
<b>AA principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any AA loan tranches
<b>AAA principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any AAA loan tranches or, where the context requires, the comparable ledger for a further Funding company
<b>accrued interest</b>	in respect of a mortgage account on a given date (the relevant date), the interest which has accrued but which is not yet due and payable from and including the last regular interest payment date up to (but excluding) that the relevant date
<b>adjusted general reserve fund level</b>	the sum of: <ul style="list-style-type: none"> <li>(a) the amount standing to the credit of the general reserve fund; and</li> <li>(b) the amount (if any) then to be credited in accordance with item (b) of the relevant Funding 1 pre-acceleration principal priority of payments</li> </ul>
<b>affected cash accumulation loan tranche</b>	the meaning given to it on page 138
<b>agent bank</b>	Citibank, N.A., London branch
<b>Alliance &amp; Leicester</b>	Alliance & Leicester plc; see “ <b>Alliance &amp; Leicester</b> ”
<b>alternative insurance requirements</b>	requirements which vary the insurance provisions of the mortgage conditions
<b>annualised CPR</b>	the result of the calculation $1 - ((1 - M)^{12})$

	where M is expressed as a percentage and determined as at the most recent trust calculation date as indicated in the definition of “anticipated cash accumulation period” (see “ <b>The mortgages trust – Cash management of trust property – Principal receipts</b> ” above)
<b>anticipated cash accumulation period</b>	the anticipated number of months required to accumulate sufficient principal receipts to pay the relevant accumulation amount, as described further in “ <b>The mortgages trust – Cash management of trust property – Principal receipts</b> ” above
<b>applicable final terms</b>	in relation to a series and class of notes, the final terms (or the relevant provisions thereof) attached to or endorsed on such notes, as described further in “ <b>Terms and conditions of the notes</b> ” above
<b>arrears of interest</b>	in respect of a given date, interest and expenses which are due and payable and remain unpaid on that date
<b>arrears or step-up trigger event</b>	(i) when the outstanding principal balance of the loans in arrears for more than 3 times the monthly payment then due divided by the outstanding principal balance of all of the loans in the mortgages trust (expressed as a percentage) exceeds 2 per cent. or (ii) if the issuer fails to exercise its option to redeem any of its notes on the relevant step-up date as specified in the relevant final terms
<b>asset trigger event</b>	will occur when an amount is debited to the AAA principal deficiency sub-ledger of Funding 1 or any further Funding company, unless such debit is made when the sum of the amount standing to the credit of the general reserve ledger, liquidity reserve ledger (if any) and the Funding 1 revenue ledger together with amounts determined and due to be credited to the Funding 1 revenue ledger prior to the immediately following Funding 1 interest payment date after such debit is made, and the amount available under the Funding 1 liquidity facility agreement (if established) is greater than the amount necessary to pay items (a) to (f) of the Funding 1 pre-acceleration revenue priority of payments on the immediately following Funding 1 interest payment date after such debit is made.
<b>authorised investments</b>	means: <ul style="list-style-type: none"> <li>● sterling gilt-edged securities; and</li> <li>● sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) provided that in all cases such investments have a maturity date of 90 days or less and mature on or before the next following interest payment date and the short-term unsecured, unguaranteed and unsubordinated debt obligations of the issuing or guaranteeing entity or the entity with which the demand or time deposits are made (being an authorised person under the FSMA) are rated at least equal to either A-1+ by Standard &amp; Poor’s, P-1 by Moody’s and F1+ by Fitch or their equivalents by three other internationally recognised rating agencies or which are otherwise acceptable to the Rating Agencies (if they are notified in advance) to maintain the then current ratings of the notes</li> </ul>
<b>base rate</b>	the Bank of England base rate



<b>base rate-linked rate</b>	the rate of interest applicable to a base rate loan (before applying any cap or minimum rate), as described further in “ <b>The loans – Characteristics of the loans</b> ” above
<b>base rate loan</b>	a loan where interest is linked to a variable interest rate other than the variable rates. The rate on base rate loans is currently set at a margin by reference to rates set by the Bank of England, as described further in “ <b>The loans – Characteristics of the loans</b> ” above
<b>Basel II Framework</b>	the regulatory capital framework described in the Basel Committee on Banking Supervision’s publication, <i>Basel II: The International Convergence of Capital Measurement and Capital Standards: a Revised Framework</i>
<b>basic terms modification</b>	the modification of terms, including altering the amount, rate or timing of payments on the notes, the currency of payment, the priority of payments or the quorum or majority required in relation to these terms
<b>BB loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class D notes
<b>BBB loan tranches</b>	the loan tranches made by the issuer to Funding 1 under the intercompany loan agreement from the proceeds of issue of any series of class C notes
<b>BB principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any BB loan tranches
<b>BBB principal deficiency sub-ledger</b>	a sub-ledger on the principal deficiency ledger which specifically records any principal deficiency in respect of any BBB loan tranches
<b>beneficial owner</b>	an actual purchaser of notes held within a clearing system, as described further in “ <b>Book-entry clearance procedures – Settlement and transfer of notes</b> ” above
<b>beneficiaries</b>	Funding 1 and the seller (and any further Funding company) as beneficiaries of the mortgages trust
<b>booking fee</b>	a fee payable by the borrower in respect of applications for certain types of loans
<b>borrower</b>	in relation to a loan, the individual or individuals specified as such in the relevant mortgage together with the individual or individuals (if any) from time to time assuming an obligation to repay such loan or any part of it
<b>bullet accumulation liability</b>	on any Funding 1 interest payment date prior to any payment under item (d) of the priority of payments described above in “ <b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes</b> ” the aggregate of each relevant accumulation amount at that time of each bullet loan tranche which is within a cash accumulation period
<b>bullet accumulation shortfall</b>	at any time that the cash accumulation ledger amount is less than the <i>bullet accumulation liability</i>

<b>bullet loan tranche</b>	<p>in respect of Funding 1 under the intercompany loan agreement, any loan tranche which is scheduled to be repaid in full on one Funding 1 interest payment date, namely those loan tranches designated as “bullet loan tranches” in the accompanying final terms</p> <p>The bullet loan tranches will be deemed to be pass-through loan tranches if a pass-through trigger event occurs or if a step-up date occurs</p>
<b>bullet redemption date</b>	the bullet redemption date for any series and class of bullet redemption notes will be the interest payment date specified as such for such series and class of notes in the applicable final terms, subject to the terms and conditions of the notes
<b>bullet repayment date</b>	the Funding 1 interest payment date specified as such for such loan tranche in the applicable loan tranche supplement
<b>business day</b>	a day that is a London business day, a New York business day and a TARGET business day
<b>calendar year</b>	a year from the beginning of 1 January to the end of 31 December
<b>capitalised</b>	means, in respect of a fee or other amount, added to the principal balance of a loan
<b>capitalised arrears</b>	the aggregate amount of any interest which is overdue in respect of the loans which the seller has agreed to capitalise and has been capitalised and added in the accounts of the seller to the outstanding principal balance of a loan, as described further in “ <b>The mortgages trust – Funding 1 share of trust property – Trust calculation date recalculation</b> ” above
<b>capitalised interest</b>	if a borrower takes a payment holiday (as permitted under the terms of the loan), then the outstanding principal balance of the loan will increase by the amount of interest that would have been paid on the relevant loan if not for such payment holiday
<b>capped loan tranches</b>	the meaning given to it on page 152
<b>cash accumulation advance</b>	a bullet loan tranche or scheduled amortisation instalment which is within a cash accumulation period
<b>cash accumulation ledger</b>	a ledger maintained by the cash manager to record the amount accumulated by Funding 1 from time to time to pay the relevant accumulation amounts
<b>cash accumulation ledger amount</b>	at any time the amount standing to the credit of the cash accumulation ledger at that time immediately prior to any drawing to be applied on that interest payment date and prior to any payment under item (h) of the priority of payments described above in “ <b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes</b> ”
<b>cash accumulation liability</b>	<p>on any Funding 1 interest payment date prior to any payment under item (d) of the priority of payments described above in “<b>Cashflows – Distribution of Funding 1 available principal receipts – Repayment of loan tranches before a trigger event and before intercompany loan acceleration or acceleration of all notes</b>”, the sum of:</p> <ul style="list-style-type: none"> <li>● the bullet accumulation liability at that time; and</li> </ul>

	<ul style="list-style-type: none"> <li>the aggregate of each relevant accumulation amount at that time of each scheduled amortisation instalment which is within a cash accumulation period</li> </ul>
<b>cash accumulation loan tranche</b>	a bullet loan tranche and/or scheduled amortisation instalment
<b>cash accumulation period</b>	<p>(in the case of a scheduled amortisation loan tranche) means 3 months and (in the case of a bullet loan tranche) means the period of time beginning on the earlier of the following two dates:</p> <p>(a) the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months calculated under the definition of the Funding 1 anticipated cash accumulation period; and</p> <p>(b) the date determined after counting back in time from the relevant scheduled repayment date of the relevant accumulation amount, the number of months specified in the relevant final terms accompanying this prospectus,</p> <p>provided that, if the beginning of a cash accumulation period as determined above would fall on a date which is not a distribution date, then the cash accumulation period shall commence on the distribution date falling immediately before that date. A cash accumulation period shall end in respect of a relevant accumulation amount when Funding 1 has accumulated an amount equal to that particular relevant accumulation amount, as described further in <b>“The mortgages trust – Cash management of trust property – Principal receipts”</b> above</p>
<b>cash accumulation requirement</b>	the meaning given to it on page 130
<b>cash accumulation shortfall</b>	the cash accumulation ledger amount being less than the cash accumulation liability
<b>cash management agreement</b>	the cash management agreement entered into on the initial closing date, as amended from time to time, between the cash manager, the mortgages trustee, Funding 1 and the Funding 1 security trustee, as described further above in <b>“Summary of the transaction documents – Cash management agreement”</b>
<b>cash manager</b>	Alliance & Leicester acting, pursuant to the cash management agreement, as agent for the mortgages trustee, Funding 1 and the Funding 1 security trustee, among others, to manage all cash transactions and maintain certain ledgers on behalf of the mortgages trustee, Funding 1 and the Funding 1 security trustee
<b>cash withdrawal</b>	a cash withdrawal made by a borrower in an amount of all or part of the accrued overpayments, as described further above in <b>“The loans – Characteristics of the loans – Flexible payments”</b>
<b>CCA</b>	The Consumer Credit Act 1974, as amended
<b>CFC</b>	a controlled foreign corporation, as described further above in <b>“United States federal income taxation – Alternative characterisation of the Rule 144A notes”</b>
<b>class</b>	any of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes
<b>class A available subordinated amount</b>	the meaning given to it on page 31
<b>class A noteholders</b>	the holders of the class A notes

