

Final Terms Dated 1 September 2009
(to the base prospectus dated 27 August 2009)

GRACECHURCH MORTGAGE FINANCING PLC

(incorporated under the laws of England and Wales with limited liability under registered number 5673206)

Residential Mortgage Backed Note Programme
Issue of Series 2009-1 Notes

Series	Class	Interest Rate	Initial Principal Amount	Issue Price	Scheduled Redemption Date	Maturity Date
2009-1	A	Floating	£10,285,000,000	100%	20 November 2013	20 November 2056
2009-1	B	Floating	£781,200,000	100%	20 November 2013	20 November 2056
2009-1	C	Floating	£439,200,000	100%	20 November 2013	20 November 2056
2009-1	D	Floating	£548,450,000	100%	20 November 2013	20 November 2056

Terms not otherwise defined herein shall be deemed to be defined as such for the purposes of the conditions set forth in the base prospectus dated 27 August 2009 which constitutes a base prospectus (the **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 base prospectus. Full information on the issuing entity and the offer of the notes is only available on the basis of the combination of final terms and the base prospectus. The base prospectus is available for viewing at the specified office of the principal paying agent and at the registered office of the issuer and copies may be obtained from the specified office of the principal paying agent.

Arranger
Barclays Capital
Dealer
Barclays Capital

IMPORTANT NOTICES

In the event that any withholding or deduction for any taxes, duties, assessments or government charges of whatever nature is imposed, levied, collected, withheld or assessed on payments of principal or interest in respect of the series 2009-1 notes by the United Kingdom, or any other jurisdiction or any political subdivision or any authority in or of such jurisdiction having power to tax, the issuer or the paying agents shall make such payments after such withholding or deduction and neither the issuer nor the paying agents will be required to make any additional payments to holders of series 2009-1 notes in respect of such withholding or deduction.

This document constitutes final terms for the purposes of Article 5.4 of the Prospectus Directive and is supplemental to and must be read in conjunction with the base prospectus. Full information on the issuer and the offer of the series 2009-1 notes is only available on the basis of the combination of these final terms and the base prospectus. The base prospectus is available for viewing at the specified office of the principal paying agent and from the registered office of the issuer and copies may be obtained from the specified office of the principal paying agent.

The issuer has confirmed to the dealers named under "*Parties*" below that these final terms, when read in conjunction with the base prospectus, contains all information which is (in the context of the programme, the issue, offering and sale of the series 2009-1 notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed in these final terms are honestly held or made and are not misleading in any material respect; that these final terms do not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the programme, the issue and offering and sale of the series 2009-1 notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with these final terms or any other document entered into in relation to the programme or any information supplied by the issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the issuer or any dealer.

No representation or warranty is made or implied by the dealers or any of their respective affiliates, and neither the dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in these final terms. Neither the delivery of these final terms nor the offering, sale or delivery of any note shall, in any circumstances, create any implication that the information contained in these final terms is true subsequent to the date hereof or the date upon which any future final terms (in relation to any future issue of notes) is produced or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the issuer since the date thereof or, if later, the date upon which any future final terms (in relation to any future issue of notes) is produced or that any other information supplied in connection with the programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No request has been made for a certificate permitting public offers of the series 2009-1 notes in other member states of the European Union.

The distribution of these final terms and the offering, sale and delivery of the series 2009-1 notes in certain jurisdictions may be restricted by law. Persons in possession of the final terms are required by the issuer and the dealers to inform themselves about and to observe any such

restrictions. For a description of certain restrictions on offers, sales and deliveries of series 2009-1 notes and on the distribution of these final terms and other offering material relating to the series 2009-1 notes, see “*Plan of distribution*” in these final terms and “*Transfer Restrictions*” in the base prospectus.

An investment in the series 2009-1 notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment.

The maximum aggregate principal amount outstanding of notes outstanding at any one time under the programme will not exceed £25,000,000,000. The maximum aggregate principal amount outstanding of notes which may be outstanding at any one time under the programme may be increased from time to time, subject to compliance with the relevant provisions of the dealer agreement as defined under “*Plan of Distribution*” in the base prospectus.

Certain figures included in these final terms have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The information about these series 2009-1 notes appears in two separate documents: a base prospectus and these final terms. The base prospectus provides general information about each series of notes issued under the Gracechurch Mortgage Financing residential mortgage backed note programme, some of which may not apply to the series 2009-1 notes described in these final terms. With respect to the series 2009-1 notes, these final terms are the “relevant final terms” or the “applicable final terms” referred to in the base prospectus.

These final terms may be used to offer and sell the series 2009-1 notes only if accompanied by the base prospectus.

These final terms supplement the disclosure in the base prospectus. If the terms in these final terms differ from the terms in the base prospectus, the terms in these final terms will prevail and apply to the series 2009-1 notes.

You should rely only on the information in these final terms and the base prospectus, including information incorporated by reference. The issuer has not authorised anyone to provide different information.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved these series 2009-1 notes or determined if these final terms are truthful or complete. Any representation to the contrary is a criminal offence.

The series 2009-1 notes issued under the programme 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. The issuer has not registered and does not intend to register as an investment company under the United States Investment Company Act of 1940, as amended (the "Investment Company Act") in reliance on the exclusion provided in Section 3(c)(7) thereof. The series 2009-1 notes are being offered and sold outside the United States to persons who are neither U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S") (each a "U.S. Person"), nor U.S. residents (as determined for the purposes of The Investment Company Act) (each a "U.S. Resident") in offshore transactions in reliance on Regulation S. For a more complete description of restrictions on offers and sales, see "*Plan of Distribution*" and "*Transfer Restrictions*" in these final terms and the base prospectus.

Please review and carefully consider the risk factors beginning on page 45 of the base prospectus before you purchase any series 2009-1 notes.

You should read these final terms and the base prospectus carefully before you invest. A note is not a deposit and neither the series 2009-1 notes nor the underlying mortgage loans are insured or guaranteed by Barclays Bank PLC or any of its affiliates or by any United Kingdom or United States governmental agency or by anyone else. The series 2009-1 notes offered in these final terms and the base prospectus will be obligations of the issuer only. The issuer will seek to satisfy its obligations under these series 2009-1 notes from its assets. The series 2009-1 notes will not be obligations of Barclays Bank PLC or any of its affiliates.

Series 2009-1 notes issued pursuant to the programme may not be reoffered, resold, pledged, exchanged or otherwise transferred except in transactions exempt from or not subject to the registration requirements of the Securities Act and any other applicable securities laws. By its purchase of a series 2009-1 note, each purchaser will be deemed to have (1) represented and warranted that it is neither a U.S. Person nor a U.S. Resident, and that it is located outside the United States and (2) agreed that it will only resell such series 2009-1 note in accordance with the applicable restrictions set forth herein. See "*Plan of distribution*" in these final terms and "*Transfer Restrictions*" in the base prospectus.

Regulation S notes (as defined herein) of series 2009-1 notes will be represented on issue by beneficial interests in one or more global certificates (each a "**Regulation S global certificate**"), in fully registered form, without interest coupons attached, which will be deposited with, and registered in the name of The Bank of New York Mellon acting through its London Branch, as common depository (the "**common depository**") for Euroclear Bank S.A./N.V. ("**Euroclear**"), as operator of the Euroclear system, and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). The Regulation S global certificates (the "**global certificates**") will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg, and their respective participants. Series 2009-1 notes in definitive certificated and fully registered form will be issued only in the limited circumstances described herein. In each case, purchasers and transferees of series 2009-1 notes will be deemed to have made certain representations and agreements. See "*Transfer Restrictions*" and "*Plan of Distribution*" in these final terms and the base prospectus.

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TRANSACTION FEATURES

These final terms supplement the disclosure in the base prospectus. If the terms in these final terms differ from the terms in the base prospectus, the terms in these final terms will prevail and apply to the series 2009-1 notes. Unless otherwise indicated, words and expressions defined in the base prospectus shall have the same meanings below.

Series Number:	2009-1-A	2009-1-B	2009-1-C	2009-1-D
Class of Notes:	A	B	C	D
Expected Ratings from Moody's:	Aaa	Aa3	A2	Baa2
Expected Ratings from S&P:	AAA	AA	A	BBB
Expected Ratings from Fitch Ratings:	AAA	AA	A	BBB
Issue Date:	1 September 2009	1 September 2009	1 September 2009	1 September 2009
Issue Price:	100%	100%	100%	100%
Specified Currency:	Sterling	Sterling	Sterling	Sterling
Currency Swap Rate	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Principal Amount:	£10,285,000,000	£781,200,000	£439,200,000	£548,450,000
Minimum Specified Denomination:	50,000	50,000	50,000	50,000
Integral Multiples	1,000	1,000	1,000	1,000
Scheduled Redemption Date	20 November 2013	20 November 2013	20 November 2013	20 November 2013
Final Maturity Date:	20 November 2056	20 November 2056	20 November 2056	20 November 2056
Fixed or Floating Designation:	Floating	Floating	Floating	Floating
Basis:	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR
Margin Until Step-Up Date:	0.11%	0.16%	0.25%	0.47%
Margin After Step-Up Date:	0.22%	0.32%	0.50%	0.94%
Step-Up Date:	20 November 2013	20 November 2013	20 November 2013	20 November 2013
Optional Redemption:	Step Up, Clean Up	Step Up, Clean Up	Step Up, Clean Up	Step Up, Clean Up
Business Day Convention:	Following	Following	Following	Following
Day Count Fraction:	Actual/365/366	Actual/365/366	Actual/365/366	Actual/365/366
Interest Commencement Date	1 September 2009	1 September 2009	1 September 2009	1 September 2009
Interest Determination Date	The first day of each issuer interest period	The first day of each issuer interest period	The first day of each issuer interest period	The first day of each issuer interest period
Issuer Payment Dates:	20 February, 20 May, 20 August and 20 November	20 February, 20 May, 20 August and 20 November	20 February, 20 May, 20 August and 20 November	20 February, 20 May, 20 August and 20 November
First Issuer Payment Date:	20 November 2009	20 November 2009	20 November 2009	20 November 2009
Money Market Note Payment Dates:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
First Money Market Note Payment Date:	Not Applicable	Not Applicable	Not Applicable	Not Applicable

Classification of Note for U.S. tax purposes: OID Calculation:	Senior Note Prepayment assumption method Not Applicable	Senior Note Prepayment assumption method Not Applicable	Senior Note Prepayment assumption method Not Applicable	Senior Note Prepayment assumption method Not Applicable
Applicability of redenomination provisions of Condition 19: Listing:	The regulated market of the London Stock Exchange	The regulated market of the London Stock Exchange	The regulated market of the London Stock Exchange	The regulated market of the London Stock Exchange
Stock Exchange:	London Stock Exchange	London Stock Exchange	London Stock Exchange	London Stock Exchange
Form of Notes:	Reg S Note registered in the name of a nominee of the common depository of Euroclear and Clearstream, Luxembourg	Reg S Note registered in the name of a nominee of the common depository of Euroclear and Clearstream, Luxembourg	Reg S Note registered in the name of a nominee of the common depository of Euroclear and Clearstream, Luxembourg	Reg S Note registered in the name of a nominee of the common depository of Euroclear and Clearstream, Luxembourg
Distribution:				
(a) If syndicated, names and addresses of Dealer:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
(b) Stabilising Dealer (if any): If non-syndicated name of relevant Dealer:	Not Applicable Barclays Bank PLC	Not Applicable Barclays Bank PLC	Not Applicable Barclays Bank PLC	Not Applicable Barclays Bank PLC
(c) Details of discount and commission or underwriting discount and commission as applicable paid to any Dealer (if any) or Agent:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Selling restrictions	As set out in the base prospectus	As set out in the base prospectus	As set out in the base prospectus	As set out in the base prospectus
Optional information: Any clearing system(s) other than Euroclear or Clearstream, Luxembourg and the relevant identification numbers:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Delivery:	Delivery free of payment Not Applicable	Delivery free of payment Not Applicable	Delivery free of payment Not Applicable	Delivery free of payment Not Applicable
Names and addresses of additional Paying Agent(s) (if any):	Not Applicable	Not Applicable	Not Applicable	Not Applicable
ISIN Code Reg S:	XS0426108956	XS0426113105	XS0426115738	XS0426116892
Common Code Reg S:	042610895	042611310	042611573	042611689
Additional Business Centres	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Additional Financial Centres	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Principal Financial Centre	Not Applicable	Not Applicable	Not Applicable	Not Applicable
LOAN NOTE TRANCHE SUPPORTING SERIES				
Loan Note Tranche Number:	2009-1-A Class A	2009-1-B Class B	2009-1-C Class C	2009-1-D Class D
Designation for the purposes of the funding security trust deed:	1 September 2009	1 September 2009	1 September 2009	1 September 2009
Issuance Date:	£10,285,000,000	£781,200,000	£439,200,000	£548,450,000
Initial Principal Amount:	20 February, 20 May, 20 August and 20 November	20 February, 20 May, 20 August and 20 November	20 February, 20 May, 20 August and 20 November	20 February, 20 May, 20 August and 20 November
Funding Payment Dates:	20 November 2009	20 November 2009	20 November 2009	20 November 2009
First Funding Payment Date:				

Basis:	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR	3 Month Sterling LIBOR (or in the case of the First Issuer Payment Date, the linear interpolation between 2 month Sterling LIBOR and 3 month Sterling LIBOR
Margin Until Step-Up Date:	0.11%	0.16%	0.25%	0.47%
Margin After Step-Up Date:	0.22%	0.32%	0.50%	0.94%
Step-Up Date:	20 November 2013	20 November 2013	20 November 2013	20 November 2013
Final Maturity Date:	20 November 2056	20 November 2056	20 November 2056	20 November 2056
Required Subordination Percentage:	10.15%	7.15%	4.55%	1.25%
Funding Rating Repayment Test:	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Common Funding Reserve Required Amount:	£428,028,255 2.25%	£428,028,255 2.25%	£428,028,255 2.25%	£428,028,255 2.25%

Common Funding Reserve Required Amount also includes the following amounts to be added after occurrence of arrears or step-up trigger event:

(a) if an arrears or step up trigger event has occurred under item (i) only of the arrears or step-up trigger event definition:	£107,007,064 0.5625%	£107,007,064 0.5625%	£107,007,064 0.5625%	£107,007,064 0.5625%
(b) if an arrears or step up trigger event has occurred under item (ii) only of the arrears or step-up trigger event definition:	£107,007,064 0.5625%	£107,007,064 0.5625%	£107,007,064 0.5625%	£107,007,064 0.5625%
(c) if an arrears or step up trigger event has occurred under item (i) and (ii) of the arrears or step-up trigger event definition:	£214,014,128 1.1250%	£214,014,128 1.1250%	£214,014,128 1.1250%	£214,014,128 1.1250%

Loan note tranche controlled amortisation schedule	Payment Date falling in	Series 2009-1 A Target Balance £	Series 2009-1 B Target Balance £	Series 2009-1 C Target Balance £	Series 2009-1 D Target Balance £
	September 2009	10,285,000,000	781,200,000	439,200,000	548,450,000
	November 2009	10,285,000,000	781,200,000	439,200,000	548,450,000
	February 2010	10,285,000,000	781,200,000	439,200,000	548,450,000
	May 2010	10,285,000,000	781,200,000	439,200,000	548,450,000
	August 2010	10,285,000,000	781,200,000	439,200,000	548,450,000
	November 2010	10,285,000,000	781,200,000	439,200,000	548,450,000
	February 2011	10,285,000,000	781,200,000	439,200,000	548,450,000
	May 2011	10,285,000,000	781,200,000	439,200,000	548,450,000
	August 2011	10,285,000,000	781,200,000	439,200,000	548,450,000
	November 2011	10,285,000,000	781,200,000	439,200,000	548,450,000

February 2012	10,285,000,000	781,200,000	439,200,000	548,450,000
May 2012	10,285,000,000	781,200,000	439,200,000	548,450,000
August 2012	10,285,000,000	781,200,000	439,200,000	548,450,000
November 2012	10,285,000,000	781,200,000	439,200,000	548,450,000
February 2013	10,285,000,000	781,200,000	439,200,000	548,450,000
May 2013	10,285,000,000	781,200,000	439,200,000	548,450,000
August 2013	10,285,000,000	781,200,000	439,200,000	548,450,000
November 2013	9,630,977,494 *	781,200,000 *	439,200,000 *	548,450,000 *
February 2014	0	0	0	0
May 2014	0	0	0	0

*Notwithstanding the Target Balances indicated for the Series 2009-1 A, Series 2009-1 B, Series 2009-1 C and Series 2009-1 D on the Payment Date occurring in November 2013, it is expected that subject to having sufficient funds and to other commercial considerations, the Issuing entity will exercise its option to redeem such Notes in full on such date (which is the Step-up Date for such Notes) pursuant to the Conditions.