<b>class A notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class A required subordinated amount</b>	the meaning given to it on page 31
<b>class B available subordinated amount</b>	the meaning given to it on page 31
<b>class B noteholders</b>	the holders of the class B notes
<b>class B notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class B required subordinated amount</b>	the meaning given to it on page 31
<b>class C available subordinated amount</b>	the meaning given to it on page 32
<b>class C noteholders</b>	the holders of the class C notes
<b>class C notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class C required subordinated amount</b>	the meaning given to it on page 32
<b>class D noteholders</b>	the holders of the class D notes
<b>class D notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class M available subordinated amount</b>	the meaning given to it on page 32
<b>class M noteholders</b>	the holders of the class M notes
<b>class M notes</b>	the notes of a series designated as such (or a sub-class of such) in the applicable final terms
<b>class M required subordinated amount</b>	the meaning given to it on page 32
<b>clearing agency</b>	an agency registered under the provisions of Section 17A of the United States Securities Exchange Act of 1934, as amended
<b>clearing corporation</b>	a corporation within the meaning of the New York Uniform Commercial Code
<b>Clearstream, Luxembourg</b>	Clearstream Banking, société anonyme
<b>closing date</b>	the meaning given to it in the applicable final terms
<b>CML</b>	Council of Mortgage Lenders
<b>CML Code</b>	the Mortgage Code issued by the CML
<b>Code</b>	United States Internal Revenue Code of 1986, as amended
<b>collection accounts</b>	the collection accounts in the name of the seller which are from time to time used for the purpose of collecting, directly or indirectly, monies due in respect of the loans and/or the related security forming part of the trust property
<b>common depositary</b>	Citibank, N.A., London branch
<b>controlling beneficiary deed</b>	the controlling beneficiary deed entered into on the initial closing date, as amended from time to time, between Funding 1, the Funding 1 security trustee and the seller, to which any further

	Funding company and any further Funding security trustee will accede at the time that such further Funding company becomes a beneficiary of the mortgages trust
<b>core terms</b>	terms which define the main subject matter of a contract
<b>corporate services agreement</b>	an agreement to be entered into on the initial closing date between, among others, Holdings, Funding 1, Alliance & Leicester, the corporate services provider and the Funding 1 security trustee, which governs the provision of corporate services by the corporate services provider to Holdings and Funding 1 (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>corporate services provider</b>	in respect of Funding 1 and Holdings means Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to Funding 1 and Holdings under the corporate services agreement
<b>crystallise</b>	when a floating charge becomes a fixed charge
<b>current balance</b>	in relation to a loan at any given date, the aggregate (without double counting) of the outstanding principal balance, accrued interest and other amounts in arrears relating to that loan as at that date
<b>custodian</b>	Citibank, N.A.
<b>dealers</b>	the entities specified as such in the applicable final terms
<b>deferred contribution</b>	the meaning given to it on page 119
<b>deferred purchase price</b>	the deferred purchase price paid to the seller in accordance with the provisions of the mortgage sale agreement from the proceeds of any deferred contributions
<b>deferred tax</b>	the meaning given to it on page 292
<b>detached</b>	a house not joined to another house
<b>determination date</b>	in respect of a series and class of notes, the date(s) specified as such in the applicable final terms
<b>differential rate</b>	the meaning given to it on page 186
<b>diligence</b>	the process (under Scots law) by which a creditor attaches the property of a debtor to implement or secure a court decree or judgment
<b>disclosure regulations</b>	U.S. Treasury Regulations, as described further in " <b>United States federal income taxation – IRS disclosure reporting requirements</b> "
<b>discount loan</b>	the meaning given to it on page 184
<b>discount rate</b>	a specified discount to the variable rate of interest, as described further in " <b>The loans – Characteristics of the loans</b> " above
<b>discount rate period</b>	the meaning given to it on page 184
<b>disqualified persons</b>	the meaning given to it on page 296
<b>distribution compliance period</b>	the meaning given to it on page 300
<b>distribution date</b>	the date which is four London business days after each trust calculation date, being the date that the mortgages trustee will distribute principal and revenue receipts to Funding 1 and the seller
<b>dollar notes</b>	each series and class of notes denominated in US dollars

<b>DTC</b>	The Depository Trust Company
<b>DTI</b>	the UK Department of Trade and Industry
<b>early repayment charge</b>	any fee which a borrower is required to pay in the event that he or she is in default or his or her loan becomes repayable for any other mandatory reason or he or she repays all or any part of the relevant loan before a specified date
<b>English loan</b>	a loan secured by an English mortgage
<b>English mortgage</b>	a mortgage secured over a property in England or Wales
<b>English mortgage conditions</b>	the mortgage conditions applicable to English loans
<b>ERISA</b>	the U.S. Employee Retirement Income Security Act of 1974, as amended
<b>ERISA-eligible notes</b>	the meaning given to it on page 296
<b>ERISA Plans</b>	the meaning given to it on page 296
<b>euro notes</b>	each series and class of notes denominated in euro
<b>EURIBOR</b>	the Euro-zone inter-bank offered rate
<b>Euroclear</b>	Euroclear Bank S.A./N.V.
<b>excess swap collateral</b>	an amount equal to the value of the collateral (or the applicable part of any collateral) provided by an issuer swap provider to the issuer in respect of that issuer swap provider's obligations to transfer collateral to the issuer under the relevant issuer swap agreement which is in excess of that issuer swap provider's liability under the relevant issuer swap agreement as at the date of termination of the relevant issuer swap agreement or which it is otherwise entitled to have returned to it under the terms of the relevant issuer swap agreement
<b>Exchange Act</b>	The United States Exchange Act of 1934, as amended
<b>exchange event</b>	the meaning given to it on page 197
<b>exchange rate agent</b>	Citibank, N.A., London branch
<b>final maturity date</b>	in respect of a series and class of notes means the date specified as such for such class in the final terms
<b>final repayment date</b>	in relation to a loan tranche, the date specified as such in the related loan tranche supplement and applicable final terms
<b>final terms</b>	in relation to any series of notes, the final terms issued in relation to such series of notes giving details of, <i>inter alia</i> , the amount and price of such series of notes and which forms a part of the prospectus in relation to such series of notes
<b>first title</b>	First Title Insurance plc
<b>Fitch</b>	Fitch Ratings Ltd. and any successor to its ratings business
<b>fixed rate</b>	a fixed rate of interest
<b>fixed rate loan</b>	the meaning given to it on page 184
<b>fixed rate note</b>	a note, the interest basis of which is specified in the applicable final terms as being fixed rate
<b>fixed rate period</b>	the meaning given to it on page 184
<b>fixed security</b>	a form of security which means that the chargor is not allowed to deal with the assets subject to the charge without the consent of the chargee

<b>flexible draw capacity</b>	an amount equal to the maximum amount of cash withdrawal that borrowers may draw under flexible loans included in the trust property as determined as at the end of the previous trust calculation period
<b>flexible facility</b>	the meaning given to it on page 187
<b>flexible features</b>	the meaning given to it on page 186
<b>flexible loan</b>	a type of loan product that typically incorporates features that give the borrower options to, among other things, make further drawings on the loan account and/or to overpay or underpay interest and principal in a given month
<b>floating charge</b>	a form of charge which is not attached to specific assets but which “floats” over a class of them and which allows the chargor to deal with those assets in the every day course of its business, up until the point that the floating security is enforced, at which point it crystallises into a fixed security
<b>floating rate note</b>	a note, the interest basis of which is specified in the applicable final terms as being floating rate
<b>FSA</b>	the Financial Services Authority
<b>FSMA</b>	the Financial Services and Markets Act 2000, as amended
<b>Funding companies</b>	Funding 1 and any further Funding company
<b>Funding company loan tranche</b>	any loan tranche made to a Funding company
<b>Funding 1</b>	Fosse Funding (No. 1) Limited
<b>Funding 1 account bank</b>	Alliance & Leicester
<b>Funding 1 account bank ratings</b>	short-term, unsecured, unsubordinated and unguaranteed debt obligation ratings of at least A-1+ by Standard & Poor’s, P-1 by Moody’s and F1 by Fitch (provided that, if the aggregate amount on deposit in any account opened in the name of Funding 1 with the Funding 1 account bank, the mortgages trustee with the mortgages trustee account bank and the issuer with the issuer account bank is less than 20 per cent. of the aggregate principal amount outstanding of the notes issued by the issuer and any new notes issued by any new issuers and held in such account for 30 days or less, then the short-term, unsecured, unsubordinated and unguarantee ratings of the Funding 1 account bank required by Standard & Poor’s shall be at least A-1)
<b>Funding 1 anticipated cash accumulation period</b>	the meaning given to it on page 131
<b>Funding 1 available principal receipts</b>	the meaning set out above under “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>Funding 1 available revenue receipts</b>	the meaning set out above under “ <b>Cashflows – Distribution of Funding 1 available revenue receipts</b> ”

<b>Funding 1 bank account agreement</b>	the agreement entered into on the initial closing date, as amended from time to time, between, among others, the Funding 1 account bank and Funding 1, which governs the operation of the Funding 1 bank account
<b>Funding 1 cash accumulation period</b>	the meaning given to it on page 131
<b>Funding 1 deed of charge</b>	the deed of charge entered into on the initial closing date between (amongst others) Funding 1, the Funding 1 security trustee and the Funding 1 secured creditors on such date, as amended from time to time, including any deeds of accession or supplements thereto in connection with the issuance of a series
<b>Funding 1 GIC account</b>	the account in the name of Funding 1 held at the Funding 1 account bank and maintained subject to the terms of the Funding 1 bank account agreement and the Funding 1 deed of charge or such additional or replacement account as may for the time being be in place with the prior consent of the Funding 1 security trustee
<b>Funding 1 intercompany loan event of default</b>	the meaning given to it on page 84
<b>Funding 1 interest period</b>	the meaning given to it in paragraph (b) of the definition of interest period
<b>Funding 1 interest payment date</b>	in respect of a loan tranche, the quarter dates specified in the applicable final terms in each year (or if such day is not a business day, the next succeeding business day) for so long as the notes (other than the monthly payment notes) issued by the issuer have quarterly interest payment dates which correspond to the quarterly interest payment dates of the notes (other than the monthly payment notes) issued by the issuer on the initial closing date, and thereafter, or following the occurrence of a pass-through trigger event, the 18th day of each calendar month in each year (or, if such day is not a business day, the next succeeding business day)
<b>Funding 1 liquidity facility agreement</b>	any agreement entered into after the initial closing date between (among others) Funding 1 and the Funding 1 liquidity facility provider in relation to the provision of a liquidity facility to Funding 1
<b>Funding 1 liquidity facility</b>	a liquidity facility entered into at any time after the initial closing date
<b>Funding 1 liquidity facility provider</b>	the provider of the Funding 1 liquidity facility
<b>Funding 1 liquidity facility principal payment</b>	the payments specified as such in the Funding 1 liquidity facility agreement (if any)
<b>Funding 1 liquidity facility subordinated amounts</b>	the amounts specified as such in the Funding 1 liquidity facility agreement (if any)
<b>Funding 1 post-acceleration priority of payments</b>	the order in which, following acceleration of the intercompany loan, the cash manager or the Funding 1 security trustee, as the case may be, will apply the amounts received following enforcement of the Funding 1 security, as set out above in <b>“Security for Funding 1’s obligations”</b> and <b>“Cashflows – Distribution of Funding 1 principal receipts and Funding 1 revenue receipts following intercompany loan acceleration”</b>
<b>Funding 1 pre-acceleration principal priority of payments</b>	the order in which, prior to acceleration of the intercompany loan, the cash manager will apply the Funding 1 available principal receipts as set out above in <b>“Summary of the transaction</b>



	<b>documents – Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments” and “Cashflows – Distribution of Funding 1 available principal receipts”</b>
<b>Funding 1 pre-acceleration revenue priority of payments</b>	the order in which, prior to enforcement of the Funding 1 security, the cash manager will apply the Funding 1 available revenue receipts as set out in <b>“Summary of the transaction documents – Funding 1 deed of charge – Funding 1 pre-acceleration priority of payments” and “Cashflows – Distribution of Funding 1 available revenue receipts before intercompany loan acceleration”</b>
<b>Funding 1 principal funds</b>	the meaning given to it on page 151
<b>Funding 1 principal ledger</b>	a ledger maintained by the cash manager to record the amount of principal receipts received by Funding 1 from the mortgages trustee on each distribution date
<b>Funding 1 principal receipts</b>	the principal receipts paid by the mortgages trustee to Funding 1 on each distribution date
<b>Funding 1 priority of payments</b>	as the context requires, any of the Funding 1 pre-acceleration revenue priority of payments, the Funding 1 pre-acceleration principal priority of payments or the Funding 1 post-acceleration priority of payments
<b>Funding 1 revenue ledger</b>	a ledger maintained by the cash manager to record all amounts received by Funding 1 from the mortgages trustee on each distribution date other than principal receipts, together with interest received by Funding 1 on its authorised investments or pursuant to the Funding 1 bank account agreement
<b>Funding 1 secured creditors</b>	the Funding 1 security trustee, the Funding 1 swap provider, the cash manager, the Funding 1 account bank, the seller, the corporate services provider, each Funding 1 start-up loan provider, the issuer and any other entity that accedes to the terms of the Funding 1 deed of charge from time to time
<b>Funding 1 security</b>	the security created under the Funding 1 deed of charge
<b>Funding 1 security trustee</b>	Law Debenture Trust Company of New York
<b>Funding 1 share</b>	the Funding 1 share of the trust property from time to time, as calculated on each trust calculation date
<b>Funding 1 share percentage</b>	the Funding 1 share percentage of the trust property from time to time as calculated on each trust calculation date
<b>Funding 1 start-up loan agreements</b>	the Funding 1 start-up loan agreement entered into on or about the <i>initial closing date</i> and any other start-up loan agreement entered into in connection with the issuance of a series
<b>Funding 1 start-up loan provider</b>	Alliance & Leicester, in its capacities as provider of each Funding 1 start-up loan and/or (as the context requires) any new Funding 1 start-up loan provider
<b>Funding 1 start-up loans</b>	each loan made by a Funding 1 start-up loan provider under a Funding 1 start-up loan agreement in connection with the issuance of a series

<b>Funding 1 swap</b>	<i>the swap documented under the Funding 1 swap agreement which enables Funding 1 to hedge against the possible variance between the mortgages trustee variable rate payable on the variable rate loans, the fixed rates of interest payable on the fixed rate loans and the rates of interest payable on the base rate loans and a LIBOR-based rate for three-month sterling deposits, as described further in “Summary of the transaction documents – Swap agreements – Funding 1 swap agreement” above</i>
<b>Funding 1 swap agreement</b>	<i>the ISDA master agreement and schedule thereto entered into on the initial closing date between Funding 1, the Funding 1 swap provider and the Funding 1 security trustee and any confirmation documented thereunder from time to time between Funding 1, the Funding 1 swap provider and the Funding 1 security trustee (as each of the same may be amended, restated, novated or supplemented from time to time)</i>
<b>Funding 1 swap excluded termination amount</b>	<p><i>in relation to the Funding 1 swap agreement an amount equal to:</i></p> <p>(a) <i>the amount of any termination payment due and payable to the Funding 1 swap provider as a result of a Funding 1 swap provider default or following a Funding 1 swap provider downgrade termination event;</i></p> <p><i>less</i></p> <p>(b) <i>the amount, if any, received by Funding 1 from a replacement swap provider upon entry by Funding 1 into an agreement with such replacement swap provider to replace the Funding 1 swap agreement which has terminated as a result of such Funding 1 swap provider default or following the occurrence of such Funding 1 swap provider downgrade termination event</i></p>
<b>Funding 1 swap provider</b>	<i>Alliance &amp; Leicester, pursuant to the Funding 1 swap agreement</i>
<b>Funding 1 swap provider default</b>	<i>the occurrence of an event of default (as defined in the Funding 1 swap agreement) where the Funding 1 swap provider is the defaulting party (as defined in the Funding 1 swap agreement)</i>
<b>Funding 1 swap provider downgrade termination event</b>	<i>the occurrence of an additional termination event following the failure by the Funding 1 swap provider to comply with the requirements of the ratings downgrade provisions set out in the Funding 1 swap agreement</i>
<b>Funding 1 transaction account</b>	<i>the account in the name of Funding 1 maintained with Alliance &amp; Leicester pursuant to the Funding 1 bank account agreement and the Funding 1 deed of charge or such additional or replacement account as may for the time being be in place</i>
<b>funds</b>	<i>where the context requires, the general reserve fund and the liquidity reserve fund</i>
<b>further advance</b>	<i>an advance made following a request from an existing borrower for a further amount to be lent to him or her under his or her mortgage, where Alliance &amp; Leicester has a discretion as to whether to accept that request</i>
<b>further contribution</b>	<i>the consideration in the form of cash payable by any beneficiary to the mortgages trustee to increase the Funding 1 share, the further Funding company share or the seller share of the trust property,</i>

	as the case may be, pursuant to the terms of the mortgages trust deed, but excluding any initial contribution or deferred contribution paid by Funding 1
<b>further contribution date</b>	the date that any of the beneficiaries makes a further contribution to the mortgages trust
<b>further Funding companies</b>	funding entities (other than Funding 1) established in future by Holdings
<b>further Funding company cash accumulation period</b>	the meaning given to it on page 131
<b>further Funding company share</b>	the share of each further Funding company in the trust property, as described further in “ <b>The mortgages trust – Further Funding company’s share of trust property</b> ” above
<b>further Funding company share percentage</b>	the percentage share of each further Funding company in the trust property, as described further in “ <b>The mortgages trust – Further Funding company’s share of trust property</b> ” above
<b>further Funding security trustee</b>	any trustee in whose favour security is created pursuant to a deed of charge entered into by any further Funding company and any new issuer, where applicable
<b>general reserve fund</b>	at any time the amount standing to the credit of the general reserve ledger at that time, which may be used in certain circumstances by Funding 1 to meet any deficit in revenue or to repay amounts of principal, as described further in “ <b>Credit structure – General reserve fund</b> ” above
<b>general reserve ledger</b>	a ledger maintained by the cash manager to record the amount credited to the general reserve fund from the proceeds of a portion of each Funding 1 start-up loan, and other withdrawals and deposits or credits in respect of the general reserve fund
<b>general reserve required amount</b>	the amount specified in the most recent final terms
<b>global notes</b>	the notes in global form
<b>Holdings</b>	Fosse (Master Issuer) Holdings Limited
<b>housing indices</b>	the Nationwide House Price Index and Halifax Price Index
<b>ICTA</b>	the UK Income and Corporation Taxes Act 1988, as amended
<b>IFRS</b>	International Financial Reporting Standards
<b>in arrears</b>	in respect of a mortgage account, occurs when one or more monthly payments in respect of a mortgage account have become due and unpaid by a borrower
<b>industry CPR</b>	a constant repayment rate which is calculated by dividing the amount of scheduled and unscheduled repayments of mortgages made by building societies in a quarter by the quarterly balance of mortgages outstanding for building societies in the United Kingdom
<b>initial closing date</b>	28 November 2006
<b>initial contribution</b>	a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by Funding 1 or any further Funding company in respect of any trust property sold to the mortgages trustee at the time of such sale for the purposes of enabling the mortgages trustee to fund the payment of the initial purchase price owed by the mortgages trustee to the seller, pursuant to the terms of the mortgage sale agreement, in respect of any loans and their

	related security sold by the seller to the mortgages trustee from time to time
<b>initial dealers</b>	Barclays Bank PLC, acting through its investment bank division Barclays Capital and Citigroup Global Markets Limited
<b>initial loans</b>	the loans sold by the seller to the mortgages trustee on the initial closing date pursuant to the terms of the mortgage sale agreement
<b>initial purchase price</b>	that portion of the purchase price paid by the mortgages trustee to the seller on the date loans are sold to the mortgages trustee in consideration for the sale to the mortgages trustee of loans pursuant to the terms of the mortgage sale agreement
<b>Insolvency Act insolvency event</b>	<p>the Insolvency Act 1986, as amended</p> <p><i>in respect of the seller, the servicer, the cash manager or the issuer cash manager (each, for the purposes of this definition, a <b>relevant entity</b>) means:</i></p> <ul style="list-style-type: none"> <li>(a) an order is made or an effective resolution passed for the winding up of the relevant entity;</li> <li>(b) the relevant entity ceases or threatens to cease to carry on its business or stops payment or threatens to stop payment of its debts or is deemed unable to pay its debts within the meaning of Section 123 of the Insolvency Act 1986 (as amended) or otherwise becomes insolvent; or</li> <li>(c) proceedings (including, but not limited to, presentation of an application for an administration order, the filing of documents with the court for the appointment of an administrator or the service of a notice of intention to appoint an administrator) are initiated against the relevant entity under any applicable liquidation, administration, reorganisation (other than a reorganisation where the relevant entity is solvent) or other similar laws, save where such proceedings are being contested in good faith; or an administrative or other receiver, administrator or other similar official is appointed in relation to the whole or any substantial part of the undertaking or assets of the relevant entity or the appointment of an administrator takes effect; or a distress, execution, diligence or other process is enforced upon the whole or any substantial part of the undertaking or assets of the relevant entity and in any of the foregoing cases it is not discharged within 15 London business days; or if the relevant entity initiates or consents to judicial proceedings relating to itself under any applicable liquidation, administration, insolvency, reorganisation or other similar laws or makes a conveyance or assignment for the benefit of its creditors generally or takes steps with a view to obtaining a moratorium in respect of any indebtedness</li> </ul>
<b>intercompany loan</b>	at any time, the aggregate of all loan tranches advanced under the intercompany loan agreement
<b>intercompany loans</b>	together, the intercompany loan and any new intercompany loans