ANCILLARY INFORMATION

New Mortgage Loan Portfolio Designation:	Not Applicable
New Mortgage Portfolio Purchase Price:	Not Applicable
Maximum Permitted Mortgage Loan Maturity Date:	20 November 2055
Senior Expenses Loan Drawdown:	£287,041,498
Estimate of total expenses related to admission to trading:	£7,900,000 (being the estimated total of underwriting, arrangement of legal and other fees, costs and expenses to be funded by way of a Junior Expenses Loan Drawdown)

PARTIES

Dealer for Series 2009-1:	Barclays Capital, the investment banking division of Barclays Bank PLC
Issuer:	Gracechurch Mortgage Financing PLC
Issuer Security Trustee, Funding Security Trustee:	The Bank of New York Mellon, acting through its London Branch, at its specified office in London, whose address in London is, at the date of these final terms, 40th Floor, One Canada Square, London E14 5AL
Principal Paying Agent, Registrar, Transfer Agent, Agent Bank, Calculation Agent and Exchange Agent:	The Bank of New York Mellon, acting through its London Branch, at its specified office in London, whose address in London is, at the date of these final terms, 40th Floor, One Canada Square, London E14 5AL
Mortgages Trustee:	Gracechurch GMF Trustee Limited
Funding:	Gracechurch GMF Funding 1 Limited
Seller:	Barclays Bank PLC
Cash Manager:	Barclays Bank PLC
Administrator:	Barclays Bank PLC
PECOH:	Gracechurch GMF Options Limited
Holdings:	Gracechurch GMF Holdings Limited
Senior Expenses Loan Facility Provider:	Barclays Bank PLC
Junior Expenses Loan Facility Provider:	Barclays Bank PLC
Yield Supplement Loan Facility Provider:	Barclays Bank PLC
Basis Rate Swap Provider:	Barclays Bank PLC
Calculation Agent	Barclays Bank PLC
Issuer Swap Provider:	Barclays Bank PLC
Common Depository:	The Bank of New York Mellon acting through its London Branch, at its specified office in London, whose address in London is, at the date of these final terms, 40th Floor, One Canada Square, London E14 5AL

OTHER SERIES ISSUED AND LOAN NOTE TRANCHES HELD

Gracechurch Mortgage Financing PLC

In addition to the other series of notes already issued on a previous issue date and as described in the base prospectus, the issuer has also issued the following series of notes prior to this issue date:

As at the date of these final terms, no previous series, other than disclosed in the base prospectus, have been issued by the issuer, funding or the mortgage trustee.

Gracechurch GMF Funding 1 Limited

In addition to the loan note tranches already advanced on a previous issue date and as described in the base prospectus, funding has advanced the following loan note tranches prior to this issue date:

As at the date of these final terms, no previous series, other than disclosed in the base prospectus, have been issued by the issuer, funding or the mortgage trustee.

MATURITY AND REPAYMENT CONSIDERATIONS

Based upon the assumptions made in the base prospectus (see in the base prospectus “*Maturity and Repayment Considerations*”), the approximate weighted average lives of the series 2009-1 notes, at various constant payment rates for the mortgage assets, would be as follows:

Constant payment rate (% per annum)	<i>Possible weighted average life of the series 2009-1 notes (years)</i>
5%	4.22
10%	4.22
15%	4.22
20%	4.22
25%	4.22
30%	4.22
35%	4.22

THE MORTGAGES TRUST

As at the last trust determination date before the date of these final terms, the size of the funding share of the trust property was £6,969,628,099.33, the size of the funding (no.2) share of the trust property was £100 and the size of the seller share of the trust property was £5,245,932,134.36.

On the issue date, funding will make a further contribution of £12,053,850,000,000 to the mortgages trustee, and the mortgages trustee will utilise an amount equal to such contributions to make a special distribution to the seller of £12,053,850,000,000

Following such contribution, the size of funding's beneficial interest in the trust property (the "**funding share**") will increase by approximately £12,054 million. The actual share of funding's beneficial interest in the trust property on the issue date will not be determined until the trust determination date falling before or as of the issue date.

The actual share of the seller's beneficial interest in the trust property on the issue date will not be determined until the trust determination date falling before or as of the issue date.

THE MORTGAGE ASSETS

Introduction

At year end 2008, mortgage loans outstanding in the UK amounted to approximately £1,225,314 million. Outstanding mortgage debt in the UK grew at an annual average rate of 8.8% between 1994 and 2008. At year end 2008, banks held 47.9% of outstanding mortgage debt while building societies held 17.0% of outstanding mortgage debt.

The series 2009-1 cut-off date mortgage account portfolio plus the mortgage accounts that form part of the trust property at the cut-off date (the “**cut-off date mortgage account portfolio**”) was drawn up as at 1 August 2009 (the “**cut-off date**”).

The cut-off date mortgage account portfolio as at the cut-off date comprised 234,856 mortgage accounts having: (i) an aggregate mortgage loan balance of £25,692,388,163.05; (ii) an aggregate mortgage reserve balance of £507,615,449.45; and (iii) an aggregate mortgage account balance of £26,200,003,612.50. The seller originated the mortgage accounts in the cut-off date mortgage account portfolio between May 2004 and June 2009. All mortgage accounts in the cut-off date mortgage account portfolio were originated by the seller at least 3 months before the issue date.

Interest payments and setting of interest rates

The borrower may have the flexibility of having a portion of a mortgage account accruing interest at a variable rate and the rest accruing interest at a fixed rate (subject to availability). 85,523 mortgage accounts in the cut-off date mortgage account portfolio (or 36.72% of the aggregate current balance of the mortgage loans in the cut-off date mortgage account portfolio) were fixed rate mortgage loans. 145,359 cut-off date mortgage account portfolio (or 62.14% of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio) were tracker mortgage accounts. The remaining 3,974 mortgage accounts in the cut-off date mortgage account portfolio (or 1.13% of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio) were standard variable rate mortgage accounts or discounted variable rate mortgage accounts.

As at the date of these final terms, the Barclays base rate is 0.50% per annum and the Barclays standard variable rate is 4.99% per annum.

Selected statistical information on the issue date cut-off date mortgage account portfolio

The statistical and other information contained in these final terms has been compiled by reference to the mortgage accounts in the cut-off date mortgage account portfolio. Columns stating percentage amounts may not add up to 100% due to rounding. The characteristics of the mortgage account portfolio as of the issue date are not expected to differ materially from the characteristics of the cut-off date mortgage account portfolio, however, it should be noted that a mortgage account will have been removed from any additional mortgage account portfolio (which comprises a portion of the cut-off date mortgage account portfolio) if, in the period up to (and including) the assignment date related to such additional mortgage account portfolio, the mortgage account is repaid in full or if the mortgage account does not comply with the terms of the mortgage sale agreement on about the applicable assignment date. Once such mortgage accounts are removed, the seller will then randomly select from the mortgage accounts remaining in the additional mortgage account portfolio those mortgage accounts to be assigned on the applicable assignment date once the determination has been made as to the anticipated principal balances of the notes to be issued and the corresponding size of the trust that would be required ultimately to support payments on the notes. The seller has not revalued any of the mortgaged

properties since the date of the origination of the related mortgage account for the purposes of the issue of the notes, other than in respect of a mortgaged property of a related borrower that has remortgaged its property or to which the seller has made a further advance.

Original Term (Years)

Original Mortgage Term	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
00 - 02	1,064,568.20	0.00%	11	0.00%
02 - 04	6,397,859.06	0.02%	95	0.04%
04 - 06	467,461,115.22	1.78%	6,672	2.84%
06 - 08	602,982,831.07	2.30%	7,996	3.40%
08 - 10	1,749,802,966.82	6.68%	20,131	8.57%
10 - 12	1,118,028,027.19	4.27%	12,421	5.29%
12 - 14	1,364,263,723.42	5.21%	14,092	6.00%
14 - 16	2,746,462,945.99	10.48%	26,575	11.32%
16 - 18	2,258,468,364.40	8.62%	20,436	8.70%
18 - 20	4,212,156,970.68	16.08%	34,852	14.84%
20 - 22	2,271,607,978.78	8.67%	18,972	8.08%
22 - 24	2,656,148,346.55	10.14%	20,361	8.67%
24 - 26	4,854,904,128.43	18.53%	36,495	15.54%
26 - 28	460,792,748.87	1.76%	3,691	1.57%
28 - 30	860,504,104.22	3.28%	7,096	3.02%
30 - 32	76,046,699.11	0.29%	601	0.26%
32 - 34	130,341,475.17	0.50%	1,045	0.44%
34 - 36	362,568,759.32	1.38%	3,314	1.41%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Property Type

Property Type	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
BUNGALOW	1,299,456,088.89	4.96%	13,297	5.66%
DETACHED	9,126,320,171.43	34.83%	63,223	26.92%
FLAT/MAIS	2,621,611,366.48	10.01%	23,648	10.07%
SEMI	7,916,467,629.66	30.22%	78,738	33.53%
TERRACE	5,236,148,356.04	19.99%	55,950	23.82%
	<hr/> <hr/> 26,200,003,612.50	<hr/> <hr/> 100.00%	<hr/> <hr/> 234,856	<hr/> <hr/> 100.00%

Seasoning Of Loans

The following table shows length of time since the mortgage accounts were originated as of the cut-off date.

Age of mortgage loans (Months)	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
00 - 02	258,722,678.11	0.99%	2,084	0.89%
02 - 04	280,298,466.51	1.07%	2,302	0.98%
04 - 06	18,378,160.66	0.07%	113	0.05%
06 - 08	51,533,497.47	0.20%	378	0.16%
08 - 10	369,867,175.84	1.41%	2,967	1.26%
10 - 12	2,113,820,531.21	8.07%	17,020	7.25%
12 - 14	1,489,534,119.57	5.69%	11,693	4.98%
14 - 16	1,354,906,867.70	5.17%	11,521	4.91%
16 - 18	2,130,939,419.52	8.13%	16,958	7.22%
18 - 20	2,090,895,248.53	7.98%	16,632	7.08%
20 - 22	1,619,362,121.13	6.18%	13,724	5.84%
22 - 24	1,375,738,532.76	5.25%	12,672	5.40%
24 - 26	1,298,869,599.62	4.96%	12,333	5.25%
26 - 28	1,095,201,973.67	4.18%	10,155	4.32%
28 - 30	1,407,917,933.79	5.37%	12,939	5.51%
30 - 32	1,583,761,808.32	6.04%	14,957	6.37%
32 - 34	1,347,811,067.13	5.14%	12,814	5.46%
34 - 36	1,322,655,478.59	5.05%	13,242	5.64%
36 - 38	772,389,733.31	2.95%	7,797	3.32%
38 - 40	574,684,574.18	2.19%	5,786	2.46%
40+	3,642,714,624.88	13.90%	36,769	15.66%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The weighted average seasoning of mortgage accounts as of the cut-off date is expected to be 26.55 months. The maximum seasoning of mortgage accounts as of the cut-off date is expected to be 62.00 months and the minimum seasoning of the mortgage accounts as of the cut-off date is expected to be 2.00 months.

Original Year Of Maturity

Year Of Maturity	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
2009	7,534,306.32	0.03%	140	0.06%
2010	15,644,973.64	0.06%	381	0.16%
2011	69,553,469.24	0.27%	1,371	0.58%
2012	170,693,982.68	0.65%	2,509	1.07%
2013	250,787,095.48	0.96%	3,561	1.52%
2014	289,909,199.69	1.11%	4,019	1.71%
2015	375,461,112.18	1.43%	4,719	2.01%
2016	628,061,566.01	2.40%	7,692	3.28%
2017	788,626,539.05	3.01%	8,931	3.80%
2018	784,219,866.72	2.99%	8,557	3.64%
2019	676,724,698.22	2.58%	7,467	3.18%
2020	749,032,407.24	2.86%	7,801	3.32%
2021	1,003,060,705.09	3.83%	10,270	4.37%
2022	1,175,864,293.91	4.49%	11,409	4.86%
2023	1,164,045,660.00	4.44%	10,754	4.58%
2024	1,081,179,177.33	4.13%	9,966	4.24%
2025	1,202,668,401.63	4.59%	10,819	4.61%
2026	1,643,232,052.50	6.27%	14,103	6.00%
2027	1,876,807,702.13	7.16%	15,577	6.63%
2028	1,783,931,552.89	6.81%	14,251	6.07%
2029	1,604,585,356.92	6.12%	13,031	5.55%
2030	1,612,253,536.87	6.15%	12,363	5.26%
2031	2,172,919,809.10	8.29%	16,373	6.97%
2032	1,802,919,937.90	6.88%	13,418	5.71%
2033	1,236,422,171.48	4.72%	8,641	3.68%
2034	299,594,710.22	1.14%	2,317	0.99%
2035	242,169,986.17	0.92%	2,016	0.86%
2036	353,678,685.67	1.35%	2,883	1.23%
2037	323,421,844.05	1.23%	2,618	1.11%
2038	244,703,056.95	0.93%	1,939	0.83%
2039	76,175,780.22	0.29%	619	0.26%
2040	85,212,780.43	0.33%	708	0.30%
2041	132,796,823.53	0.51%	1,184	0.50%
2042	135,849,371.48	0.52%	1,229	0.52%
2043	122,855,897.04	0.47%	1,066	0.45%
2044	17,405,102.52	0.07%	154	0.07%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The weighted average remaining term of the mortgage accounts as of the cut-off date is expected to be 14.46 years. The maximum remaining term as of the cut-off date is expected to be 34.87 years and the minimum remaining term as of the cut-off date is expected to be 00.04 years.

Current Remaining Term

Years To Maturity	Aggregate Account Balance (£)	% of Total Value	Number Of Collaterals	% of Total Number
00 - 02.99	804,564,284.99	3.07%	12,267	5.22%
03 - 04.99	1,040,845,149.07	3.97%	13,026	5.55%
05 - 06.99	1,613,400,821.96	6.16%	18,617	7.93%
07 - 08.99	2,391,185,950.42	9.13%	25,456	10.84%
09 - 10.99	2,944,567,891.01	11.24%	28,580	12.17%
11 - 12.99	2,979,490,883.39	11.37%	26,646	11.35%
13 - 14.99	2,296,663,161.79	8.77%	19,331	8.23%
15 - 16.99	2,356,274,368.21	8.99%	18,536	7.89%
17 - 18.99	2,791,816,156.76	10.66%	20,964	8.93%
19 - 20.99	2,266,610,853.69	8.65%	16,505	7.03%
21 - 22.99	2,132,930,123.35	8.14%	15,113	6.44%
23 - 24.99	1,333,318,913.31	5.09%	9,519	4.05%
25 - 26.99	367,606,345.28	1.40%	2,877	1.23%
27 - 28.99	425,819,492.54	1.63%	3,473	1.48%
29 - 30.99	146,901,048.81	0.56%	1,193	0.51%
31 - 32.99	156,903,325.04	0.60%	1,363	0.58%
33 - 34.99	135,202,476.75	0.52%	1,231	0.52%
35 - 36.99	9,672,104.08	0.04%	96	0.04%
37+	6,230,262.05	0.02%	63	0.03%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Geographical Distribution

The following table shows the distribution of mortgaged properties securing the mortgage accounts throughout England, Wales, Northern Ireland and Scotland as of the cut-off date. No mortgaged properties are situated outside England, Wales, Northern Ireland or Scotland. The geographical location of a mortgaged property securing a mortgage account has no impact upon the seller's lending criteria and credit scoring tests.

Region	Aggregate Account Balance (£)	% of Total Value	Number Of Collaterals	% of Total Number
East Anglia	1,950,010,950.39	7.44%	18,284	7.79%
East Midlands	1,348,416,111.72	5.15%	14,211	6.05%
Greater London	2,729,362,218.42	10.42%	16,194	6.90%
North	802,855,929.75	3.06%	9,534	4.06%
North West	2,120,634,072.30	8.09%	22,809	9.71%
Northern Ireland	625,316,952.04	2.39%	7,016	2.99%
South East	10,225,777,589.43	39.03%	80,302	34.19%
South West	2,168,532,188.69	8.28%	20,595	8.77%
Wales	997,125,987.28	3.81%	11,567	4.93%
West Midlands	1,764,941,889.79	6.74%	18,122	7.72%
Yorks And Humberside	1,467,029,722.69	5.60%	16,222	6.91%
	26,200,003,612.50	100.00%	234,856	100.00%

House prices and incomes vary throughout England, Scotland, Wales and Northern Ireland. The table below summarises the average house price in the UK as at July 2009 and the average income over the period from 01 January 2008 to 31 December 2008 for each region in order to produce a house price to earnings ratio for each region. This ratio is highest in Greater London (9.5) and lowest in the North East (5.9).

Region	Average Price (£)	Average Earnings (£ per annum)	Price/Earnings Ratio
East Anglia	202,049	25,932.40	7.79
East Midlands	149,046	23,379.20	6.38
Greater London	287,142	30,201.60	9.51
Northern Ireland	168,820	21,746.40	7.76
North East	129,052	21,923.20	5.89
North West	141,960	23,467.60	6.05
Scotland	156,329	24,013.60	6.51
South East	236,878	27,206.40	8.71
South West	192,955	23,441.60	8.23
Wales	148,979	22,115.60	6.74
West Midlands	158,224	23,400.00	6.76
Yorkshire & Humberside	145,734	23,077.60	6.31

Sources: Office of National Statistics, Department for Communities and Local Government.

Current LTV

The following table shows the range of current loan to value, or LTV, ratios, which express the mortgage account balance of a mortgage account as at the cut-off date divided by the value of the mortgaged property securing that mortgage account at the same date. The seller has not revalued any of the mortgaged properties since the date of the origination of the related mortgage account, other than in respect of a mortgaged property of a related borrower that has remortgaged its property or to which the seller has made a further advance, as described in the base prospectus under “*The Mortgage Assets – overpayments, unauthorised underpayment and further advances on mortgage loans*”.

Current LTV	Aggregate Account Balance (£)	% of Total Value	Number Of Collaterals	% of Total Number
00% - 20.00%	1,129,106,026.05	4.31%	25,848	11.01%
20.01% - 30.00%	2,189,732,277.64	8.36%	30,667	13.06%
30.01% - 40.00%	3,349,275,457.88	12.78%	37,092	15.79%
40.01% - 50.00%	4,482,834,528.33	17.11%	40,299	17.16%
50.01% - 60.00%	5,111,285,760.65	19.51%	37,988	16.18%
60.01% - 70.00%	4,225,297,312.08	16.13%	28,423	12.10%
70.01% - 80.00%	4,327,267,754.86	16.52%	25,721	10.95%
80.01% - 90.00%	1,344,680,134.32	5.13%	8,576	3.65%
> 90%	40,524,360.69	0.15%	242	0.10%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The weighted average current loan to value ratio of the mortgage accounts at the cut-off date was 53.44%.

Credit LTV

Credit LTV	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
00% - 20.00%	614,885,955.93	2.35%	14,525	6.18%
20.01% - 30.00%	1,631,264,377.32	6.23%	25,355	10.80%
30.01% - 40.00%	2,824,263,583.72	10.78%	34,423	14.66%
40.01% - 50.00%	4,040,405,826.10	15.42%	39,771	16.93%
50.01% - 60.00%	5,242,502,940.99	20.01%	41,793	17.80%
60.01% - 70.00%	4,271,820,162.81	16.30%	30,620	13.04%
70.01% - 80.00%	5,548,707,424.36	21.18%	34,706	14.78%
80.01% - 90.00%	1,994,552,063.20	7.61%	13,469	5.74%
> 90%	31,601,278.07	0.12%	194	0.08%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The weighted average drawable loan to value ratio of the mortgage accounts at the cut-off date was 57.45%.

Original LTV

Original LTV	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
00% - 20%	693,202,688.58	2.65%	14,960	6.37%
20.01% - 30.00%	1,756,339,579.90	6.70%	26,873	11.44%
30.01% - 40.00%	3,010,997,335.93	11.49%	36,072	15.36%
40.01% - 50.00%	4,222,242,633.39	16.12%	40,878	17.41%
50.01% - 60.00%	5,307,784,696.39	20.26%	41,593	17.71%
60.01% - 70.00%	4,094,767,008.47	15.63%	29,036	12.36%
70.01% - 80.00%	5,208,272,626.37	19.88%	32,411	13.80%
80.01% - 90.00%	1,804,834,045.80	6.89%	12,376	5.27%
> 90%	101,562,997.67	0.39%	657	0.28%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The weighted average original loan to value ratio of the mortgage accounts at the cut-off date was 56.13%.

Indexed LTV

The following table shows the range of current indexed loan to value, or LTV, ratios, which express the mortgage account balance of a mortgage account as of the cut-off date divided by the indexed value of the mortgaged property securing that mortgage account as of the same date (calculated using the Halifax House Price Index).

Indexed LTV	Aggregate Account Balance (£)	% of Total Value	Number Of Collaterals	% of Total Number
00% - 19.99%	707,207,298.07	2.70%	18,819	8.01%
20.01% - 30.00%	1,448,331,785.28	5.53%	22,673	9.65%
30.01% - 40.00%	2,337,077,486.45	8.92%	29,048	12.37%
40.01% - 50.00%	3,205,532,721.91	12.23%	32,927	14.02%
50.01% - 60.00%	3,959,606,608.77	15.11%	34,214	14.57%
60.01% - 70.00%	4,292,778,091.61	16.38%	32,255	13.73%
70.01% - 80.00%	3,745,159,937.59	14.29%	25,123	10.70%
80.01% - 90.00%	3,445,113,936.43	13.15%	21,631	9.21%
> 90%	3,059,195,746.39	11.68%	18,166	7.73%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The weighted average current indexed loan to value ratio of the mortgage accounts as of the cut-off date was 62.70%.

Outstanding Current Balance

The following table shows the outstanding balances of a mortgage account (including capitalised fees and/or charges, if applicable) as of the cut-off date:

Outstanding current balance	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
£0 - £50,000	1,359,845,931.58	5.19%	39,299	16.73%
£50,000 - £100,000	6,877,937,514.61	26.25%	92,430	39.36%
£100,000 - £150,000	6,778,037,130.40	25.87%	55,509	23.64%
£150,000 - £200,000	4,161,623,154.18	15.88%	24,234	10.32%
£200,000 - £250,000	2,284,410,379.89	8.72%	10,279	4.38%
£250,000 - £300,000	1,416,928,295.65	5.41%	5,185	2.21%
£300,000 - £350,000	926,813,637.41	3.54%	2,869	1.22%
£350,000 - £400,000	657,397,513.84	2.51%	1,759	0.75%
£400,000 - £450,000	458,766,025.13	1.75%	1,081	0.46%
£450,000 - £500,000	408,503,547.95	1.56%	855	0.36%
£500,000 - £600,000	346,351,490.19	1.32%	636	0.27%
£600,000 - £700,000	230,623,865.30	0.88%	357	0.15%
£700,000 - £800,000	152,670,243.19	0.58%	204	0.09%
£800,000 - £900,000	88,292,503.65	0.34%	104	0.04%
£900,000 - £1,000,000	51,802,379.53	0.20%	55	0.02%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

The largest mortgage account had a mortgage account balance as of the cut-off date of £999,596.83. The average mortgage account balance as of the cut-off date was approximately £111,557.74.

Original Loan Amount

The following table shows the aggregate initial mortgage account balance of the mortgage accounts as of the date of the relevant advance:

Original Loan Balance	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
£0 - £50,000	879,888,342.63	3.36%	26,613	11.33%
£50,000 - £100,000	6,358,671,182.63	24.27%	92,654	39.45%
£100,000 - £150,000	6,910,904,235.58	26.38%	60,692	25.84%
£150,000 - £200,000	4,424,317,974.62	16.89%	27,599	11.75%
£200,000 - £250,000	2,487,373,755.97	9.49%	12,011	5.11%
£250,000 - £300,000	1,523,674,040.13	5.82%	6,001	2.56%
£300,000 - £350,000	988,105,041.06	3.77%	3,293	1.40%
£350,000 - £400,000	711,860,982.33	2.72%	2,064	0.88%
£400,000 - £450,000	494,042,943.95	1.89%	1,265	0.54%
£450,000 - £500,000	459,296,110.95	1.75%	1,037	0.44%
£500,000 - £600,000	389,334,130.63	1.49%	769	0.33%
£600,000 - £700,000	227,702,789.89	0.87%	385	0.16%
£700,000 - £800,000	176,879,990.85	0.68%	262	0.11%
£800,000 - £900,000	100,118,787.72	0.38%	132	0.06%
£900,000 - £1,000,000	67,833,303.56	0.26%	79	0.03%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Product Type

Main Mortgage Loan Product	Aggregate Account Balance (£)	% of Total Value	Number Of Collaterals	% of Total Number
Discount	1,399,629.40	0.01%	6	0.00%
Fixed	9,621,749,993.65	36.72%	85,523	36.42%
Standard Variable	295,392,258.98	1.13%	3,968	1.69%
Tracker	16,281,461,730.47	62.14%	145,359	61.89%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Employment Type

Self_Employed	Aggregate Account Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
N	20,113,808,908.75	76.77%	191,746	81.64%
Y	6,086,194,703.75	23.23%	43,110	18.36%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Current Interest Rate

Interest Rate	Agg. Balance exc. Res (£)	% of Total Value	Aggregate Reserve Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
0 - 1.99%	15,800,240,480.50	61.50%	317,940,142.35	62.63%	144,110	61.36%
2 - 2.99%	133,681,417.51	0.52%	827,655.10	0.16%	910	0.39%
3 - 3.99%	260,279,174.65	1.01%	1,644,860.24	0.32%	2,090	0.89%
4 - 4.99%	2,913,250,785.53	11.34%	88,695,633.77	17.47%	28,880	12.30%
5 - 5.99%	5,877,926,574.16	22.88%	87,100,975.20	17.16%	49,891	21.24%
6 - 6.99%	702,191,462.41	2.73%	11,398,149.06	2.25%	8,901	3.79%
7 - 7.99%	4,818,268.29	0.02%	8,033.73	0.00%	74	0.03%
	<u>25,692,388,163.05</u>	<u>100.00%</u>	<u>507,615,449.45</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Fixed Interest Rate

Fixed rate mortgage loans remain at the relevant fixed rate for a period of time as specified in the offer of advance, after which they move to the seller's standard variable rate or some other rate as specified in the offer of advance.

Interest Rate	Agg. Balance exc. Res (£)	% of Total Value	Aggregate Reserve Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
2 - 2.99%	41,696,631.63	0.44%	72,944.09	0.04%	156	0.18%
3 - 3.99%	189,131,649.83	2.00%	1,408,699.09	0.83%	1,597	1.87%
4 - 4.99%	2,637,026,003.88	27.90%	69,091,920.25	40.86%	24,913	29.13%
5 - 5.99%	5,877,923,015.16	62.18%	87,100,975.20	51.51%	49,886	58.33%
6 - 6.99%	702,191,462.41	7.43%	11,398,149.06	6.74%	8,901	10.41%
7 - 7.99%	4,700,509.32	0.05%	8,033.73	0.00%	70	0.08%
	<u>9,452,669,272.23</u>	<u>100.00%</u>	<u>169,080,721.42</u>	<u>100.00%</u>	<u>85,523</u>	<u>100.00%</u>

Fixed Loans Year Of Maturity

Maturity Year	Agg. Balance exc. Res (£)	% of Total Value	Aggregate		Number of Mortgage Accounts	% of Total Number
			Reserve Balance (£)	% of Total Value		
2009-3	453,418,030.46	4.80%	14,034,049	8.30%	4,506	5.27%
2009-4	809,356,824.28	8.56%	4,460,973	2.64%	5,442	6.36%
2010-1	422,896,819.31	4.47%	11,314,203	6.69%	4,215	4.93%
2010-2	325,335,545.30	3.44%	9,648,972	5.71%	3,587	4.19%
2010-3	527,825,276.08	5.58%	11,838,044	7.00%	4,854	5.68%
2010-4	423,350.94	0.00%	0	0.00%	5	0.01%
2011-1	420,875,546.33	4.45%	19,116,566	11.31%	4,992	5.84%
2011-2	723,467,608.18	7.65%	15,701,936.03	9.29%	6,688	7.82%
2011-3	548,715,330.57	5.80%	7,943,618.49	4.70%	4,448	5.20%
2011-4	142,181,505.66	1.50%	4,361,437.66	2.58%	1,596	1.87%
2012-1	217,078,491.12	2.30%	4,417,633.83	2.61%	2,155	2.52%
2012-2	629,419,704.15	6.66%	9,642,640.01	5.70%	5,732	6.70%
2012-3	161,102,376.66	1.70%	2,444,738.14	1.45%	1,547	1.81%
2012-4	325,337,554.37	3.44%	1,889,989	1.12%	2,466	2.88%
2013-1	195,243,245.11	2.07%	1,449,425.70	0.86%	1,737	2.03%
2013-2	172,283,853.27	1.82%	1,187,467.67	0.70%	1,526	1.78%
2013-3	356,966,539.01	3.78%	2,909,521.32	1.72%	2,865	3.35%
2013-4	21,489,716.41	0.23%	146,918.66	0.09%	221	0.26%
2014-1	10,933,420.31	0.12%	818,195.73	0.48%	96	0.11%
2014-2	84,791,559.34	0.90%	46,087.33	0.03%	759	0.89%
2014-3	7,823,717.46	0.08%	10,564.76	0.01%	89	0.10%
2014-4	320,361.83	0.00%	8.00	0.00%	2	0.00%
2015-3	11,032,788.67	0.12%	741,635.32	0.44%	112	0.13%
2016-1	422,381.54	0.00%	17,968.94	0.01%	5	0.01%
2016-2	308,542,863.92	3.26%	8,974,043.02	5.31%	2,753	3.22%
2016-3	19,992,438.12	0.21%	691,700.11	0.41%	185	0.22%
2016-4	325,705,958.65	3.45%	6,780,315.93	4.01%	2,880	3.37%
2017-1	678,811,173.81	7.18%	13,090,366.61	7.74%	6,027	7.05%
2017-2	615,738,717.76	6.51%	9,555,352.84	5.65%	5,724	6.69%
2017-3	108,364,295.40	1.15%	1,407,480.25	0.83%	1,044	1.22%
2017-4	123,629,111.91	1.31%	1,040,894.02	0.62%	1,066	1.25%
2018-1	70,542,621.77	0.75%	612,741.47	0.36%	627	0.73%
2018-2	56,682,673.46	0.60%	486,006.04	0.29%	499	0.58%
2018-3	550,998,775.49	5.83%	1,988,965.75	1.18%	4,791	5.60%
2018-4	22,759,949.23	0.24%	269,417.55	0.16%	260	0.30%
2019-1	2,159,146.35	0.02%	40,843.67	0.02%	22	0.03%
	<u>9,452,669,272.23</u>	<u>100.00%</u>	<u>169,080,721.42</u>	<u>100.00%</u>	<u>85,523</u>	<u>100.00%</u>

Repayment Method

Repayment Type Of Main Loan	Agg. Balance exc. Res (£)	% of Total Value	Aggregate Reserve Balance (£)	% of Total Value	Number of Mortgage Accounts	% of Total Number
Interest Only	10,477,313,094.01	40.78%	165,211,882	32.55%	75,486	32.14%
Repayment	15,215,075,069.04	59.22%	342,403,567	67.45%	159,370	67.86%
	<u>25,692,388,163.05</u>	<u>100.00%</u>	<u>507,615,449.45</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

Mortgage reserves do not have a repayment schedule (see “*The Mortgage Assets – Repayment and Operation of the Mortgage Reserve*”).