<b>intercompany loan acceleration notice</b>	where the context so requires, an acceleration notice served: <ul style="list-style-type: none"> <li>(a) by the Funding 1 security trustee on Funding 1 following an intercompany loan event of default and/or following an event of default under a new intercompany loan (where applicable); and/or</li> <li>(b) on a further Funding company following an event of default under a new intercompany loan</li> </ul>
<b>intercompany loan agreement</b>	the intercompany loan agreement entered into on the initial closing date between Funding 1, the issuer, the Funding 1 security trustee, the issuer security trustee and the agent bank
<b>intercompany loan event of default</b>	an event of default under the intercompany loan agreement
<b>intercompany loan ledger</b>	a ledger maintained by the cash manager to record payments of interest and repayments of principal made on each of the loan tranches under the intercompany loan
<b>interest commencement date</b>	in relation to a series and class of notes, the closing date of such notes or such other date as may be specified as such in the applicable final terms; and in respect of a loan tranche, the closing date of the related series and class of notes or such other date as may be specified as such in the applicable loan tranche supplement
<b>interest-only portion</b>	the meaning given to it on page 184
<b>interest payment date</b>	<i>means, in respect of a series and class of notes (other than monthly payment notes), the quarterly interest payment dates and (in the case of monthly payment notes) the monthly interest payment dates, subject, in each case, to the applicable final terms</i>
<b>interest period</b>	<ul style="list-style-type: none"> <li>(a) in relation to a series and class of notes (i) with respect to the first interest payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first interest payment date, and (ii) thereafter, with respect to each interest payment date, the period from and including the preceding interest payment date to (but excluding) that interest payment date; and</li> <li>(b) in respect of a loan tranche, (i) with respect to the first Funding 1 payment date, the period from (and including) the applicable interest commencement date to (but excluding) such first Funding 1 payment date, and (ii) thereafter, the period from and including the preceding Funding 1 payment date to (but excluding) that Funding 1 payment date</li> </ul>
<b>interim trust calculation period</b>	the meaning given to it on page 120
<b>investment plan</b>	in respect of an interest-only loan, a repayment mechanism selected by the borrower and intended to provide sufficient funds to redeem the full principal of a loan at maturity
<b>Investment Company Act IRS</b>	the United States Investment Company Act of 1940, as amended the U.S. Internal Revenue Service
<b>issuance tests</b>	the conditions and tests (including the required levels of subordination) necessary to issue a series and class of notes, as described further in “ <b>The issuance of notes – Issuance</b> ” above
<b>issuer</b>	Fosse Master Issuer plc

<b>issuer accounts</b>	the issuer share capital account, the issuer transaction account and any other account held by the issuer from time to time (including without limitation the issuer GIC account)
<b>issuers</b>	together, the issuer and any new issuer(s)
<b>issuer account bank</b>	Alliance & Leicester
<b>issuer bank account agreement</b>	the agreement to be entered into on the initial closing date between the issuer account bank, the issuer, the issuer cash manager and the issuer security trustee (as the same may be amended, restated, supplemented, replaced and/or novated from time to time) which governs the operation of issuer transaction account and the issuer share capital account
<b>issuer cash management agreement</b>	the issuer cash management agreement to be entered into on the initial closing date between the issuer cash manager, the issuer and the issuer security trustee (as the same may be amended, restated, novated, replaced or supplemented from time to time), as described further above in " <b>Summary of the transaction documents – Issuer cash management agreement</b> "
<b>issuer cash manager</b>	Alliance & Leicester acting, pursuant to the issuer cash management agreement, as agent for the issuer and the issuer security trustee to manage all cash transactions and maintain certain ledgers on behalf of the issuer
<b>issuer corporate services agreement</b>	the agreement to be entered into on the initial closing date between, among others, the issuer, Alliance & Leicester, the issuer corporate services provider and the note trustee, which governs the provision of corporate services by the corporate services provider to the issuer (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer corporate services provider</b>	Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the issuer under the issuer corporate services agreement
<b>issuer currency swaps</b>	the issuer dollar currency swaps, the issuer euro currency swaps and any other currency swaps which enable the issuer to receive and pay amounts under the intercompany loan in sterling and to receive and pay amounts under the notes in any other relevant currency, as described further above in " <b>Summary of the transaction documents – Swap agreements – The issuer swap agreements</b> "
<b>issuer deed of charge</b>	the deed of charge entered into on the initial closing date between, among others, the issuer and the issuer security trustee, under which the issuer charges the issuer security in favour of the issuer security trustee for the benefit of the issuer secured creditors, as described further above in " <b>Summary of the transaction documents – Issuer deed of charge</b> "
<b>issuer dollar account</b>	the account of the issuer held with the issuer account bank, denominated in dollars and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge, or any additional or replacement account denominated in dollars as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer dollar currency swap agreements</b>	in respect of a series and class of notes, the ISDA master agreements, schedules and confirmations relating to the issuer dollar currency swaps to be entered into on or before the relevant

	closing date in respect of such series between the issuer, the relevant issuer swap provider and the issuer security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer dollar currency swaps</b>	the sterling-dollar currency swaps which enable the issuer to receive and pay amounts under the intercompany loan in sterling and to receive and pay amounts under the USD denominated notes, as described further above in " <b>Summary of the transaction documents – Swap agreements – The issuer swap agreements</b> "
<b>issuer euro account</b>	the account of the issuer held with the issuer account bank, denominated in euro and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge, or any additional or replacement account denominated in euro as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer euro currency swap agreements</b>	in respect of a series and class of notes, the ISDA master agreements, schedules and confirmations relating to the issuer euro currency swaps to be entered into on or before the relevant closing date between the issuer, the relevant issuer swap provider and the issuer security trustee (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>issuer euro currency swaps</b>	the sterling-euro currency swaps which enable the issuer to receive and pay amounts under the intercompany loan in sterling and to receive and pay amounts under the euro denominated notes, as described further above in " <b>Summary of the transaction documents – Swap agreements – The issuer swap agreements</b> "
<b>issuer GIC account</b>	the account to be established with the account bank as a condition precedent to the issue of notes with quarterly interest payment dates which do not correspond to the quarterly interest payment dates of notes (other than monthly payment notes) issued on the initial closing date
<b>issuer interest rate swap agreements</b>	the ISDA master agreements, schedules and confirmations relating to the issuer interest rate swaps entered into on or before the relevant closing date between the issuer, the relevant issuer swap provider and the issuer security trustee (as amended, restated, supplemented, replaced and/or, novated from time to time)
<b>issuer interest rate swaps</b>	the issuer interest rate swaps which enable the issuer to hedge its exposure to potential mismatches between the floating rate of interest payable under the intercompany loan and to the fixed rate of interest payable by the issuer under certain sterling notes, as described further above in " <b>Summary of the transaction documents – Swap agreements – The issuer swap agreements</b> "
<b>issuer post-acceleration principal priority of payments</b>	the order in which, following the service of a note acceleration notice but prior to the service of an intercompany loan acceleration notice, the issuer cash manager or the issuer security trustee, as the case may be, will apply the issuer principal receipts on each interest payment date or such other day as set out above in " <b>Cashflows – Distribution of issuer principals receipts after note acceleration but before intercompany loan acceleration</b> "

<b>issuer pre-acceleration principal priority of payments</b>	the order in which, prior to enforcement of the issuer security, the issuer or the issuer cash manager will apply the issuer principal receipts on each interest payment date, as set out above in <b>“Cashflows – Distribution of issuer principal receipts before note acceleration”</b>
<b>issuer pre-acceleration revenue priority of payments</b>	the order in which, prior to enforcement of the issuer security, the issuer cash manager will apply the issuer revenue receipts on each interest payment date, as set out above in <b>“Cashflows – Distribution of issuer revenue receipts before note acceleration”</b>
<b>issuer principal receipts</b>	an amount equal to the sum of all principal amounts repaid by Funding 1 to the issuer under the intercompany loan
<b>issuer priority of payments</b>	the issuer pre-acceleration revenue priority of payments, the issuer pre-acceleration principal priority of payments, the issuer post-acceleration principal priority of payments or the issuer priority of payments following an intercompany loan acceleration notice, as the case may be
<b>issuer priority of payments following an intercompany loan acceleration notice</b>	the order in which, following the service of an intercompany loan acceleration notice, the issuer cash manager or the issuer security trustee, as the case may be, will apply the amounts received following enforcement of the issuer security, as set out above in <b>“Summary of the transaction documents – Issuer deed of charge”</b> and <b>“Cashflows – Distribution of issuer principal receipts and issuer revenue receipts following intercompany loan acceleration”</b>
<b>issuer revenue ledger</b>	the ledger on which the issuer cash manager records issuer revenue receipts received and paid out of the issuer
<b>issuer revenue receipts</b>	an amount equal to the sum of: <ul style="list-style-type: none"> <li>(a) interest paid by Funding 1 on the relevant Funding 1 interest payment date in respect of the loan tranches under the intercompany loan;</li> <li>(b) fees to be paid by Funding 1 on the relevant date under the terms of the intercompany loan agreement;</li> <li>(c) interest payable on issuer bank accounts and authorised investments which will be received on or before the relevant date;</li> <li>(d) <i>other net income of issuer including amounts received or to be received under the issuer swap agreements on or before the relevant interest payment date (including any amounts received by issuer in consideration of it entering into a replacement issuer swap agreement but excluding (i) the return or transfer of any excess swap collateral as set out under any of the issuer swap agreements and (ii) in respect of each issuer swap provider, prior to the designation of an early termination date under the relevant issuer swap agreement and the resulting application of the collateral by way of netting or set-off, an amount equal to the value of all collateral (other than excess swap collateral) provided by such issuer swap provider to issuer pursuant to the relevant issuer swap agreement (and any interest or distributions in respect thereof)); and</i></li> </ul>