Arrears and repossession experience

The following table shows the arrears and repossession experience in respect of the cut-off date mortgage account portfolio.

The mortgage accounts used in the table below are administered in accordance with Barclays Bank PLC administration policies. The method by which Barclays Bank PLC classifies mortgage accounts as being in arrears is described in the base prospectus under “*The Administrator and the Administration Agreement – Arrears practice in respect of the mortgage loans*” and is important in helping to understand the arrears and repossession information in respect of the cut-off date mortgage account portfolio set forth in the following table.

Mortgage Accounts in Arrears

Months In Arrears	Aggregate Account Balance (£)	% of Total Value	Number Of Collaterals	% of Total Number
Current	25,942,152,971.98	99.02%	232,547	99.02%
1 - 2 mths	94,875,762.83	0.36%	876	0.37%
2+ - 3 mths	40,024,463.46	0.15%	386	0.16%
3+ - 4 mths	20,839,617.10	0.08%	197	0.08%
4+ - 5 mths	14,927,469.65	0.06%	147	0.06%
5+ - 6 mths	13,242,636.02	0.05%	114	0.05%
6+ months	73,940,691.46	0.28%	589	0.25%
	<u>26,200,003,612.50</u>	<u>100.00%</u>	<u>234,856</u>	<u>100.00%</u>

ARREARS EXPERIENCE OF THE SELLER

The following table summarises, in respect of the seller's flexible open plan mortgage portfolio, the seller's experience in administering mortgage loans in arrears for residential mortgage loans that were originated by the seller. The information set forth below includes information in respect of the seller's experience in administering mortgage loans secured by properties located in England, Wales, Scotland and Northern Ireland.

The mortgage loans used for statistical purposes in the table below are administered in accordance with the administration policies of Barclays Bank PLC. Noteholders should note the method by which Barclays Bank PLC classifies loans as being in arrears, which is described under "*The Administrator and the Administration Agreement – Arrears practice in respect of the mortgage loans*" in the base prospectus, and which is important in helping noteholders to understand arrears and repossession experience of Barclays Bank PLC as set forth in the following table.

	31 December 2002		31 December 2003		31 December 2004		31 December 2005		31 December 2006		31 December 2007		31 December 2008	
	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%
Mortgage account balance	53,212,518,966.50	n/a	54,650,342,206.22	n/a	55,592,593,325.66	n/a	52,870,593,701.60	n/a	55,097,721,035.15	n/a	62,309,190,756.52	n/a	73,310,459,974.82	n/a
Number of accounts outstanding	1,089,393	n/a	1,008,393	n/a	933,057	n/a	868,496	n/a	844,772	n/a	853,844	n/a	915,291	n/a
Account balance of mortgage accounts in arrears														
>= 1 and < 2	1,481,850,212.69	2.78	902,793,845.03	1.65	968,940,833.75	1.74	1,073,208,278.69	2.03	1,160,312,148.19	2.11	1,597,136,526.78	2.56	1,675,362,995.49	2.29
>= 2 and < 3	546,243,409.90	1.03	319,690,994.06	0.58	242,222,249.55	0.44	278,995,443.28	0.53	239,609,480.46	0.43	356,579,947.71	0.57	427,674,689.79	0.58
>= 3 and < 4	443,840,676.93	0.83	373,171,217.53	0.68	155,714,108.34	0.28	160,323,012.39	0.30	130,889,085.27	0.24	194,897,628.00	0.31	207,826,534.93	0.28
>= 4 and < 5	116,600,545.94	0.22	74,728,062.60	0.14	71,106,583.29	0.13	93,642,725.24	0.18	79,877,348.87	0.14	110,134,217.60	0.18	140,275,571.51	0.19
>= 5 and < 6	69,795,707.90	0.13	45,663,169.73	0.08	44,040,861.23	0.08	67,433,014.29	0.13	54,224,625.47	0.10	71,273,184.29	0.11	111,141,068.63	0.15
>= 6 and < 7	43,584,561.54	0.08	31,292,924.46	0.06	30,788,127.58	0.06	41,710,833.44	0.08	38,116,169.92	0.07	52,065,594.88	0.08	71,078,414.69	0.10
>= 7 and < 8	34,440,162.36	0.06	21,789,240.53	0.04	21,758,966.44	0.04	33,366,691.33	0.06	26,298,293.86	0.05	33,682,402.69	0.05	59,463,600.31	0.08
>= 8 and < 9	26,834,549.06	0.05	17,483,675.34	0.03	16,896,621.76	0.03	24,482,719.59	0.05	21,476,405.32	0.04	28,448,443.43	0.05	42,596,910.17	0.06
>= 9 and < 10	19,527,592.01	0.04	11,534,043.62	0.02	12,453,305.79	0.02	21,181,304.01	0.04	17,065,504.38	0.03	19,728,135.35	0.03	30,766,360.77	0.04
>= 10 and < 11	14,956,490.89	0.03	9,964,428.19	0.02	9,203,246.37	0.02	14,811,625.31	0.03	13,514,289.77	0.02	14,629,043.89	0.02	33,226,040.99	0.05
>= 11 and < 12	11,444,949.34	0.02	8,171,449.73	0.01	7,631,873.74	0.01	13,404,818.36	0.03	11,944,454.20	0.02	11,996,522.51	0.02	25,518,239.13	0.03
>= 12	69,743,434.64	0.13	54,635,138.79	0.10	34,205,967.86	0.06	59,066,427.77	0.11	47,546,771.42	0.09	48,298,080.10	0.08	134,190,956.25	0.18
Total account balance of mortgage accounts in arrears	2,878,862,293.20	5.41	1,870,918,189.61	3.42	1,614,962,745.70	2.90	1,881,626,893.70	3.56	1,840,874,577.13	3.34	2,538,869,727.23	4.07	2,959,121,382.66	4.04
Number of mortgage accounts outstanding in arrears														
>= 1 and < 2	28,934	2.66	17,527	1.74	15,475	1.66	16,099	1.85	16,111	1.91	19,611	2.30	19,199	2.10
>= 2 and < 3	8,689	0.80	5,521	0.55	4,501	0.48	4,878	0.56	3,935	0.47	4,921	0.58	4,958	0.54
>= 3 and < 4	4,553	0.42	3,023	0.30	2,270	0.24	2,475	0.28	2,071	0.25	2,423	0.28	2,537	0.28
>= 4 and < 5	2,664	0.24	1,692	0.17	1,417	0.15	1,660	0.19	1,357	0.16	1,612	0.19	1,734	0.19
>= 5 and < 6	1,640	0.15	1,018	0.10	854	0.09	1,170	0.13	924	0.11	1,113	0.13	1,266	0.14
>= 6 and < 7	1,107	0.10	729	0.07	634	0.07	762	0.09	621	0.07	806	0.09	834	0.09
>= 7 and < 8	833	0.08	544	0.05	461	0.05	603	0.07	456	0.05	576	0.07	695	0.08
>= 8 and < 9	676	0.06	396	0.04	312	0.03	465	0.05	377	0.04	412	0.05	508	0.06

	31 December 2002		31 December 2003		31 December 2004		31 December 2005		31 December 2006		31 December 2007		31 December 2008	
	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%	£(mls)	%
>= 9 and < 10	498	0.05	295	0.03	240	0.03	398	0.05	308	0.04	316	0.04	407	0.04
>= 10 and < 11	417	0.04	229	0.02	189	0.02	296	0.03	222	0.03	244	0.03	371	0.04
>= 11 and < 12	323	0.03	225	0.02	162	0.02	234	0.03	195	0.02	206	0.02	329	0.04
>= 12	2,499	0.23	1,912	0.19	1,123	0.12	1,427	0.16	1,129	0.13	974	0.11	1,863	0.20
	52,833	4.85	33,111	3.28	27,638	2.96	30,467	3.51	27,706	3.28	33,214	3.89	34,701	3.79

PLAN OF DISTRIBUTION

After the public offering, the public offering price and other selling terms may be changed by the dealers.

In connection with the sale of these series 2009-1 notes, the dealers may engage in:

- over-allotments, in which members of the syndicate selling these series 2009-1 notes sell more notes than the issuer actually sold to the syndicate, creating a syndicate short position;
- stabilising transactions, in which purchases and sales of these series 2009-1 notes may be made by the members of the selling syndicate at prices that do not exceed a specified maximum;
- syndicate covering transactions, in which members of the selling syndicate purchase these series 2009-1 notes in the open market after the distribution has been completed in order to cover syndicate short positions; and
- penalty bids, by which dealers reclaim a selling concession from a syndicate member when any of these series 2009-1 notes originally sold by that syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions.

These stabilising transactions, syndicate covering transactions and penalty bids may cause the price of these series 2009-1 notes to be higher than it would otherwise be. These transactions, if commenced, may be discontinued at any time.

The issuer, the mortgages trustee, funding and Barclays Bank PLC have agreed to indemnify the dealers against certain liabilities, including liabilities under applicable securities laws.

LISTING APPLICATION

This document comprises the final terms required to list the issue of the series 2009-1 notes described herein pursuant to the Gracechurch Mortgage Financing residential mortgage backed note programme of the issuer.

RESPONSIBILITY

The issuer accepts responsibility for the information contained in these final terms.

Signed on behalf of the issuer:

By:

duly authorised

GENERAL INFORMATION

The admission of the programme to listing on the Official List of the UK Listing Authority and to trading on the regulated market of the London Stock Exchange will take effect upon submission to the UK Listing Authority and the regulated market of the London Stock Exchange of the base prospectus and any other information required by the UK Listing Authority and the regulated market of the London Stock Exchange, subject in each case to the issue of the relevant notes. The listing of the series 2009-1 notes on the regulated market of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). The series 2009-1 notes intended to be admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the regulated market of the London Stock Exchange will be so admitted to listing and trading upon submission to the UK Listing Authority and the regulated market of the London Stock Exchange of these final terms and any other information required by the UK Listing Authority and the regulated market of the London Stock Exchange, subject in each case to the issue of the relevant series 2009-1 notes. Prior to official listing, dealings will be permitted by the regulated market of the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

The issuer confirms that the residential mortgages backing the issue of the series 2009-1 notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on notes. However, investors are advised that this confirmation is based on the information available to the issuer at the date of the base prospectus and these final terms and may be affected by future performance of such securitised assets. Consequently, investors are advised to review carefully the disclosure in the base prospectus together with any amendments or supplements thereto and other documents incorporated by reference in the base prospectus and, in relation to any series, these final terms.

An investment in the series 2009-1 notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment. If any noteholders are in any doubt about the contents of these final terms, it should consult its stockbroker, bank manager, solicitor, accountant or other financial adviser.

The issuer has approved the issue of these securities by board resolution dated 1 September 2009.

There has been no significant change and no significant new matter has arisen since publication of the base prospectus.

It should be remembered that the price of securities and the income from them can go down as well as up.

Documents available for inspection

For so long as the base prospectus is in effect, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the principal paying agent and from the registered office of the issuer, namely:

- (i) the dealer agreement and the series 2009-1 subscription agreement;
- (ii) the global loan note no.1;

- (iii) any supplement to the global loan note no.1;
- (iv) the mortgages trust deed;
- (v) the mortgage sale agreement;
- (vi) the MRCLN note purchase facility agreement;
- (vii) the MRCLN collateral agreement;
- (viii) the funding security trust deed;
- (ix) the issuer security trust deed;
- (x) the basis rate swap agreement and credit support annex thereto;
- (xi) the issuer security trust deed supplement;
- (xii) the agency agreement;
- (xiii) the administration agreement;
- (xiv) the mortgages trustee cash management agreement;
- (xv) the funding cash management agreement;
- (xvi) the issuer cash management agreement;
- (xvii) the series post-enforcement call option agreement
- (xviii) the funding account bank agreement;
- (xix) the mortgages trustee account bank agreement;
- (xx) the issuer account bank agreement;
- (xxi) the collection account declaration of trust;
- (xxii) the master definitions schedule;
- (xxiii) the issuer master framework agreement;
- (xxiv) the senior expenses loan facility agreement;
- (xxv) the junior expenses loan facility agreement;
- (xxvi) the issuer corporate services agreement;
- (xxvii) the holdings corporate services agreement;
- (xxviii) the PECOHO corporate services agreement;
- (xxix) the funding corporate services agreement;
- (xxx) the mortgages trustee corporate services agreement;

- (xxxi) the tax deed of covenant;
- (xxxii) the yield supplement loan facility agreement;
- (xxxiii) the yield supplement GIC account;
- (xxxiv) the controlling beneficiary deed;
- (xxxv) the master deed of amendment dated on or about 1 September 2009,

together with each other document entered into or to be entered into by the issuer, funding and the mortgages trustee pursuant to or in connection with any of the above documents, the **“transaction documents”**.

ISSUER

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MORTGAGES TRUSTEE

Gracechurch GMF Trustee Limited

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GRACECHURCH MORTGAGE FINANCING PLC
£25,000,000,000
Residential Mortgage Backed Note Programme
(ultimately backed by trust property in the mortgages trust)

Application has been made to the Financial Services Authority in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 (the "FSMA") (the "UK Listing Authority") for approval of this base prospectus as a base prospectus issued in compliance with the Prospectus Directive (Directive 2003/71/EC) and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of class A notes, class B notes, class C notes, class D notes, class E notes, class F notes and class RF notes (the "notes") issued under the Gracechurch Mortgage Financing residential mortgage backed note programme (the "programme") during the period of 12 months from the date of this base prospectus to be admitted to trading on the official list of the UK Listing Authority (the "Official List") and to the regulated market of the London Stock Exchange plc (the "London Stock Exchange"). The regulated market of the London Stock Exchange is a regulated market for the purposes of the Markets in Financial Instruments Services Directive 2004/39/EC ("regulated market of the London Stock Exchange").

Under this programme, Gracechurch Mortgage Financing PLC (the "issuer"), a public limited liability company incorporated under the laws of England and Wales, may from time to time issue notes denominated in sterling, dollars, euro or such other currency as may be specified in a relevant final terms. The final terms of a series of notes (including the aggregate nominal amounts of such series, interest (if any) payable in respect of such notes, the issue price of the notes and any other terms and conditions not described in this base prospectus) will be determined by the issuing entity in accordance with the prevailing market conditions at the time of the issue of the notes and will be set out in a separate document (the "final terms").

The issuer has entered into the programme and issued this base prospectus describing the programme. Any notes issued under the programme on or up to 12 months after the date of this base prospectus are issued subject to the provisions of this base prospectus as at the date hereof.

The maximum aggregate nominal amount of all notes from time to time outstanding under the programme will not exceed £25,000,000,000 (or its equivalent in other currencies calculated as described in this base prospectus), subject to increase as described in this base prospectus.