	(e) any additional amount issuer receives from any taxing authority on account of amounts paid to that taxing authority for and on account of tax by an issuer swap provider under an issuer swap agreement
<b>issuer secured creditors</b>	the issuer security trustee, noteholders, the issuer swap providers, the note trustee, the issuer account bank, the paying agents, the registrar, the transfer agent, the agent bank, the exchange rate agent, the issuer corporate services provider under the issuer corporate services agreement, the issuer cash manager and any new issuer secured creditor who accedes to the issuer deed of charge from time to time under a deed of accession or a supplemental deed
<b>issuer security</b>	security created by the issuer pursuant to the issuer deed of charge in favour of the issuer secured creditors
<b>issuer security trustee</b>	Law Debenture Trust Company of New York in whose favour security is created pursuant to the issuer deed of charge
<b>issuer security trustees</b>	the issuer security trustee and each security trustee in whose favour security is created pursuant to a deed of charge entered into by the issuer and/or any new issuer which enters into a new loan agreement with Funding 1
<b>issuer share capital account</b>	the bank account of the issuer held with the issuer account bank pursuant to the terms of the issuer bank account agreement into which the share capital of the issuer is deposited
<b>issuer sterling account</b>	the account of the issuer held with the issuer account bank, denominated in sterling and maintained subject to the terms of the issuer bank account agreement and the issuer deed of charge, or any additional or replacement account denominated in sterling as may for the time being be in place with the prior consent of the issuer security trustee
<b>issuer swap</b>	in respect of a series and class of notes, the issuer currency swap or the issuer interest rate swap, as the case may be
<b>issuer swaps</b>	the issuer currency swaps and issuer interest rate swaps
<b>issuer swap agreements</b>	the issuer dollar currency swap agreements, the issuer euro currency swap agreements and the issuer currency swap agreements entered into from time to time in respect of any other currencies and any issuer interest rate swap agreements
<b>issuer swap excluded termination amount</b>	in relation to any issuer swap agreement an amount equal to: <ul style="list-style-type: none"> <li>(a) the amount of any termination payment due and payable to the relevant issuer swap provider as a result of an issuer swap provider default or following an issuer swap provider downgrade termination event; less</li> <li>(b) the amount, if any, received by the issuer from a replacement swap provider upon entry by the issuer into an agreement with such replacement swap provider to replace such issuer swap agreement which has been terminated as a result of such issuer swap provider default or following the occurrence of such issuer swap provider downgrade termination event</li> </ul>
<b>issuer swap guarantees</b>	if applicable, the guarantee of the obligations of an issuer swap provider under an issuer swap agreement

<b>issuer swap provider default</b>	as the context may require, the occurrence of an event of default (as defined in the relevant issuer swap agreement) where the relevant issuer swap provider is the defaulting party (as defined in the relevant issuer swap agreement)
<b>issuer swap provider downgrade termination event</b>	the occurrence of an additional termination event following the failure by an issuer swap provider to comply with the requirements of the ratings downgrade provisions set out in the relevant issuer swap agreement
<b>issuer swap provider</b>	in respect of a series and class of notes, the swap provider identified in the relevant final terms
<b>issuer transaction account</b>	the issuer dollar account, the issuer euro account and the issuer sterling account
<b>issuance tests</b>	the tests set out above in " <b>Issuance of the notes</b> "
<b>Italian Securities Exchange Commission</b>	CONSOB, as described further above in " <b>Subscription and sale – Italy</b> "
<b>Jersey share trustee</b>	Mourant & Co. Trustees Limited
<b>lending criteria</b>	the criteria applicable to the granting of an offer of a mortgage to a borrower, as may be amended from time to time and as further described above in " <b>The loans – Characteristics of the loans – Lending criteria</b> "
<b>LIBOR</b>	the London inter-bank offered rate for deposits, in the relevant currency
<b>liquidity reserve fund</b>	a liquidity reserve fund established on the occurrence of certain ratings downgrades of the seller to meet interest and principal shortfalls (in limited circumstances) on the loan tranches
<b>liquidity reserve fund rating event</b>	where there are class A notes and/or class B notes then outstanding, the seller's long-term, unsecured, unsubordinated and unguaranteed debt obligations are rated below A3 by Moody's or A- by Fitch (unless the relevant rating agency confirms that its then current ratings of the notes (and any new notes, where applicable) will not be adversely affected as a consequence of such rating of the seller)
<b>liquidity reserve fund required amount</b>	on any Funding 1 interest payment date, an amount equal to the excess (if any) of 3 per cent. of the aggregate outstanding balance of the notes on that date over the aggregate of amounts standing to the credit of the general reserve fund on that Funding 1 interest payment date
<b>liquidity reserve ledger</b>	a ledger maintained by the cash manager to record the withdrawals and deposits in respect of the liquidity reserve fund
<b>liquidity reserve principal payment</b>	the meaning given to it on page 165
<b>loan</b>	each loan referenced by its loan identifier number and comprising the aggregate of all principal sums, interest, costs, charges, expenses and other monies (including all further advances) due or owing with respect to that loan under the relevant mortgage conditions by a borrower on the security of a mortgage from time to time outstanding or, as the context may require, the borrower's obligations in respect of the same
<b>loan tranche payment date</b>	in respect of a loan tranche, the Funding 1 interest payment date(s) specified in the loan tranche supplement for the payment of interest and/or principal, subject to the terms of the

	intercompany loan agreement; or in respect of a new loan tranche made available to Funding 1 and/or a further Funding company, the interest payment date specified in the applicable loan tranche supplement
<b>loan tranche ratings</b>	the meaning given to it on page 81
<b>loan tranche supplement</b>	in relation to any loan tranche, the document between, amongst others, Funding 1 and the issuer recording the principal terms of such loan tranche; and in relation to any new loan tranche made available to Funding 1 and/or a further Funding company, the document between, amongst others, Funding 1, the relevant further Funding company and the new issuer recording the principal terms of such new loan tranche
<b>loan tranches</b>	the AAA loan tranches, the AA loan tranches, the A loan tranches, the BBB loan tranches and the BB loan tranches, being the advances made by the issuer to Funding 1 pursuant to the intercompany loan agreement, each being funded from proceeds received by the issuer from the issue of a series and class of notes
<b>London business day</b>	a day (other than a Saturday or Sunday) on which banks are generally open for business in London
<b>London Stock Exchange</b>	the London Stock Exchange plc
<b>losses</b>	the realised losses experienced on the loans in the portfolio
<b>losses ledger</b>	the ledger of such name created and maintained by the cash manager pursuant to the cash management agreement to record the losses on loans in the portfolio
<b>LTV ratio or loan-to-value ratio</b>	the ratio of the outstanding balance of a loan to the value of the mortgaged property securing that loan
<b>LTV test</b>	a test which assigns a credit enhancement value to each loan in the portfolio based on its current loan-to-value ratio and the amount of mortgage indemnity cover on that loan. The weighted average credit enhancement value for the portfolio is then determined
<b>managers</b>	the entities specified as such in the applicable final terms
<b>master definitions and construction schedule</b>	the master definitions and construction schedule, as amended from time to time, containing definitions used in the transaction documents
<b>MCOB</b>	the FSA Mortgages: Conduct of Business Sourcebook
<b>minimum seller share</b>	an amount included in the current seller share which is calculated in accordance with the mortgages trust deed as further described under " <b>The mortgages trust</b> " above
<b>money market notes</b>	the meaning given to it under " <b>Summary of the notes – money market notes</b> " above
<b>monthly CPR</b>	the meaning given to it on page 132
<b>monthly dates</b>	means the 18th day of each calendar month in each year (or, if such day is not a business day, the next succeeding business day)
<b>monthly interest payment date</b>	means, in respect of any monthly payment notes, the monthly dates specified in the applicable final terms for the payment of interest and/or principal, subject, in each case, to the appropriate business day convention if any, specified in the applicable final terms

<b>monthly payment notes</b>	means either money market notes or any other notes in respect of which <i>monthly interest payment dates are specified in the applicable final terms</i>
<b>monthly payments</b>	the amount (including interest and principal) which the relevant mortgage terms require a borrower to pay on each interest payment date in respect of that borrower's loan
<b>Moody's</b>	Moody's Investors Service Limited and any successor to its ratings business
<b>Moody's portfolio variation test</b>	the calculation methodology provided by Moody's to the servicer from time to time for the purpose of calculating the Moody's portfolio variation test value
<b>Moody's portfolio variation test value</b>	a certain percentage resulting from the application of the Moody's portfolio variation test
<b>mortgage</b>	the legal charge or standard security securing a loan
<b>mortgage account</b>	a loan secured on a property will be incorporated in a single mortgage account
<b>mortgage conditions</b>	the terms and conditions applicable to the loans as contained in the seller's Mortgage Conditions booklets for England and Wales, or Scotland or Northern Ireland applicable from time to time
<b>mortgage related securities</b>	as defined in the U.S. Secondary Mortgage Markets Enhancement Act 1984, as amended
<b>mortgage sale agreement</b>	the mortgage sale agreement entered into on the initial closing date, as amended from time to time, among the seller, the mortgages trustee, Funding 1 and the Funding 1 security trustee in relation to the sale of loans to the mortgages trustee from time to time, as further described in " <b>Summary of the transaction documents – The mortgage sale agreement</b> " above
<b>mortgage terms</b>	all the terms and conditions applicable to a loan, including without limitation the applicable mortgage conditions and offer conditions
<b>mortgage transfer service</b>	a service offered by the seller which allows remortgages of properties to be completed under an expedited procedure, as described further in " <b>The loans – Characteristics of the loans – Insurance policies</b> " above
<b>mortgages trust</b>	the bare trust of the trust property held by the mortgages trustee as to both capital and income on trust absolutely for Funding 1 (as to the Funding 1 share), for each further Funding company (as to its respective further Funding company share) and the seller (as to the seller share), so that each has an undivided beneficial interest in the trust property
<b>mortgages trust available principal receipts</b>	the amount standing to the credit of the principal ledger on the relevant trust calculation date
<b>mortgages trust available revenue receipts</b>	an amount equal to: <ul style="list-style-type: none"> <li>(a) revenue receipts on the loans (but excluding principal receipts);</li> <li>(b) plus interest payable to the mortgages trustee on the mortgages trustee GIC account;</li> <li>(c) less third party amounts,</li> </ul> as described further above in " <b>The mortgages trust</b> "