The notes may be issued on a continuing basis to one or more of the dealers specified under "Transaction Overview" and any additional dealer appointed under the programme from time to time by the issuer (each a "dealer" and together, the "dealers"), which appointment may be for a specific issue or on an ongoing basis. References in this base prospectus to the "relevant dealer" shall, in the case of an issue of notes being (or intended to be) subscribed by more than one dealer, be to all dealers agreeing to subscribe such notes.

The information contained in this base prospectus is only valid for 12 months from the date of this base prospectus. Notice of the aggregate nominal amount of notes, interest payable in respect of notes, the issue price of notes and any other terms and conditions not contained in this base prospectus which are applicable to each series will each be set out in a set of final terms which, with respect to notes to be officially listed by the UK Listing Authority and admitted to trading on the regulated market of the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange on or before the date of issue of the notes of such series.

The issuer may agree with any dealer and the issuer security trustee that notes may be issued in a form not contemplated by the "Terms and Conditions of the Notes" set out in this base prospectus, in which event (in the case of notes intended to be listed on the regulated market of the London Stock Exchange) a supplementary base prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such notes.

Neither the United States Securities and Exchange Commission (the "SEC") nor any state securities commission in the United States has approved or disapproved the notes or determined if this base prospectus is truthful or complete. Any representation to the contrary is a criminal offence.

Notes issued under the programme 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. The issuer has not registered and does not intend to register as an investment company under the United States Investment Company Act of 1940, as amended (the "Investment Company Act") in reliance on the exclusion provided in Section 3(c)(7) thereof. The notes may be offered and sold: (1) within the United States in reliance on Rule 144A under the Securities Act ("Rule 144A") only to persons that are both: (i) "qualified institutional buyers" (each a "QIB") within the meaning of Rule 144A; and (ii) "qualified purchasers" (each a "QP") within the meaning of Section 2(a)(51)(A) of the Investment Company Act, and the rules and regulations thereunder, in each case acting for their own account or for the account of another QIB that is a QP; and/or (2) outside the United States to persons who are neither U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) (each a "U.S. Person") nor U.S. residents (as determined for the purposes of the Investment Company Act) (each a "U.S. Resident") in offshore transactions in reliance on Regulation S. Neither U.S. Persons nor U.S. Residents may hold an interest in a Regulation S global certificate at any time. Each purchaser of the notes in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. See "Plan of Distribution" in this base prospectus and the relevant final terms. The notes are subject to other restrictions on transferability and resale as set forth in "Transfer Restrictions" in this base prospectus.

Please review and consider the risk factors beginning on page 47 in this base prospectus carefully before you purchase any notes.

Arranger
BARCLAYS CAPITAL

Dealer
Barclays Capital

Notes issued pursuant to the programme may not be reoffered, resold, pledged, exchanged or otherwise transferred except in transactions exempt from or not subject to the registration requirements of the Securities Act and any other applicable securities laws. By its purchase of a note, each purchaser will be deemed to have (1) represented and warranted that (i) it is a QIB that is a QP, acting for its own account or for the account of another QIB that is a QP, or (ii) it is neither a U.S. Person nor a U.S. Resident and that it is located outside the United States and (2) agreed that it will only resell such note in accordance with the applicable restrictions set forth herein. See "*Plan of distribution*" and the applicable final terms.

The notes will be obligations of the issuer only. The notes will not be obligations or responsibilities of, nor will they be guaranteed by, any other party, including funding, funding (no. 2), the mortgages trustee, the funding security trustee, any funding (no. 2) security trustee (if appointed), the issuer security trustee, the principal paying agent or any other paying agent, the agent bank, the issuer swap provider, the basis rate swap provider, the account banks, the arranger, the dealers, Barclays (in any of its capacities) or any other party to the transaction documents (other than the issuer) (or any company in the same group of companies as, or affiliated to, the arranger, Barclays or any other party to the transaction documents (other than the issuer)), or any other party to the transaction other than the issuer or any of its affiliates or advisers, successors or assigns.

If issued under the relevant final terms, Regulation S notes (as defined herein) of each series will be represented on issue by beneficial interests in one or more global certificates (each a "**Regulation S global certificate**"), in fully registered form, without interest coupons attached, which will be deposited with, and registered in the name of The Bank of New York Mellon, acting through its London Branch, as common depository (the "**common depository**") for Euroclear Bank S.A./N.V. ("**Euroclear**"), as operator of the Euroclear system, and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). If issued under the relevant final terms, and in addition, or as an alternative to Regulation S notes, as specified in the relevant final terms, Rule 144A notes (as defined herein) of each series will be represented on issue by beneficial interests in one or more global certificates (each a "**Rule 144A EC global certificate**"), in fully registered form, without interest coupons attached, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg. If issued under the relevant final terms, and in addition, or as an alternative to Regulation S notes, as specified in the relevant final terms, Rule 144A notes (as defined herein) of each series will be represented on issue by beneficial interests in one or more permanent global certificates (each a "**Rule 144A DTC global certificate**"), in fully registered form, without interest coupons attached, which will be deposited with The Bank of New York Mellon, acting through its London Branch, as custodian (the "**custodian**") for, and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("**DTC**"). Ownership interests in the Regulation S global certificates, the Rule 144A EC global certificates and the Rule 144A DTC global certificates (the Rule 144A EC global certificates and the Rule 144A DTC global certificates, collectively the "**Rule 144A global certificates**" and, together with the Regulation S global certificates, the "**global certificates**") will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear, Clearstream, Luxembourg and DTC (as applicable), and their respective participants. Notes in definitive, certificated and fully registered form will be issued only in the limited circumstances described herein. In each case, purchasers and transferees of notes will be deemed to have made certain representations and agreements. See "*The Notes and the Global Notes*" and "*Plan of Distribution*" below.

If issued under the relevant final terms the Rule 144A global certificates will bear a legend to the effect that such Rule 144A global certificates, or any interest therein, may only be transferred in compliance with the transfer restrictions set out in such legend. No beneficial interest in a Rule 144A global certificate may be transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S global certificate unless a corresponding Regulation S global certificate is also issued in respect of such series (as stated in the relevant final terms), and in such case only if the transfer is to a person who is neither a U.S. Person nor a U.S. Resident in an offshore transaction in reliance on Regulation S and the transferor provides the registrar with a written certification substantially in the form set out in the agency agreement. No beneficial interest in a Regulation S global certificate may be transferred to a person that takes delivery in the form of a beneficial interest in a Rule 144A global certificate unless a corresponding Rule 144A global certificate is also issued in respect of such series (as stated in the relevant final terms), and in such case only if the transfer is to a person that is a QIB that is also a QP in a transaction in reliance on Rule 144A and the transferor provides the registrar with a written certification substantially in the form set out in the agency agreement. See "*Plan of distribution*" and the applicable final terms.

If any Rule 144A notes are issued, purchasers of the notes are hereby notified that the issuer may be relying on the exemption provided by Rule 144A under the Securities Act. Until 40 days after the commencement of the offering, an offer or sale of the notes in the United States by any dealer (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.

No notes may be issued under the programme which have a minimum denomination of less than €50,000 (or £100,000 in the case of any notes with a maturity of less than one year) (or the equivalent in any other currency).

In the case of each series of notes denominated in a currency other than sterling, a separate currency swap transaction will be entered into by the issuer to convert the sterling amounts received into the appropriate currency for payments in relation to that series.

You should read this base prospectus and the applicable final terms carefully before you invest. A note is not a deposit and neither the notes nor the underlying mortgage loans are insured or guaranteed by Barclays or by any United Kingdom or United States governmental agency. The notes offered in this base prospectus will be obligations of the issuer only. The issuer will only have a limited pool of assets to satisfy its obligations under the notes.

You should be aware that it is necessary to consider this base prospectus and any relevant final terms in their entirety, and in particular, the following sections: "*Risk Factors*", "*The Mortgage Assets*", "*The Mortgages Trust*", "*Cash Management for the Mortgages Trustee*", "*Cash Management for Funding*", "*Cash management for the Issuer*", "*The Loan Note Tranches and Funding Cashflows*", "*Terms and Conditions of the Notes*", "*The Basis Rate Swap Agreement*", "*The Issuer Swaps*", "*Material Legal Aspects of the Mortgage Loans and the Related Security*" and all sections in the relevant final terms in order to consider whether the issuer holds assets the characteristics of which demonstrate a capacity to service any payments due on the notes issued by the issuer.

GOVERNING LAW

The transaction documents are governed by, as applicable, the laws of England and Wales, Scotland and/or Jersey.

The "**United Kingdom**" and "**UK**" are abbreviated references to the United Kingdom of Great Britain and Northern Ireland. The UK comprises three distinct legal systems, namely those of England and Wales, Scotland and Northern Ireland, each with its own judicial process. However, leaving aside devolution of certain powers to Welsh, Scottish and Northern Irish legislative bodies, the legislative body for each of these three jurisdictions is the UK Parliament. Accordingly, references to UK law are to laws promulgated by the UK Parliament and which are binding on the United Kingdom.

The sale of mortgage loans where the relevant borrower is resident in Scotland is governed by Scots law. The consequences of each Scots law sale are discussed under the caption "*Material Legal Aspects of the Mortgage Loans and Related Security – Scottish Mortgages*".

The sale of mortgage loans where the relevant property is located in Northern Ireland is governed by Northern Irish law. The consequences of each Northern Irish law sale are discussed under "*Material Legal Aspects of the Mortgage Loans and Regulated Security – Northern Irish Mortgages*".

Provisions of the transaction documents which grant security over certain intangible assets situated in Jersey are, in order to be effective as a matter of Jersey law, governed by Jersey law. Jersey is a self-governing dependency of the British Crown and does not form part of the United Kingdom or European Union. By constitutional convention Jersey has a separate legislative and judicial system.

The "**United States**", "**U.S.**" and "**US**" are abbreviated references to the United States of America.

IMPORTANT NOTICES

This document, including the appendices, constitutes a 'base prospectus' for the purposes of article 5(4) of the Directive 2003/71/EC (the "**Prospectus Directive**") for the purposes of giving information with regard to the issue of notes under the programme during the period of 12 months after the date of this base prospectus.

No request has been made for a certificate permitting public offers of the notes in other member states of the European Union.

In connection with the issue of any series, the dealer or dealers (if any) named as the stabilising manager(s) (or persons acting on behalf of any stabilising manager(s)) in the applicable final terms may over allot notes (provided that in the case of any series to be admitted to trading on the regulated market of the London Stock Exchange or any other regulated market (within the meaning of the MiFID Directive (Directive 2004/39/EEC) in the European Economic Area), the aggregate principal amount of notes allotted does not exceed 105 per cent. of the aggregate principal amount due in respect of the relevant series) or effect transactions with a view to supporting the price of the notes at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilising manager(s) (or persons acting on behalf of the stabilising manager(s)) will undertake such stabilisation action. Any stabilisation action may begin at any time after the adequate public disclosure of the final terms of the offer of the relevant series 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 60 days after the date of the allotment of the relevant series.

We include cross-references to captions in this base prospectus where you can find further related discussions. The table of contents, below, provides the pages on which these captions are located.

You can find an index beginning on page xxxix under the caption "*Index of Defined Terms*" which lists where some terms used in this document are explained.

Notwithstanding anything herein to the contrary, except as reasonably necessary to comply with applicable securities laws, investors (and each employee, representative or other agent of the investors) may disclose to any and all persons, without limitation of any kind, the U.S. federal tax treatment and U.S. federal tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating to such U.S. federal tax treatment and U.S. federal tax structure (as such term are defined for purposes of Sections 6011, 6111 and 6112 of the US Internal Revenue Code and the Treasury Regulations promulgated thereunder).

NOTICE TO U.S. INVESTORS

With respect to the issue and sale of the notes in the United States, this base prospectus is highly confidential and has been prepared by the issuer solely for use in connection with the issue of the notes. In the United States, this base prospectus is personal to each person or entity to whom it has been delivered by the issuer or a dealer or an affiliate thereof. Distribution in the United States of this base prospectus to any person other than such persons or entities and those persons or entities, if any, retained to advise such persons or entities is unauthorised and any disclosure of any of its contents, without the prior written consent of the issuer, is prohibited. Each prospective purchaser in the United States, by accepting delivery of this base prospectus, agrees to the foregoing and agrees not to reproduce all or any part of this base prospectus. This base prospectus is not a prospectus for the purposes of Section 12(a)(2) or any other provision of or rule under the Securities Act.

Additionally, each purchaser of any of the notes will be deemed to have made the representations, warranties and acknowledgements that are described in the applicable final terms. The notes have not been nor will be registered under the Securities Act, and such securities are subject to certain restrictions on transfer. If any Rule 144A notes are issued, prospective investors are hereby notified that the seller of any note may be relying upon the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain further restrictions on resale or transfer of the notes, see the applicable final terms.

Offers and sales of the notes in the United States will be made by the dealers through their affiliates which are registered broker-dealers under the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or in accordance with Rule 15a-6 thereunder.

NOTICE TO RESIDENTS OF NEW HAMPSHIRE

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED ("RSA"), 1955 FOR THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE

SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA CHAPTER 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 HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDATION 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.

AVAILABLE INFORMATION

If any Rule 144A notes are issued, the issuer will agree, for so long as any of the notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, make available the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act to any holder or beneficial owner of such restricted securities or to any prospective purchaser designated by such holder or beneficial owner of such restricted securities in order to permit compliance by such holder or beneficial owner with Rule 144A in connection with the resale of such restricted securities or any interest therein, in each case at the request of such holder, beneficial owner or prospective purchaser.

By requesting copies of the documents referred to herein or by making any other requests for additional information relating to the issue of the notes or to the issuer, each potential investor agrees to keep confidential the various documents and all written information which from time to time has been or will be disclosed to it, to the extent that such documents or information are not otherwise publicly available, and agrees not to disclose any portion of such information to any person except in connection with the proposed resale of the notes or as required by law.

The issuer has agreed, for so long as any of the notes remain outstanding, to provide to the issuer security trustee, among other things, audited annual financial statements of the issuer.

ROUNDING ADJUSTMENTS

Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as currency translations in certain tables may not be an arithmetic aggregation of the figures which preceded them.

FORWARD-LOOKING STATEMENTS

This base 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 base prospectus and reflect significant assumptions and subjective judgments by the issuer that may or may not prove to be correct. Such statements may be identified by reference to a future period or periods and the use of forward-looking terminology such as "may", "will", "could", "believes", "expects", "anticipates", "continues", "intends", "plans", or similar terms. Any projections, forecasts and estimates contained herein are forward looking statements and are based upon certain assumptions. Projections are necessarily speculative in nature, and some or all of the assumptions underlying the projections may not materialize or may vary significantly from actual results. Consequently, future results may differ from the issuer's expectations due to a variety of factors, including (but not limited to) the economic environment in the United Kingdom. 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. Neither the Arranger nor the dealers have attempted to verify any such statements, nor do they make any representations, express or implied, with respect thereto.

None of funding, funding (no. 2), the mortgages trustee, the funding security trustee, any funding (no. 2) security trustee (if appointed), the issuer security trustee, the principal paying agent or any other paying agent, the agent bank, the issuer swap provider, the basis rate swap provider, the account banks, the arranger, the dealers, Barclays (in any of its capacities) or any other party to the transaction documents (other than the issuer) (or any company in the same group of companies as, or affiliated to, the arranger,

Barclays or any other party to the transaction documents (other than the issuer)), or any other party to the transaction has any obligation to update or otherwise revise any projections, including any revisions to reflect changes in economic conditions or other circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition.

FINAL TERMS

The issuer has undertaken, in connection with the admission of the notes to listing on the Official List of the UK Listing Authority and the admission to trading on the regulated market of the London Stock Exchange, that if there shall occur any adverse change in the business or financial position of the issuer or any change in the information set out under "*Terms and conditions of the notes*", that is material in the context of issuance of notes under the programme, the issuer will prepare or procure the preparation of an amendment or supplement to this base prospectus or, as the case may be, publish a new base prospectus, for use in connection with any subsequent issue by the issuer of notes to be listed on the regulated market of the London Stock Exchange.