<b>mortgages trust deed</b>	the mortgages trust deed entered into on the initial closing date, as amended from time to time, between (among others) the mortgages trustee, Funding 1 and the seller, as further described above in “ <b>The mortgages trust</b> ”
<b>mortgages trust principal priority of payments</b>	the meaning given to it on page 134
<b>mortgages trust revenue priority of payments</b>	the order in which the cash manager applies mortgages trust available revenue receipts on each distribution date, as described further above in “ <b>The mortgages trust – Mortgages trust calculation of revenue receipts</b> ”
<b>mortgages trustee</b>	Fosse Trustee Limited
<b>mortgages trustee account bank</b>	Alliance & Leicester
<b>mortgages trustee bank account agreement</b>	the agreement entered into on the initial closing date, as amended from time to time, between, among others, the mortgages trustee account bank and the mortgages trustee, which governs the operations of the mortgages trustee GIC account
<b>mortgages trustee corporate services agreement</b>	the agreement entered into on or about the initial closing date between the mortgages trustee corporate services provider, the mortgages trustee and Alliance & Leicester, which governs the provision of corporate services by the mortgages trustee corporate services provider to the mortgages trustee
<b>mortgages trustee corporate services provider</b>	Mourant & Co. Limited or such other person or persons for the time being acting as corporate services provider to the mortgages trustee under the mortgages trustee corporate services agreement
<b>mortgages trustee GIC account</b>	the account in the name of the mortgages trustee maintained with Alliance & Leicester pursuant to the terms of the mortgages trustee bank account agreement or such additional or replacement account as may for the time being be in place
<b>mortgages trustee variable rate</b>	the variable rates which apply to the variable rate loans in the portfolio as set, other than in limited circumstances, by the servicer, as described further above in “ <b>Summary of the transaction documents – Servicing agreement</b> ”
<b>new intercompany loans</b>	loans made by any new issuer to Funding 1 and/or any further Funding company (where applicable) using proceeds of new notes issued by that new issuer
<b>new issuers</b>	any company other than the issuer which issues new notes where all or part of the proceeds of the issue of such new notes will be on-lent to Funding 1 and/or any further Funding company
<b>new loan tranches</b>	means any advances made by new issuers to Funding 1 and/or any further Funding company under a new intercompany loan
<b>new loan type</b>	on any date, a type of loan which is materially different from the types of loans comprised in the portfolio
<b>new loans</b>	loans which the seller may sell, from time to time after the closing date, to the mortgages trustee pursuant to the terms of the mortgage sale agreement
<b>new noteholders</b>	holders of new notes
<b>new notes</b>	notes issued by new issuers

<b>new Funding 1 start-up loan provider</b>	any entity (other than Alliance & Leicester) that provides a Funding 1 start-up loan in the future
<b>new trust property</b>	the meaning given to it on page 121
<b>new UK GAAP</b>	the meaning given to it on page 60
<b>New York business day</b>	a day (other than a Saturday or a Sunday) on which banks are generally open in the city of New York
<b>non-asset trigger event</b>	on a trust calculation date (a) the occurrence of an insolvency event in relation to the seller on or before that trust calculation date, (b) the seller's role as servicer is terminated and a new servicer is not appointed within 60 days, (c) the current seller share of the trust property is less than the minimum seller share on two consecutive trust calculation dates (in each case by reference to the most recent trust calculation date) or (d) as at the trust calculation date immediately preceding the relevant trust calculation date, the aggregate outstanding principal balance of loans comprising the trust property is less than the required loan balance amount specified in the most recent final terms and this has not been remedied by the relevant trust calculation date
<b>non-United States holder</b>	a beneficial owner of the Rule 144A notes who is not a United States holder
<b>Northern Irish loan</b>	a loan secured by a Northern Irish mortgage
<b>Northern Irish mortgage</b>	a mortgage secured over a property in Northern Ireland
<b>Northern Irish mortgage conditions</b>	the mortgage conditions applicable to Northern Irish loans
<b>note acceleration notice</b>	an acceleration notice served by the note trustee in relation to the enforcement of the issuer security following a note event of default
<b>note event of default</b>	an event of default under the provisions of condition 9 of the notes where the issuer is the defaulting party
<b>note principal payment</b>	the amount of each principal payment payable on each note
<b>note trust deed</b>	the principal agreement to be entered into on the initial closing date governing the notes
<b>note trustee</b>	Law Debenture Trust Company of New York in whose favour certain rights are vested pursuant to the note trust deed
<b>note trustees</b>	the note trustee and each trustee who has each entered into a note trust deed with any new issuer which enters into a new loan agreement with Funding 1
<b>noteholders</b>	the holders of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes of any series
<b>notes</b>	includes all of the class A notes, the class B notes, the class M notes, the class C notes and the class D notes of any series
<b>notional amount of the Funding 1 swap</b>	in respect of a trust calculation period will be an amount in sterling equal to: <ul style="list-style-type: none"> <li>● the aggregate principal amount outstanding of all loan tranches under the intercompany loan agreement during the relevant trust calculation period, less</li> <li>● the balance of the principal deficiency ledger attributable to all loan tranches during the relevant trust calculation period, less</li> </ul>

	<ul style="list-style-type: none"> <li>the amount of the principal receipts in the Funding 1 GIC account attributable to all loan tranches during the relevant trust calculation period</li> </ul>
<b>offshore transaction</b>	as defined in Reg S
<b>OID</b>	<i>original issue discount</i> , as described further above in “ <b>United States federal income taxation – Taxation of United States holders of the notes</b> ”
<b>OID regulations</b>	U.S. Treasury regulations relating to original issue discount
<b>offer conditions</b>	the terms and conditions applicable to a specific loan as set out in the relevant offer letter to the borrower
<b>official list</b>	the official list maintained by the UK listing authority
<b>original bullet loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, a loan tranche which at any time has been a bullet loan tranche (even if such bullet loan tranche has subsequently become a pass through loan tranche)
<b>original scheduled amortisation instalment</b>	in respect of Funding 1 under the intercompany loan agreement, that part of a loan tranche which at any time has been a scheduled amortisation instalment (even if that part of that loan tranche has subsequently become a pass-through loan tranche)
<b>original scheduled amortisation loan tranche</b>	a loan tranche which at any time has been a scheduled amortisation loan tranche (even if such loan tranche has subsequently become a pass-through loan tranche)
<b>other dealers</b>	any dealers (other than the initial dealers) appointed by the issuer under the programme agreement
<b>outstanding principal amount</b>	in relation to any intercompany loan or loan tranche or new loan tranche, the original principal amount thereof on the date that it is made to the relevant Funding company less any payments of principal in respect thereof
<b>outstanding principal balance</b>	<p>in relation to a loan at any date (in this definition, the <b>determination date</b>), means the aggregate principal balance of the loan at such date, including (but avoiding double counting):</p> <ul style="list-style-type: none"> <li>(a) the original principal amount advanced by the seller to the relevant borrower;</li> <li>(b) any increase in the principal amount due under that loan due to the borrower making cash withdrawals or a borrower taking payment holidays or making underpayments or a further advance being made available to a borrower; and</li> </ul> <p>in each case relating to such loan less any prepayment (including any decrease in the principal amount due under that loan due to the borrower making overpayments), repayment or payment of the foregoing made on or prior to the determination date</p>
<b>overpayment</b>	a payment made by a borrower in an amount greater than the monthly payment then due on the loan
<b>participants</b>	in relation to Euroclear and Clearstream, Luxembourg, the direct and indirect participants as described further above in “ <b>Book-entry clearance procedures – Euroclear, Clearstream, Luxembourg and DTC</b> ”
<b>parties in interest</b>	the meaning given to it on page 296

<b>pass-through loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, a loan tranche which has no scheduled repayment date other than the final repayment date, namely those loan tranches designated as 'pass-through' loan tranches in the relevant final terms. In addition, on the occurrence of a pass-through trigger event, each bullet loan tranche and scheduled amortisation loan tranche will be deemed to be pass-through loan tranches
<b>pass-through notes</b>	any series and class of notes which has no specified redemption dates other than the final maturity date. In addition, on the occurrence of a pass-through trigger event or the step-up date (if any) in relation to any series and class of bullet redemption notes or scheduled redemption notes, such notes will be deemed to be pass-through notes
<b>pass-through trigger event</b>	if (a) a trigger event occurs; (b) a note acceleration notice is served by the note trustee on the issuer, or (c) an intercompany loan acceleration notice is served by the Funding 1 security trustee on Funding 1
<b>paying agent and agent bank agreement</b>	the agreement to be entered into on the initial closing date which sets out the appointment of the paying agents, the registrar, the transfer agent, the exchange rate agent and the agent bank for the notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>paying agents</b>	the principal paying agent and the U.S. paying agent
<b>payment holiday</b>	a period during which a borrower may suspend payments under a loan without penalty
<b>PECOH corporate services provider</b>	Structured Finance Management Limited or such other person or persons for the time being acting as corporate services provider to the post-enforcement call option holder under the PECOH corporate services agreement
<b>PECOH share trustee</b>	Independent Share Trustees Limited
<b>permitted product switch</b>	<p>a variation in the financial terms and conditions of a loan in which a borrower exchanges its then current loan product for a different loan product offered by the seller, provided that:</p> <ul style="list-style-type: none"> <li>● the relevant borrower has made at least one monthly payment on its then current loan product;</li> <li>● the new loan for which the prior loan is to be exchanged is a permitted replacement loan;</li> <li>● each of the conditions for the assignment of new loans and their related security (other than conditions (e) and (h)) as set forth under "<b>Summary of the transaction documents – The mortgage sale agreement – Conditions for sale of initial loans and new loans</b>" above are satisfied, provided that conditions (i), (j) and (l) in that section will only be required to have been satisfied on the date of the most recent assignment of loans to the mortgages trustee; and</li> <li>● the interest-only mortgages level test is satisfied if, as calculated on the most recent trust calculation date:  <math>A/B \times 100 \leq C</math> <p style="margin-left: 40px;">where</p> </li> </ul>



A = the current balance of all interest-only loans (which, for the avoidance of doubt includes interest-only components of part-and-part loans) in the mortgages pool as at the relevant trust calculation date; B = the current balance of all loans comprising the trust property as at the relevant trust calculation date; and C = the number specified in the most recent final terms