When delivered in the US, this base prospectus must be accompanied by a relevant final terms pursuant to which the series of notes referred to therein will be offered. Such final terms constitute, with respect to the series of notes offered thereby, the "**relevant final terms**" or the "**applicable final terms**" referred to herein. More than one series of notes, if issued on the same issue date, may, at the election of the issuer, be represented by and within the same final terms.

The issuer will, at its registered office and at the specified offices of the paying agents, provide, free of charge, upon oral or written request, a copy of this base prospectus and certain other documents describing the terms relevant to each series. Written or telephone requests for such documents should be directed to the specified office of any paying agent.

The issuer intends to provide certain post-issuance transaction information to rating agencies regarding the notes to be admitted to trading and the performance of any underlying collateral on a monthly basis. Funding does not intend to provide post-issuance transaction information regarding the notes or the performance of any underlying collateral.

The administrator will prepare quarterly investor reports that will contain information about the notes. Unless and until individual certificates are issued, the reports may be inspected during normal business hours at the specified office of the principal paying agent and from the registered office of the issuer. The quarterly investor reports can also be found by way of the Barclays investor website: www.investorrelations.barclays.co.uk.

RESPONSIBILITY STATEMENT

This base prospectus is given in compliance with the prospectus rules made by the UK Listing Authority under the FSMA as amended by the Prospectus Regulations 2005 (the "**Prospectus Rules**") and in compliance with the rules relating to the admission to the official list, in accordance with section 73(A)(2) of the FSMA (the "**Listing Rules**") for the purposes of giving information about the issuer and the notes. The issuer accepts responsibility for the information contained in this document. To the best of the knowledge of the issuer, which has taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. Neither the arranger nor any dealer makes any representation to any investor in the notes regarding the legality of its involvement under any applicable laws. Any investor in the notes should be able to bear the economic risk of an investment in the notes for an indefinite period of time.

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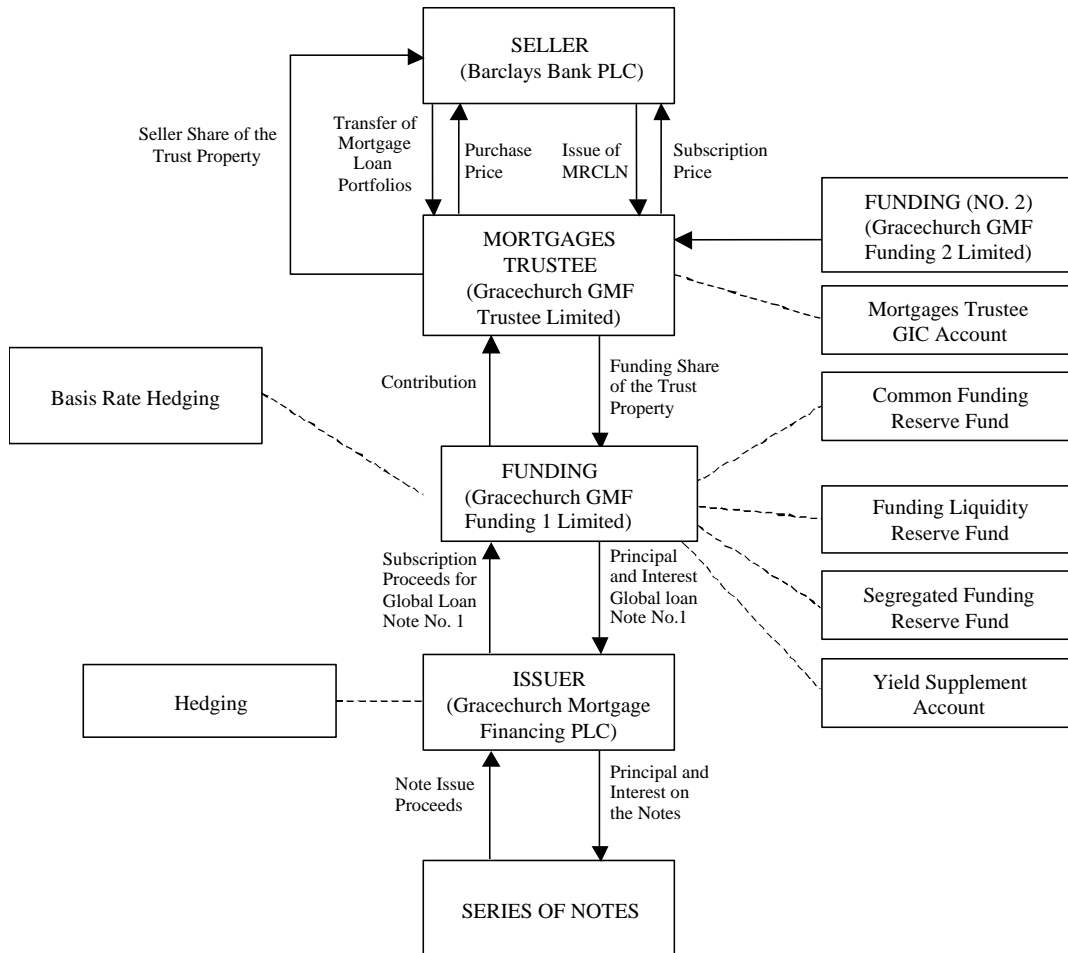
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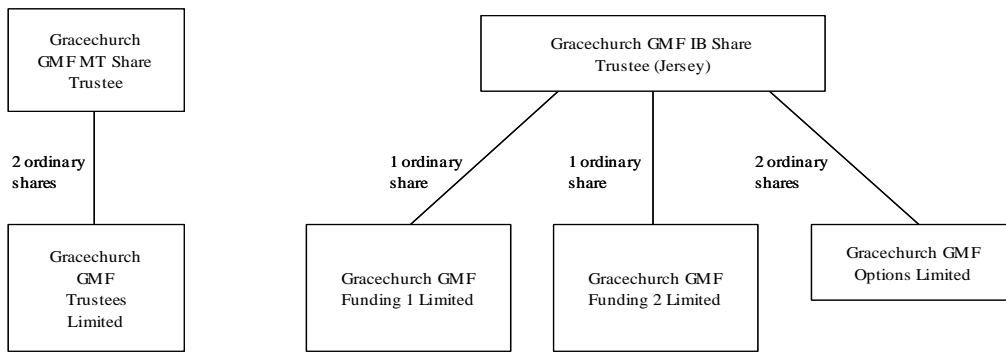
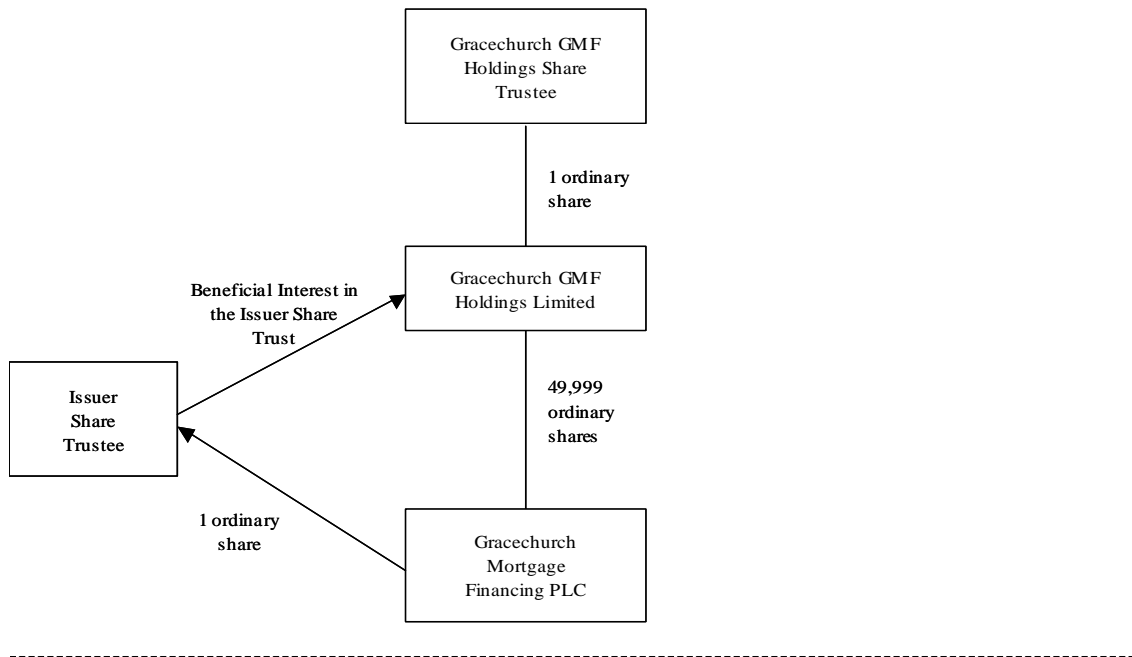
TRANSACTION OVERVIEW

The following transaction overview does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information contained elsewhere in this base prospectus and the conditions and the transaction documents (as defined in the conditions) and, with respect to a particular series, the relevant final terms. Capitalised terms utilised in this transaction overview and not otherwise defined have the meanings attributable to them elsewhere in this base prospectus. A listing of the pages on which these terms are defined is found in "Index of Defined Terms".

1. Structural Diagram of the Transaction



2. **Diagram of Ownership Structure**



3. **Programme Structural Summary**

The following is a brief summary description of the Gracechurch Mortgage Financing residential mortgage backed note programme, of which the notes will form a part.

The mortgages trust

On 7 November 2006 (the "**mortgages trust establishment date**") the seller sold the initial mortgage loan portfolio to the mortgages trustee pursuant to the terms of the mortgage sale agreement. From time to time, the seller may sell additional mortgage loans to the mortgages trustee on any assignment date, in accordance with the terms of the mortgage sale agreement.

On the mortgages trust establishment date and pursuant to the terms of the MRCLN note purchase facility agreement, the seller issued to the mortgages trustee a variable funding credit linked note (the "**MRCLN**"), the principal amount outstanding on which is linked to the aggregate mortgage reserve account balance on all reference mortgage reserves linked to mortgage loans in the mortgage loan portfolio at such time. The principal amount outstanding on the MRCLN increases and decreases from time to time and will, on each trust determination date, be calculated with reference to, *inter alia*, the mortgage reserve account balance on each reference mortgage reserve, but only to the extent that the mortgage reserve account balance on such reference mortgage reserve is equal to or less than the then mortgage reserve credit limit for such reference mortgage reserve (when a mortgage reserve account balance of a reference mortgage reserve is in excess of the applicable mortgage reserve credit limit other

rules will apply, as described further herein). To the extent that a borrower repays any amount outstanding on a reference mortgage reserve, the seller will be required to pay an equivalent amount on the MRCLN to the mortgages trustee. Not all mortgage loans in the mortgage loan portfolio will have an associated reference mortgage reserve.

On each issue date, the trust property will consist of, *inter alia*, the MRCLN and the mortgage loan portfolio, which will include the mortgage loans, their related security, any accrued interest on the mortgage loans and any other amounts derived from the mortgage loans. As of the latest trust determination date, the aggregate current balance of all mortgage loans in the trust property was approximately £11,898,151,555.30 and the principal amount outstanding on the MRCLN was approximately £319,625,865.26.

All the mortgage loans will be residential mortgage loans originated by Barclays Bank PLC and secured over mortgaged residential properties located in England, Wales, Northern Ireland and Scotland. All reference mortgage reserves will be overdraft facilities secured by way of the same mortgaged properties securing the related mortgage loans in the mortgage loan portfolio at such time and as granted, operated and maintained by Barclays Bank PLC to borrowers with related mortgage loans which are then in the mortgage loan portfolio.

The mortgages trustee holds the trust property (which includes the mortgages in the mortgage loan portfolio from time to time and the MRCLN) on bare trust for the benefit of the seller, funding and funding (no. 2) pursuant to the terms of the mortgages trust deed. The seller, funding and funding (no. 2) each have a joint and undivided beneficial interest in the trust property, but their entitlement to the proceeds from the trust property will be in proportion to their then respective shares of the trust property.

Unless otherwise expressly provided in the mortgages trust deed, the mortgage trust cash manager on behalf of the mortgages trustee will: (i) distribute interest and principal payments received from borrowers in respect of the mortgage loans in the mortgage loan portfolio; (ii) distribute interest and principal payments received from the seller by the mortgages trustee in respect of the MRCLN; (iii) allocate losses in relation to such mortgage loans; and (iv) allocate mortgage reserve principal loss reductions on the MRCLN, to the seller, funding and funding (no. 2) according to the share that each of them then has in the trust property. The respective shares of the trust property that the seller, funding and funding (no. 2) have in the trust property fluctuate from time to time in accordance with the terms of the mortgages trust deed. As of the latest trust determination date, the size of the funding share of the trust property was approximately £6,969,628,099.33 (approximately 57 per cent.), the size of the funding (no. 2) share of the trust property was £100 and the size of the seller share of the trust property was approximately £5,245,932,134.36 (approximately 43 per cent.).

Series of notes

On each issue date, the issuer issues a series of notes and uses an amount equal to the gross proceeds (after taking any relevant issuer swap into account) to subscribe for a new loan note tranche or to fund an increase in the outstanding principal amount under existing loan note tranche(s) issued by funding as notional tranches of global loan note no. 1. Funding uses an amount equal to the gross aggregate proceeds of the loan note tranches issued on an issue date to: (i) refinance an existing loan note tranche(s) (which refinancing will not, for the avoidance of doubt, result in any change in the then size of the funding share of the trust property) and upon receipt of any funds from the repayment of such loan note tranche(s), the issuer utilises an amount equal to such funds to redeem the relevant series of notes); (ii) in accordance with the terms of the mortgages trust deed, make a contribution to the mortgages trust (which would increase the then size of the funding share of the trust property); and/or (iii) fund the common funding reserve fund and/or any segregated funding reserve fund (which may also be funded by way of an advance of a senior expenses loan pursuant to the terms of the senior expenses loan facility agreement).

Upon receipt of any such contribution from funding, the mortgages trustee, in accordance with and pursuant to the terms of the mortgages trust deed, the mortgage sale agreement and the MRCLN note purchase facility agreement, utilises amounts equal to such contributions to, as applicable: (i) pay the initial purchase price for a new mortgage loan portfolio from the seller pursuant to the terms of the mortgage sale agreement; (ii) in relation to any issue date, make an additional MRCLN advance to the seller pursuant to the terms of the MRCLN note purchase facility agreement; (iii) make a special distribution to the seller (which would reduce the then size of the seller share of the trust property); and/or

(iv) make a special distribution to funding (no. 2) (which would reduce the then size of the funding (no. 2) share of the trust property).

In addition to paying certain of its own fees and expenses, funding uses amounts received from its share in the trust property and the funding revenue allocated yield supplement amounts from permitted withdrawals from the yield supplement account to meet, *inter alia*, its obligations to: (a) pay interest, principal and amounts equal to certain of the issuer's costs, due to the issuer under global loan note no. 1; (b) make payments to the basis rate swap provider pursuant to the terms of the basis rate swap agreement; (c) replenish and/or further fund the common funding reserve fund and any segregated funding reserve funds which may be established; and (d) fund and/or replenish the funding liquidity reserve fund (if established).

The issuer's primary asset is its rights under global loan note no. 1. The issuer's obligations to pay interest and principal on the notes is and will be funded primarily from the payments of interest and principal received by it from funding under global loan note no. 1. Funding's obligations to the issuer under global loan note no. 1 and any loan note tranche thereof, as applicable, are and will be secured by funding pursuant to the funding security trust deed for the benefit of the secured creditors of funding and the issuer's rights under such funding security trust deed, as applicable, are and will in turn be secured by the issuer pursuant to the terms of the issuer security trust deed and any appropriate issuer security trust deed supplement. Neither the issuer nor any noteholder will have any direct interest in the trust property, although the issuer is a funding secured creditor under the funding security trust deed and any supplement to global loan note no. 1, which creates a security interest over, *inter alia*, funding's rights to its share of the trust property.