<b>permitted redemption dates</b>	in respect of a series and class of notes, the interest payment date specified in the applicable final terms on which those notes may be redeemed by the issuer, subject to the terms and conditions of the notes
<b>permitted replacement loan</b>	a loan: <ul style="list-style-type: none"> <li>● that is subject to either a fixed rate, a variable rate or to a base rate-linked rate of interest;</li> <li>● that has a maturity date prior to October 2052; and</li> <li>● to which the purchase obligations of the seller set forth under "<b>Summary of the transaction documents – The mortgage sale agreement– Repurchase of the loans under a mortgage account</b>" above apply</li> </ul>
<b>PFIC</b>	a passive foreign investment company, as described further above in " <b>United States federal income taxation – Alternative characterisation of the Rule 144A notes</b> "
<b>Plan Asset Regulation</b>	regulation 29 C.F.R. Section 2510.3-101 promulgated by the U.S. Department of Labor
<b>Plans</b>	the meaning given to it on page 296
<b>portable loan</b>	a loan (other than a variable rate loan) that incorporates a portability facility, which allows the borrower to transfer the loan balance at the same interest rate and subject to all the existing terms and conditions to a new property during any applicable discount rate period, fixed rate period or premium rate period
<b>portfolio</b>	at any time the loans and their related security sold to the mortgages trustee and held by the mortgages trustee on trust for the beneficiaries
<b>post-enforcement call option</b>	the call option granted to the post-enforcement call option holder in respect of the notes under the post-enforcement call option agreement
<b>post-enforcement call option agreement</b>	the agreement to be entered into on the initial closing date under which the note trustee agrees on behalf of the holders of the notes, that following enforcement of the issuer security, the post-enforcement call option holder may call for the notes (as amended, restated, supplemented, replaced and/or novated from time to time)
<b>post-enforcement call option holder or PECO</b>	Fosse PECO Limited
<b>post-enforcement call option holder corporate services agreement</b>	an agreement entered into on the initial closing date between, among others, the post-enforcement call option holder, the PECO corporate services provider and the note trustee which governs the provision of corporate services by the PECO corporate services provider to the post-enforcement call option holder
<b>premium rate period</b>	the meaning given to it on page 184

<b>principal deficiency ledger</b>	the ledger of such name maintained by the cash manager, on the initial closing date comprising on the closing date five sub-ledgers, the AAA principal deficiency sub-ledger, the AA principal deficiency sub ledger, the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger and the BB principal deficiency sub-ledger and which records any deficiency of principal (following a loss on a loan or the application of principal receipts to meet any deficiency in Funding 1 available revenue receipts) in respect of payments due under the intercompany loan and, if the context requires, the comparable ledger for a further Funding company
<b>principal deficiency sub-ledger</b>	the AAA principal deficiency sub-ledger, the AA principal deficiency sub-ledger, the A principal deficiency sub-ledger, the BBB principal deficiency sub-ledger or the BB principal deficiency sub-ledger, as the case may be
<b>principal ledger</b>	the ledger of such name maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record principal receipts on the loans and payments of principal from the mortgages trustee GIC account to Funding 1, each further Funding company and the seller on each distribution date. Together the principal ledger and the revenue ledger reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>principal paying agent</b>	Citibank, N.A., London branch
<b>principal receipts</b>	all principal amounts received from borrowers in respect of the loans or otherwise paid or recovered in respect of the loans and their related security representing monthly repayments of principal, prepayments of principal, redemption proceeds and amounts recovered on enforcement representing principal and prepayments on the loans made by borrowers (but excluding principal received or treated as received in respect of a loan subsequent to the completion of enforcement procedures)
<b>principal transaction documents</b>	the mortgage sale agreement, the servicing agreement, the cash management agreement, the Funding 1 deed of charge, the Funding 1 swap agreement, the intercompany loan agreement, the bank account agreement and the master definitions and construction schedule
<b>product switch</b>	<p>a variation to the financial terms and conditions of a loan other than:</p> <ul style="list-style-type: none"> <li>● any variation agreed with a borrower to control or manage arrears on the loan;</li> <li>● any variation on the maturity date of the loan unless, while the intercompany loan is outstanding, it is extended beyond October 2052;</li> <li>● any variation imposed by statute;</li> <li>● any variation of the rate of interest payable in respect of the loan where that rate is offered to the borrowers of more than 10 per cent. by current balance of loans in the trust property in any Funding 1 interest period; or</li> <li>● any variation in the frequency with which the interest payable in respect of the loan is charged</li> </ul>

<b>programme agreement</b>	the agreement entered into on or about the initial closing date, as amended from time to time, between, amongst others, the issuer, Funding 1 and the dealers named therein (or deemed named therein)
<b>prospectus directive</b>	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC
<b>PTCE</b>	Prohibited Transaction Class Exemption, as described further above in " <b>ERISA considerations</b> "
<b>purpose-built</b>	in respect of a residential dwelling, built or made for such a residential purpose (as opposed to converted)
<b>QIBs</b>	qualified institutional buyers within the meaning of Rule 144A under the Securities Act
<b>quarter dates</b>	means the 18th day of any of the following dates as specified in the applicable final terms for payment of interest and/or principal on the notes and any corresponding loan tranche: (a) January, April, July and October; or (b) February, May, August and November; or (c) March, June, September and December
<b>quarterly CPR</b>	on any date means the average of the three most recent CPRs, where CPR is, on any trust calculation date, the annualised principal repayment rate of all the loans comprised in the trust property during the previous trust calculation period calculated as follows: $1 - ((1 - R) ^ 12)$ where R equals the result (expressed as a percentage) of the total principal receipts received during the period of one month ending on that trust calculation date divided by the aggregate outstanding principal balance of the loans comprised in the trust property as at the first day of that period
<b>quarterly interest payment date</b>	in respect of a series and class of notes (other than monthly payment notes), the quarter dates specified in the final terms for the payment of interest and/or principal, until the occurrence of a pass-through trigger event and, following such occurrence, the monthly dates subject, in each case, to the appropriate business day convention, if any, specified in the applicable final terms
<b>rating</b>	rating assigned by the rating agencies to the current notes or new notes, where applicable
<b>rating agencies</b>	each of Moody's, Standard & Poor's and Fitch and any further or replacement rating agency appointed by the issuer with the approval of the note trustee to give a credit rating to the notes of any series and/or class
<b>rating agency excess spread</b>	the meaning given to it on page 33
<b>reasonable, prudent mortgage lender</b>	a reasonably prudent prime residential mortgage lender lending to borrowers in England, Wales, Northern Ireland and Scotland who generally satisfy the lending criteria of traditional sources of residential mortgage capital
<b>receiver</b>	a receiver appointed by the relevant security trustee pursuant to the issuer deed of charge and/or the Funding 1 deed of charge

<b>reference banks</b>	at the closing date, the London office of each of the following banks: ABN AMRO Bank N.V., Barclays Bank PLC, Citibank, N.A. and The Royal Bank of Scotland plc
<b>refinancing contribution</b>	the meaning given to it on page 119
<b>refinancing distribution</b>	the meaning given to it on page 138
<b>reportable transactions</b>	the meaning given to it on page 294
<b>Rule 144A global notes</b>	the note certificates representing the Rule 144A Notes while in global form
<b>Reg S</b>	Regulation S under the United States Securities Act of 1933, as amended
<b>Reg S global notes</b>	the note certificates representing the Reg S notes while in global form
<b>Reg S notes</b>	each series and class of notes that are sold outside the United States to non-U.S. persons in reliance on Reg S
<b>Registers of Scotland</b>	the Land Register of Scotland and/or the General Register of Sasines
<b>registrar</b>	Citibank, N.A., London branch
<b>regulated mortgage contract</b>	as defined in “ <b>Risk factors – Failure by the seller or any servicer to hold relevant authorisations and permissions under FSMA in relation to regulated mortgage contracts may have an adverse effect on enforceability of mortgage contracts</b> ” above
<b>reinstatement</b>	in relation to a property that has been damaged, repairing or rebuilding that property to the condition that it was in prior to the occurrence of the damage
<b>related security</b>	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 mortgages trustee
<b>relevant accumulation amount</b>	the amount of funds to be accumulated over a cash accumulation period in order to repay a bullet loan tranche or a scheduled amortisation instalment on its scheduled repayment date whether or not actually repaid on that scheduled repayment date
<b>relevant closing date</b>	in respect of a series and class of notes, the closing date specified in the relevant final terms
<b>relevant distribution date</b>	the meaning given to it on page 134
<b>relevant trust calculation date</b>	the meaning given to it on page 120
<b>repayment requirement</b>	the meaning given to it on page 132
<b>repayment tests</b>	Rules 1 and 2 under “ <b>Cashflows – Distribution of Funding 1 available principal receipts</b> ”
<b>required note issuance ratings</b>	the meaning given to it on page 11
<b>reserve principal payment</b>	the meaning given to it on page 163
<b>revenue ledger</b>	the ledger(s) of such name created and maintained by the cash manager on behalf of the mortgages trustee pursuant to the cash management agreement to record revenue receipts on the loans and interest from the mortgages trustee GIC account and payments of revenue receipts from the mortgages trustee GIC account to Funding 1 and the seller on each distribution date. The

	revenue ledger and the principal ledger together reflect the aggregate of all amounts of cash standing to the credit of the mortgages trustee GIC account
<b>revenue receipts</b>	amounts received by the mortgages trustee in the mortgages trustee GIC account in respect of the loans other than principal receipts and third party amounts
<b>Rule 144A</b>	Rule 144A under the Securities Act
<b>Rule 144A notes</b>	each series and class of notes which are sold in the United States only to qualified institutional buyers within the meaning of Rule 144A under the United States Securities Act of 1933, as amended
<b>sale date</b>	the date on which any new loans are sold to the mortgages trustee in accordance with clause 4 of the mortgage sale agreement
<b>scheduled amortisation instalment</b>	in respect of each loan tranche that is a scheduled redemption loan tranche and in respect of the corresponding series and class of scheduled redemption notes, the instalment amounts specified as applying to such loan tranche and related series and class of notes in the relevant final terms
<b>scheduled amortisation loan tranche</b>	in respect of Funding 1 under the intercompany loan agreement, any loan tranche that is scheduled to be repaid in instalments on more than one Funding 1 interest payment date, namely those loan tranches designated as a “ <b>scheduled amortisation</b> ” loan tranches in the relevant final terms. The scheduled amortisation loan tranches will be deemed to be pass-through loan tranches if a pass-through trigger event occurs or if a step-up date occurs
<b>scheduled amortisation repayment restrictions</b>	the meaning given to it on page 151
<b>scheduled redemption dates</b>	in respect of a series and class of notes, the interest payment date, if any, specified in the applicable final terms, for the payment of principal, subject to the terms and conditions of the notes
<b>scheduled repayment dates</b>	in respect of a loan tranche, the date(s) specified in the final terms, for the repayment of principal
<b>Scottish declaration of trust</b>	each declaration of trust to be granted by the seller in favour of the mortgages trustee pursuant to the mortgage sale agreement transferring the beneficial interest in Scottish loans and their related security to the mortgages trustee
<b>Scottish loan</b>	a loan secured by a Scottish mortgage
<b>Scottish mortgage</b>	a mortgage secured over a property in Scotland
<b>Scottish mortgage conditions</b>	the mortgage conditions applicable to Scottish loans
<b>SEC</b>	The United States Securities and Exchange Commission
<b>secretarial services agreement</b>	the agreement to be entered into on the initial closing date pursuant to which Alliance & Leicester will agree to provide secretarial services to each of the issuer, Funding 1, Holdings and PECOH
<b>Securities Act</b>	United States Securities Act of 1933, as amended
<b>seller</b>	Alliance & Leicester plc
<b>seller accrued interest amounts</b>	amounts of accrued interest on the loans up to and excluding their sale into the mortgages trust
<b>seller contribution</b>	the meaning given to it on page 119