Funding will repay each loan note tranche in accordance with the relevant funding priority of payments and from amounts received from the mortgages trust and calculated by reference to the funding share of the trust property, principally consisting of principal receipts and revenue receipts on the underlying mortgage loans and principal repayments and interest payments on the MRCLN. The amount and timing of payments under each loan note tranche and the priorities of payments applicable to each loan note tranche will determine the amount and timing of payments on the notes issued by the issuer.

Overview of the Gracechurch Mortgage Financing residential mortgage backed note programme

The programme

The issuer established the medium term note programme (the "**programme**") on 9 November 2006 (the "**first issue date**") as further described in Appendix A.

Up to £25,000,000,000 (or its equivalent in other currencies) aggregate principal amount of notes may be outstanding at any one time under the programme.

Issuance in series

Notes issued under the programme will be issued in series. Each series, as applicable, was or will be issued on a single issue date (each an "**issue date**") and, as applicable, comprised or will comprise notes designated as one of six classes or as class RF notes. The notes of each series will all be subject to identical terms and conditions in all respects. Each series of notes may be denominated in any of sterling, dollar, euro or any other currency as specified in the relevant final terms. Each series of notes of the same class ranks *pari passu* and *pro rata* among themselves without priority or preference. Each series of notes of the same class will not necessarily be subject to identical terms in all respects. Differences may include interest rates, interest calculations, the date of expected maturity and the date of final maturity.

Final terms

Each series will be the subject of a final terms which, for the purposes of that series only, supplements the terms and conditions of the notes in this base prospectus, and must be read in conjunction with this base prospectus. The terms and conditions applicable to any particular series of notes are the terms and conditions of the notes as supplemented by the relevant final terms. More than one series of notes, if issued on the same issue date, may, at the election of the issuer, be represented by and within the same final terms.

1. **Parties**

Arranger: Barclays Capital, the investment banking division of Barclays Bank PLC ("**Barclays Capital**").

Dealer: Barclays Capital, and any other dealer appointed from time to time by the issuer either generally in respect to the programme or in relation to a particular series of notes in accordance with the terms of the dealer agreement.

Issuer: Gracechurch Mortgage Financing PLC (the "**issuer**"), a public company with limited liability incorporated under the laws of England and Wales on 12 January 2006, with company number 5673206, having its registered office at 1 Churchill Place, London E1 4 5HP (contact telephone number: +44 (0)20 7116 1000). All of the issuer's share capital is held by holdings, except for one share held on trust by SFM Corporate Services Limited (the "**issuer share trustee**") pursuant to the terms of a declaration of trust established under English law (the "**issuer share trust**") dated 3 May 2006, for the benefit of holdings.

Mortgages Trustee: Gracechurch GMF Trustee Limited (the "**mortgages trustee**") a private company with limited liability incorporated under the laws of Jersey on 26 April 2006 with company number 93254, having its registered office at 26 New Street, St. Helier, Jersey, JE2 3RA.

All of the mortgages trustee's share capital is held by (or by nominees for) Bedell Trustees Limited (in such capacity, the "**Gracechurch GMF MT share trustee**"). The shares held by the Gracechurch GMF MT share trustee are held pursuant to the terms of a trust established under Jersey law pursuant to the terms of a declaration of trust (the "**Gracechurch GMF MT share trust**") dated 28 April 2006, for any trust foundation or company established exclusively for charitable purposes and relating to homelessness in London, England.

The purpose of the mortgages trustee is to acquire or subscribe for from time to time the trust property from the seller and to hold the trust property on bare trust for the seller, funding and funding (no. 2) pursuant to the terms of the mortgages trust deed.

Funding: Gracechurch GMF Funding 1 Limited ("**funding**"), a private company with limited liability incorporated under the laws of England and Wales on 12 January 2006 with company number 5673075, having its registered office at 1 Churchill Place, London E1 4 5HP (contact telephone number: +44 (0)20 7116 1000).

All of funding's share capital is held by (or by nominees for) Bedell Trustees Limited (in such capacity, the "**Gracechurch GMF IB share trustee**"). The shares held by the Gracechurch GMF IB share trustee are held pursuant to the terms of a trust established under Jersey law pursuant to the terms of a declaration of trust (the "**Gracechurch GMF IB share trust**") dated 28 April 2006, for any trust foundation or company established exclusively for charitable purposes and relating to homelessness in London, England.

Funding (No. 2): Gracechurch GMF Funding 2 Limited ("**funding (no. 2)**") together with funding, the "**funding beneficiaries**"), a private company with limited liability incorporated under the laws of England and Wales on 12 January 2006 with company number 5673085, having its registered office at 1 Churchill Place, London E1 4 5HP (contact telephone number: +44 (0)20 7116 1000).

All of funding (no. 2)'s share capital is held by the Gracechurch GMF IB share trustee pursuant to the terms of the Gracechurch GMF IB share trust.

Funding (no. 2) has purchased an interest in the mortgages trust by making an initial contribution to the mortgages trust of £100. Funding (no. 2) may from time to time make further contributions to the mortgages trust pursuant to and in accordance with the terms of the mortgages trust deed.

Save for its contribution to the mortgages trust and its entry into certain transaction documents on the mortgages trust establishment date, funding (no. 2) is anticipated to be a dormant company that may in the future, as the second beneficiary of the mortgages trust, raise other forms of finance (if appropriate) so as to make other contributions to the mortgages trust.

Holdings: Gracechurch GMF Holdings Limited ("**holdings**"), a private company with limited liability incorporated under the laws of England and Wales on 12 January 2006 with company number 5673098, having its registered office at 1 Churchill Place, London E14 5HP.

Holdings' sole issued share is held by SFM Corporate Services Limited (in such capacity, the "**holdings share trustee**"). The share held by the holdings share trustee is held pursuant to the terms of a declaration of trust established under English law (the "**holdings share trust**") dated 3 May 2006, for general charitable purposes (excluding those charitable purposes covered by the Gracechurch GMF IB share trust and the Gracechurch GMF MT share trust).

PECOH: Gracechurch GMF Options Limited (the "**PECOH**"), a private company with limited liability incorporated under the laws of Jersey on 26 April 2006 with company number 93253, having its registered office at 26 New Street, St. Helier, Jersey JE2 3RA.

All of the PECOH's share capital is held by the Gracechurch GMF IB share trustee pursuant to the terms of the Gracechurch GMF IB share trust.

The purpose of the PECOH is to be the holder of any post-enforcement call option to be entered into with respect to a series pursuant to the terms of the relevant post-enforcement call option agreement.

Seller: Barclays Bank PLC ("**Barclays**"), a public limited company registered in England and Wales under company number 1026167, having its registered head office at 1 Churchill

Place, London E14 5HP.

Each of the mortgage loans to be sold by Barclays (in such capacity, the "**seller**") to the mortgages trustee on any assignment date, in accordance with and pursuant to the terms of the mortgage sale agreement, will have been originated by the seller.

The seller issued the MRCLN to the mortgages trustee on the mortgages trust establishment date. The principal amount outstanding on the MRCLN on each trust determination date is calculated with reference to, *inter alia*, the then aggregate mortgage reserve account balance on the reference mortgage reserves linked to the mortgage loans in the mortgage loan portfolio at such time.

The seller has and will have no ownership interest in the issuer, funding, funding (no. 2), the mortgages trustee, PECO or holdings.

Issuer Security Trustee:

The Bank of New York Mellon, acting through its London Branch, is the issuer security trustee (in such capacity, the "**issuer security trustee**"), pursuant to the terms of a trust deed dated on the first issue date (as amended from time to time) (the "**issuer security trust deed**") between the issuer and the issuer security trustee. The issuer security trustee acts as trustee for the holders of the notes (the "**noteholders**") pursuant to the terms of the issuer security trust deed and any supplement thereto (each an "**issuer security trust deed supplement**").

The issuer security trustee also holds the security created by the issuer pursuant to the terms of the issuer security trust deed and any issuer security trust deed supplement on trust for the issuer's secured creditors and is entitled to enforce the security granted in its favour under the terms of the issuer security trust deed and any issuer security trust deed supplement.

The Bank of New York Mellon, acting through its London Branch, whose address is One Canada Square, London, E14 5AL, England and its contact telephone number is +44(0) 20 7570 1784.

Funding Security Trustee:

The Bank of New York Mellon, acting through its London Branch, is the security trustee with respect to funding (in such capacity, the "**funding security trustee**") pursuant to the terms of a security trust deed (the "**funding security trust deed**") dated on the first issue date (as amended from time to time) between, *inter alios*, funding and the funding security trustee. The funding security trustee holds the security created by funding pursuant to the terms of the funding security trust deed and any supplement to a global loan note (each a "**global loan note**") issued by funding (each a "**supplement to the global loan note**") on trust for funding's secured creditors and is entitled to enforce the security granted in its favour pursuant to the terms of the funding security trust deed and any supplement to the global loan note (see "*The Funding Security and Funding Security Trust Deed*").

Administrator: Barclays is the administrator (in such capacity, the "**administrator**") pursuant to the terms of an administration agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**administration agreement**") between, *inter alios*, the administrator, the mortgages trustee and the funding security trustee.

Pursuant to the terms of the administration agreement, the then administrator agrees with *inter alia* the mortgages trustee, funding, funding (no. 2) and the seller:

- (i) on behalf of the mortgages trustee, to perform certain administrative functions in respect of the mortgage loans in the mortgage loan portfolio, including collecting payments under the mortgage loans and taking steps to recover arrears; and
- (ii) on behalf of Barclays, to perform (unless Barclays is at such time insolvent) certain administrative functions in respect of the reference mortgage reserves, including collecting payments from borrowers and taking steps to recover arrears.

Mortgages Trustee Cash Manager: Barclays is the cash manager to the mortgages trustee (in such capacity, the "**mortgages trustee cash manager**") pursuant to the terms of the cash management agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**mortgages trustee cash management agreement**") between the mortgages trustee and the mortgages trustee cash manager. The mortgages trustee cash manager administers the arrangements in respect of the MRCLN (including the making of and demanding of all payments in respect thereof), manage the bank accounts of the mortgages trustee, determine the amounts of and arrange payments to be made by the mortgages trustee and keep certain records on its behalf.

Funding Cash Manager: Barclays is the cash manager to funding (in such capacity, the "**funding cash manager**") pursuant to the terms of the cash management agreement dated on the first issue date (as amended from time to time) (the "**funding cash management agreement**") between funding, the funding security trustee and the funding cash manager. The funding cash manager manages the bank accounts of funding, determines the amounts of and arranges payments to be made by funding and keeps certain records on its behalf.

Issuer Cash Manager: Barclays is the cash manager to the issuer (in such capacity, the "**issuer cash manager**") pursuant to the terms of a cash management agreement dated on the first issue date (as amended from time to time) (the "**issuer cash management agreement**") between the issuer, the issuer security trustee and the issuer cash manager. The issuer cash manager manages the issuer accounts, determines the amounts of and arranges payments to be made by the issuer and keeps certain records on the issuer's behalf.

Issuer Corporate Services Provider: Structured Finance Management Limited is the corporate services provider to the issuer (in such capacity, the "**issuer corporate services provider**") pursuant to the terms of a corporate services agreement dated on the first issue date (as

amended from time to time) (the "**issuer corporate services agreement**") between the issuer, the issuer security trustee, Barclays, holdings and the issuer corporate services provider. Pursuant to the terms of the issuer corporate services agreement, the issuer corporate services provider provides certain directors and other corporate services to the issuer (although Barcosec Limited, a company within the Barclays group of companies, provides company secretarial services to the issuer pursuant to the terms of a side letter to the issuer corporate services agreement).

Funding Corporate Services Provider:

Bedell Trust UK Limited is the corporate services provider to funding (in such capacity, the "**funding corporate services provider**") pursuant to the terms of a corporate services agreement dated the first issue date (as amended from time to time) (the "**funding corporate services agreement**") between funding, Barclays, Bedell Trustees Limited, the funding security trustee and the funding corporate services provider. Pursuant to the terms of the funding corporate services agreement, the funding corporate services provider provides certain directors and other corporate services to funding (although Barcosec Limited provides company secretarial services to funding pursuant to the terms of a side letter to the funding corporate services agreement).

PECOH Corporate Services Provider:

Bedell Trust Company Limited is the corporate services provider to the PECO (in such capacity, the "**PECOH corporate services provider**") pursuant to the terms of a corporate services agreement dated on the first issue date (as amended from time to time) (the "**PECOH corporate services agreement**") between the PECO, Barclays and the PECO corporate services provider. Pursuant to the terms of the PECO corporate services agreement, the PECO corporate services provider provides certain directors and other corporate services to the PECO.

Holdings Corporate Services Provider:

Structured Finance Management Limited is the corporate services provider to holdings (in such capacity, the "**holdings corporate services provider**") pursuant to the terms of a corporate services agreement dated on the first issue date (as amended from time to time) (the "**holdings corporate services agreement**") between holdings, Barclays, funding, the holdings share trustee and the holdings corporate services provider. Pursuant to the terms of the holdings corporate services agreement, the holdings corporate services provider provides certain directors and other corporate services to holdings (although Barcosec Limited provides company secretarial services to holdings pursuant to the terms of a side letter to the holdings corporate services agreement).

Mortgages Trustee Corporate Services Provider:

Bedell Trust Company Limited is the corporate services provider to the mortgages trustee (in such capacity, the "**mortgages trustee corporate services provider**") pursuant to the terms of a corporate services agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**mortgages trustee corporate services agreement**") between the mortgages trustee, Barclays and the mortgages trustee corporate services provider. Pursuant to the terms of the mortgages trustee corporate services

agreement, the mortgages trustee corporate services provider provides certain directors and other corporate services to the mortgages trustee.

Issuer Account Bank:

Barclays is the account bank to the issuer (in such capacity, the "**issuer account bank**") pursuant to the terms of an account bank agreement dated on the first issue date (as amended from time to time) (the "**issuer account bank agreement**") between the issuer, the issuer security trustee, the issuer cash manager and the issuer account bank. Pursuant to the terms of the issuer account bank agreement, the issuer account bank provides certain banking services to the issuer in relation to the accounts opened with the issuer account bank in the name of the issuer (the "**issuer accounts**"). The issuer account bank is required to have a short-term rating of at least A-1 from S&P, P-1 from Moody's and F1 from Fitch, *provided that* if the issuer account bank ceases to have such rating, (i) the issuer accounts will be closed and similar accounts will be opened with a bank approved in writing by the issuer security trustee that has the requisite ratings and complies with any applicable rating criteria, or (ii) the issuer account bank will obtain an eligible guarantee of its obligations from a satisfactorily rated financial institution but if it fails to obtain such guarantee within a certain time period, it will open an account with a successor bank with the requisite ratings and transfer the closing balance to that account.

Funding Account Bank:

Barclays is the account bank to funding (in such capacity, the "**funding account bank**" pursuant to the terms of an account bank agreement dated on the first issue date (as amended from time to time) (the "**funding account bank agreement**") between funding, the funding security trustee, the funding cash manager and the funding account bank. Pursuant to the terms of the funding account bank agreement, the funding account bank provides certain banking services to funding in relation to the accounts opened with the funding account bank in the name of funding (the "**funding accounts**"). The funding account bank is required to have a short-term rating of at least A-1 from S&P, P-1 from Moody's and F1 from Fitch, *provided that* if the funding account bank ceases to have such rating, (i) the funding accounts will be closed and similar accounts will be opened with a bank approved in writing by the funding security trustee that has the requisite ratings, or (ii) the funding account bank will obtain an eligible guarantee of its obligations from a satisfactorily rated financial institution but if it fails to obtain such guarantee within a certain time period, it will open an account with a successor bank with the requisite ratings and transfer the closing balance to that account.