<b>seller's policy</b>	the originating, underwriting, administration, arrears and enforcement policy applied by the seller from time to time to loans and their related security owned solely by the seller
<b>seller share</b>	the seller share of the trust property from time to time, as calculated on each trust calculation date
<b>seller share percentage</b>	the seller share percentage of the trust property from time to time as calculated on each trust calculation date
<b>semi-detached</b>	a house joined to another house on one side only
<b>senior expenses</b>	amounts ranking in priority to interest due on the loan tranches
<b>servicer</b>	Alliance & Leicester or such other person as may from time to time be appointed as servicer of the portfolio pursuant to the servicing agreement
<b>servicer termination event</b>	the meaning given to it on page 88
<b>servicing agreement</b>	the agreement entered into on the initial closing date (as amended, restated, supplemented, replaced and/or novated from time to time) between the servicer, the mortgages trustee, the seller, the Funding 1 security trustee and Funding 1 under which the servicer agrees to administer the loans and their related security comprised in the portfolio, as described further above in " <b>Summary of the transaction documents – Servicing agreement</b> "
<b>shortfall</b>	the deficiency of Funding 1 available revenue receipts on a Funding 1 interest payment date over the amounts due by Funding 1 under the Funding 1 pre-acceleration revenue priority of payments
<b>special distribution</b>	the meaning given to it on page 138
<b>specified minimum rate</b>	the rate specified in the offer conditions
<b>sponsor</b>	Alliance & Leicester
<b>Standard &amp; Poor's</b>	Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., and any successor to its ratings business
<b>step-up date</b>	means (i) in relation to a loan tranche, the Funding 1 interest payment date on which the interest rate on the relevant loan tranche under the intercompany loan increases by a pre determined amount and (ii) in relation to the notes, the interest payment date on which the interest rate on the relevant notes increases by a pre-determined amount as specified in the applicable final terms
<b>sterling notes</b>	each series and class of notes denominated in sterling
<b>subscription agreement</b>	an agreement supplemental to the programme agreement in or substantially in the form set out in the programme agreement or such other form as may be agreed between the issuer, managers and the dealers
<b>swap agreements</b>	the Funding 1 swap agreement and the issuer swap agreements and swap agreement means any one of them
<b>swap early termination event</b>	a circumstance in which a swap agreement can be terminated prior to its scheduled termination date
<b>swap providers</b>	the Funding 1 swap provider and the issuer swap providers and swap provider means any one of them

<b>TARGET business day</b>	a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) System is open
<b>terraced</b>	a house in a row of houses built in one block in a uniform style
<b>third party amounts</b>	includes: <ul style="list-style-type: none"> <li>(a) amounts under a direct debit which are repaid to the bank making the payment if such bank is unable to recoup that amount itself from its customer's account;</li> <li>(b) payments by borrowers of any fees and other charges which are due to the seller; or</li> <li>(c) recoveries in respect of amounts deducted from loans as described above in paragraphs (a) to (d) in "<b>The mortgages trust – Adjustments to trust property</b>", which shall belong to and be paid to the seller as described therein</li> </ul>
<b>transaction documents</b>	the documents listed in paragraph 4 in " <b>Listing and general information</b> " above and any additional documents entered into in connection therewith
<b>transfer agent</b>	Citibank, N.A., London branch
<b>transfer date</b>	the date that a portable loan is transferred to a new property
<b>trigger event</b>	an asset trigger event and/or a non-asset trigger event
<b>trust calculation date</b>	the initial closing date, the London business day following the last day of each month and the day on which the mortgages trust is terminated
<b>trust calculation period</b>	the period from (and including) the first day of each calendar month (or, as applicable, the initial closing date) to (and including) the last day of that calendar month or, as applicable, the date of termination of the mortgages trust
<b>trust calculation period Funding 1 amount</b>	the meaning given to it on page 110
<b>trust calculation period swap provider amount</b>	the meaning given to it on page 110
<b>trust property</b>	includes: <ul style="list-style-type: none"> <li>(a) the sum of £100 settled by the Jersey share trustee on trust on the date of the mortgages trust deed;</li> <li>(b) the portfolio of loans and their related security sold to the mortgages trustee by the seller on the initial closing date;</li> <li>(c) any new loans and their related security sold to the mortgages trustee by the seller after the initial closing date;</li> <li>(d) any increase in the outstanding principal balance of a loan due to a borrower taking payment holidays or making underpayments under a loan or making drawings under any flexible loan or the seller making a further advance under a loan or the capitalisation of arrears in respect of any loan;</li> <li>(e) any revenue receipts and principal receipts on the loans in the portfolio;</li> <li>(f) any contribution paid by Funding 1, any further Funding company or the seller to the mortgages trustee, for application in accordance with the terms of the mortgages trust deed, but only until such contributions have ceased to</li> </ul>

be trust property having been applied by the mortgages trustee in accordance with the terms of the mortgages trust deed;

- (g) any other amounts received under or in respect of the loans and their related security on or after the relevant sale date (excluding third party amounts), including the proceeds of any sale of the loans and their related security and any other proceeds of sale of any other trust property;
- (h) any authorised investments made by or on behalf of the mortgages trustee;
- (i) rights under the insurance policies that are assigned to the mortgages trustee or which the mortgages trustee has the benefit of; and
- (j) amounts on deposit (and interest earned on those amounts) in the mortgages trustee GIC account;

less

- (k) any actual losses in relation to the loans and any actual reductions occurring in respect of the loans as described above in paragraph (a) in "**The mortgages trust – Adjustments to trust property**" above;
- (l) distributions of revenue receipts and principal receipts made from time to time to the beneficiaries of the mortgages trust; and
- (m) refinancing distributions and/or special distributions made from time to time to the beneficiaries of the mortgages trust

**UK listing authority**

the FSA in its capacity as competent authority under part VI of the FSMA

**UK share trustee  
underpayment**

SFM Corporate Services Limited

the meaning given to it in "**The loans – Characteristics of the loans – Flexible payments**" above

**Unfair Practices Directive**

Directive (2005/29/EC) on unfair business-to-consumer commercial practices adopted by the European Parliament and the Council on 11 May 2005

**United States holder**

a beneficial owner of Rule 144A notes who is for U.S. federal income tax purposes:

- (a) a citizen or resident of the United States;
- (b) a corporation (or other entity treated as a corporation) or partnership created or organised in or under the laws of the United States or any state thereof (including the District of Columbia);
- (c) any estate, the income of which is subject to U.S. federal income tax regardless of the source of its income; or
- (d) any trust if: (i) a court within the United States is able to exercise primary supervision over the administration of the trust; and (ii) one or more U.S. persons have the authority to control all substantial decisions of the trust

**U.S. paying agent**

Citibank, N.A., New York branch

**USD-LIBOR**

the London inter-bank offered rate for dollar deposits



<b>UTCCR</b>	the Unfair Terms in Consumer Contracts Regulations 1994 and 1999, as amended
<b>valuation</b>	a methodology for determining the value of a property which would meet the standards of a reasonable, prudent mortgage lender (as referred to under “ <b>Summary of the transaction documents – Servicing agreement – Undertakings by the servicer</b> ” above)
<b>valuation fee</b>	a fee incurred by borrowers as a result of the seller or servicer obtaining a valuation of the property
<b>variable mortgage rate</b>	the rate of interest which determines the amount of interest payable each month on a variable rate loan
<b>variable rate loan</b>	a loan where the interest rate payable by the borrower varies in accordance with a specified variable mortgage rate
<b>variable rates</b>	the seller's variable rate or the mortgages trustee's variable rate, as applicable
<b>VAT</b>	value added tax
<b>WAFF</b>	weighted average foreclosure frequency
<b>WALS</b>	weighted average loss severity
<b>weighted average Funding 1 share percentage</b>	the meaning given to it on page 124
<b>weighted average Funding 1 share (losses) percentage</b>	the meaning given to it on page 124
<b>weighted average Funding 1 share (principal) percentage</b>	the meaning given to it on page 124
<b>weighted average Funding 1 share (revenue) percentage</b>	the meaning given to it on page 124
<b>weighted average further Funding company share percentage</b>	the meaning given to it on page 125
<b>weighted average further Funding company share (losses) percentage</b>	the meaning given to it on page 125
<b>weighted average further Funding company share (principal) percentage</b>	the meaning given to it on page 125
<b>weighted average further Funding company share (revenue) percentage</b>	the meaning given to it on page 125
<b>weighted average seller share percentage</b>	the meaning given to it on page 125
<b>weighted average seller share (losses) percentage</b>	the meaning given to it on page 126
<b>weighted average seller share (principal) percentage</b>	the meaning given to it on page 126
<b>weighted average seller share (revenue) percentage</b>	the meaning given to it on page 125
<b>withholding tax</b>	a tax levied under UK law, as further described above in “ <b>United Kingdom taxation</b> ”

**ISSUER**

**Fosse Master Issuer plc**  
35 Great St. Helen's  
London EC3A 6AP

**SPONSOR, SELLER AND SERVICER**

**Alliance & Leicester plc**  
Carlton Park  
Narborough  
Leicester LE19 0AL

**AGENT BANK, PRINCIPAL PAYING AGENT,  
REGISTRAR, TRANSFER AGENT AND COMMON**

**DEPOSITARY**

Citibank, N.A.  
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**U.S. PAYING AGENT**

Citibank, N.A.  
14th Floor  
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