Mortgages Trustee Account Bank:

Barclays is the account bank to the mortgages trustee (in such capacity, the "**mortgages trustee account bank**" and, together with the issuer account bank and the funding account bank, the "**account banks**") pursuant to the terms of an account bank agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**mortgages trustee account bank agreement**") between the mortgages trustee, the funding security trustee, the mortgages trustee cash manager and the mortgages trustee

account bank. Pursuant to the terms of the mortgages trustee account bank agreement, the mortgages trustee account bank provides certain banking services to the mortgages trustee in relation to the accounts opened with the mortgages trustee account bank in the name of the mortgages trustee (the "**mortgages trustee accounts**"). The mortgages trustee account bank is required to have a short-term rating of at least A-1 from S&P, P-1 from Moody's and F1 from Fitch, *provided that* if the mortgages trustee account bank ceases to have such rating, then (i) the mortgages trustee accounts will be closed and similar accounts will be opened with a bank approved in writing by the mortgages trustee that has the requisite ratings or (ii) the mortgages trustee account bank will obtain an eligible guarantee of its obligations from a satisfactorily rated financial institution but if it fails to obtain such guarantee within a certain time period, it will open an account with a successor bank with the requisite ratings and transfer the closing balance to that account.

**Senior Expenses
Loan Facility
Provider:**

Barclays is the lender (in such capacity, the "**senior expenses loan facility provider**") pursuant to the terms of an uncommitted facility agreement dated on the first issue date (as amended from time to time) (the "**senior expenses loan facility agreement**") between the senior expenses loan facility provider, the funding security trustee and funding.

Pursuant to the terms of the senior expenses loan facility agreement, funding may, on each issue date, draw down the relevant required amount so as to enable it to fund: (i) the common funding reserve fund up to the then common funding reserve required amount; and/or (ii) any applicable segregated funding reserve fund up to the segregated funding reserve required amount for such segregated funding reserve fund (each such drawdown, a "**senior expenses loan draw down**").

**Junior Expenses
Loan Facility
Provider:**

Barclays is the lender (in such capacity, the "**junior expenses loan facility provider**") pursuant to the terms of an uncommitted facility agreement dated on the first issue date (as amended from time to time) (the "**junior expenses loan facility agreement**") between the junior expenses loan facility provider, the funding security trustee and funding.

Pursuant to the terms of the junior expenses loan facility agreement, funding will, on each issue date, drawdown the relevant required amount so as to enable funding to pay the expenses it has incurred in connection with: (a) if applicable, the acquisition by funding of the increased funding share of the trust property; and (b) the grant of the relevant loan note tranche by funding on such issue date (each a "**junior expenses loan draw down**" and together with each senior expenses loan draw down, the "**expenses loans draw downs**").

**Yield Supplement
Loan Facility
Provider:**

Barclays is the lender (in such capacity, the "**yield supplement loan facility provider**") pursuant to the terms of an uncommitted facility agreement dated on the first issue date (as amended from time to time) (the "**yield supplement loan facility agreement**") between the yield supplement loan facility provider, the funding security trustee and

funding.

Pursuant to the terms of the yield supplement loan facility agreement, funding has, on the first issue date and will on each relevant assignment date, be able to request a drawdown the initial required yield supplement deposit amount in relation to the assignment of any relevant mortgage loan assigned to the mortgages trustee on such assignment date (or, in respect of any drawdown on the first issue date, in respect of any assignment on the mortgages trust establishment date) which is classified as a yield supplement supported mortgage loan. Any such required yield supplement loan drawdown amount is deposited into the yield supplement GIC account and credited to the yield supplement account.

See "*The Loan Note Tranches and Funding Cashflows — Yield Supplement Account*".

Basis Rate Swap Provider:	Barclays is the basis rate swap provider in respect of cashflows relating to the mortgage loans and the MRCLN (in such capacity, the " basis rate swap provider ") pursuant to the terms of a swap agreement dated on the mortgages trust establishment date (as amended from time to time) (the " basis rate swap date ") between funding, the funding security trustee and the basis rate swap provider (the " basis rate swap agreement ").
Issuer Swap Provider:	The notes issued by the issuer from time to time may be denominated in different currencies and have a fixed or floating rate of interest. If the notes of any series are denominated in a currency other than sterling, the issuer will, or if the notes of any series have a fixed rate of interest or an interest period which is different in length to a loan note tranche interest period then the issuer may, enter into certain ISDA Master Agreements and related schedules and confirmations (each an " issuer swap agreement ") with Barclays (in such capacity the " issuer swap provider ").
Principal Paying Agent:	The Bank of New York Mellon, acting through its London Branch, is the principal paying agent (in such capacity, the " principal paying agent " and together with any other person appointed as a paying agent in accordance with and pursuant to the terms of the agency agreement, the " paying agents ") pursuant to the terms of an agency agreement dated on the first issue date (as amended from time to time) (the " agency agreement ") between, <i>inter alios</i> , the issuer, the issuer security trustee, the agent bank and the principal paying agent. Pursuant to the terms of the agency agreement, the paying agents make payments on behalf of the issuer of principal and interest on the notes.
Agent Bank:	The Bank of New York Mellon, acting through its London Branch, is the agent bank (in such capacity, the " agent bank ") pursuant to the terms of the agency agreement. The agent bank calculates the interest rates applicable to each series in accordance with the terms and conditions of such notes.
Registrar:	The Bank of New York Mellon, acting through its London Branch, is the registrar in respect of the notes (in such

capacity, the "**registrar**") pursuant to the terms of the agency agreement.

Loan Note Registrar: The Bank of New York Mellon, acting through its London Branch, is the registrar in respect of the global loan note (in such capacity, the "**loan note registrar**") pursuant to the terms of the funding security trust deed.

Transfer Agent: The Bank of New York Mellon, acting through its London Branch, is the initial transfer agent in respect of the notes (in such capacity, the "**transfer agent**") pursuant to the terms of the agency agreement.

Exchange Agent: The Bank of New York Mellon, acting through its London Branch, is the initial exchange agent in respect of the notes (in such capacity, the "**exchange agent**") pursuant to the terms of the agency agreement.

Common Depositary: The Bank of New York Mellon, acting through its London Branch, (in such capacity, the "**common depositary**") acts as the common depositary for Euroclear and Clearstream, Luxembourg in respect of the notes.

Listing Authority and Stock Exchange: UK Listing Authority and the London Stock Exchange.

Rating Agencies: Standard & Poor's Rating Services, a division of the McGraw Hill Companies, Inc. ("**S&P**"), Moody's Investors Service Limited ("**Moody's**") and Fitch Ratings Ltd. ("**Fitch**" and, together with S&P and Moody's, the "**rating agencies**").

2. **Transaction Fees**

Recipient	Fee	Priority in relevant cashflow	Frequency of each payment
Administrator in respect of the mortgage servicing	0.08 per cent. each year inclusive of VAT on the aggregate of the then funding share and the then funding no. 2 share of the trust property	In priority to revenue distributions to funding under the mortgages trust	Each distribution date
Mortgages trustee cash manager in respect of the mortgages trust cash management	£100,000 each year inclusive of VAT	In priority to revenue distributions to funding under the mortgages trust	Each distribution date

Other corporate expenses of the mortgages trustee	Estimated £25,000 each year	In priority to revenue distributions to funding under the mortgages trust	Each distribution date
Funding cash manager in respect of funding's cash management	£100,000 each year inclusive of VAT	In priority to revenue distributions to, <i>inter alios</i> , the issuer pursuant to the terms of each loan note tranche	Each funding payment date
Other corporate expenses of funding	Estimated £25,000 each year	In priority to revenue distributions to, <i>inter alios</i> , the issuer pursuant to the terms of each loan note tranche	Each funding payment date
Issuer cash manager in respect of the issuer's cash management	£100,000 each year inclusive of VAT	In priority to revenue distributions to, <i>inter alios</i> , the noteholders	Each issuer payment date
Other corporate expenses of the issuer	Estimated £25,000 each year	In priority to revenue distributions to, <i>inter alios</i> , the noteholders	Each issuer payment date

3. The Notes

The Notes:

The notes will be issued in series. Each series will comprise one class of notes issued on a single issue date pursuant to a set of final terms. The notes of a particular series are all subject to identical terms.

The final terms for a particular series of notes will specify the class designation for the relevant series of notes, including a possible designation as a series of notes the proceeds of which will be used to purchase an RF loan note tranche (each a series of "**class RF notes**") and whether any series of class A notes are also to be designated as money market notes, as described further below.

Listing of the Notes:

Each series of notes has been and, as applicable, may be admitted to the Official List of the UK Listing Authority and

admitted to trading on the regulated market of the London Stock Exchange and/or admitted to listing, trading and/or quotation by any other listing authority, stock exchange and/or quotation system as may be agreed between the issuer, the arranger and the relevant dealers and specified in the relevant final terms.

Clearing Systems: As may be specified in the relevant final terms, Euroclear; Clearstream, Luxembourg; DTC and/or, in relation to any series, any other clearing system (each a "**clearing system**").

No Registration: The notes will not be registered under the Securities Act initially (and no assurance is given that they may ever be so registered). The issuer has not been and will not be registered under the Investment Company Act. Any Rule 144A notes will be offered in the United States only to QIBs that are also QPs. The issuer is relying on the exemption from the requirements of the Investment Company Act provided by Rule 3(c)7 thereof. Any Regulation S notes will be offered to persons who are not U.S. persons or U.S. residents outside the United States in accordance with Regulation S.

Denominations: The notes will be issued in such denominations as may be specified in the relevant final terms, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. The notes will be issued in minimum denominations of at least €50,000 (or £100,000 in the case of any notes with a maturity of less than one year) (or the equivalent in any other currency) or as otherwise specified in the related final terms (as applicable to the currency of each particular series).

Currencies: Subject to compliance with all applicable legal regulatory and central bank requirements each series may be denominated in such currency or currencies as may be agreed between the dealers and the issuer, including, without limitation, sterling, U.S. dollars and/or euro, and as specified in the relevant final terms. Any note denominated in a currency other than sterling is herein referred to as a "**non-sterling note**" and any note denominated in a currency other than U.S. dollars is herein referred to as a "**non-dollar note**".

A series may be redenominated into euro if so specified in the relevant final terms.

Issue Price: The notes may be issued at any price.

Form of Notes: The notes will be issued in registered form. Each series will be represented by global certificates and, as specified in the relevant final terms, registered in the name of a nominee for Clearstream, Luxembourg and Euroclear and/or Cede & Co. as nominee of DTC, and/or in the name of a nominee for any other clearing system. Each beneficial interest in a global certificate is referred to herein as a "**book-entry note**". A holder of notes may exchange those notes for other notes of the series of any authorised denominations and of the same aggregate stated principal amount and tenor.

Any holder of a note may present that note for registration or transfer, with the form of transfer properly executed, at the office of the registrar or at the office of any transfer agent that the issuer designates. Holders of notes will not be charged any service charge for the exchange or transfer of their notes. Holders of notes that are to be transferred or exchanged will be liable for the payment of any taxes and other governmental charges described in the issuer security trust deed or any issuer security trust deed supplement thereto before the transfer or exchange will be completed. The registrar or transfer agent, as the case may be, will effect a transfer or exchange when it is satisfied with the documents of title and identity of the person making the request.

The issuer may also at any time designate additional transfer agents for any series. The issuer may at any time rescind the designation of any transfer agent or approve a change in the location through which any transfer agent acts. However, the issuer will be required to maintain a transfer agent in each place of payment for a series.

**Money Market
Notes:**

The issuer may, from time to time, issue series of class A notes which are intended to be 'eligible securities' for purchase by money market funds under Rule 2a-7 ("**Rule 2a-7**") of the US Investment Company Act of 1940 (as amended) (any such note, a "**money market note**"). However, any determination as to such qualification and compliance with other aspects of Rule 2a-7 is solely the responsibility of each relevant money market fund and its investment advisor.

The final maturity date of any money market note will always be less than 397 days from the issue date on which such money market notes are issued and will be as specified in the relevant final terms.

The issuer may only issue class A notes as money market notes, provided this is so specified in the relevant supplement to global loan note no. 1 and the related final terms, together with the related money market note payment dates and first money market note payment date.

Status:

Each series will be constituted by the issuer security trust deed and by an issuer security trust deed supplement between, among others, the issuer and the issuer security trustee. The notes of each series will rank *pari passu* and *pro rata* among themselves without preference or priority.

**Relationship
between a particular
Series and the
corresponding Loan
Note Tranche:**

As security for the payment of all monies payable in respect of a series, the issuer has created pursuant to the terms of the issuer security trust deed and will further create, pursuant to the terms of each issuer security trust deed supplement executed in relation to a series, a first fixed security interest over, amongst other things, its rights to receive payments from funding under the corresponding loan note tranche. The issuer security trustee will be the registered holder of each loan note tranche in order to properly perfect the first fixed security interest in respect of each loan note tranche.

The issuer has paid and will, in accordance with the relevant issuer priority of payments (and after making appropriate hedging exchanges pursuant to the terms of the issuer swap agreements), pay interest on and repay principal of each series from the proceeds of interest payments and, other than in the case of RF loan note tranches, principal repayments made by funding in respect to the corresponding loan note tranche.

Interest on the Notes:

Interest on each note is and will be payable in arrear and accrues at a fixed or floating rate and the method of calculating interest is as specified in the relevant terms and conditions for each series.

The interest periods and payment dates for each series are as specified in the relevant final terms, however by way of general synopsis:

- (a) interest on any money market notes is payable by reference to successive interest periods (each a "**money market note interest period**");
- (b) interest on the notes (other than money market notes) is payable by reference to successive interest periods (each an "**issuer interest period**");
- (c) in relation to any series of notes which are money market notes, interest will be payable monthly on the dates specified for such series in the relevant final terms (each, a "**money market note payment date**" and any money market note payment date which falls on a date which is not also an issuer payment date is also referred to herein as a "**money market note exclusive payment date**");
- (d) in relation to any series of notes (other than money market notes), interest will be payable monthly, quarterly or annually on the dates specified for such series in the relevant final terms (each, an "**issuer payment date**");
- (e) in relation to each series of notes that are money market notes, the first money market note interest period for that series will commence on (and include) the issue date of that series and end on (but exclude) the relevant first money market note payment date as specified in the applicable final terms, with each successive money market note interest period for that series commencing on (and including) the next money market note payment date and ending on (but excluding) the following money market note payment date for that series; and
- (f) in relation to each series of notes which are not money market notes, the first issuer interest period for that series will commence on (and include) the issue date of that series and end on (but exclude) the relevant issuer payment date falling on the date specified in the applicable final terms, with each successive issuer interest period for that series commencing on (and including) the next (or first)

issuer payment date and ending on (but excluding) the following issuer payment date for that series.

The issuer is not permitted to defer payments of interest on any issuer payment date (or, as applicable, any money market note payment date) in respect of any series if that series is the then most senior series then outstanding. The failure to pay interest on such series will be an event of default.

Maturities: Each series may be issued with any maturity as specified in the relevant final terms, subject to compliance with all applicable legal, regulatory and/or central bank requirements.

Final Redemption: If a series has not already been redeemed in full in accordance with the terms and conditions of the notes for that series, that series will be finally redeemed at its respective principal amount outstanding (plus any accrued interest thereon) on the final maturity date as specified in the relevant final terms.

Mandatory Redemption: Each series will be subject to mandatory early redemption in part or in full in accordance with the terms and conditions of the notes for that series.

Taxation: In the event of any withholding or deduction for any taxes, duties, assessments or government charges of whatever nature being imposed, levied, collected, withheld or assessed on payments of principal or interest in respect of the notes by the United Kingdom, or any other jurisdiction or political subdivision or any authority in or of such jurisdiction having power to tax, the issuer or the paying agents shall make such payments after such withholding or deduction and neither the issuer nor the paying agents will be required to make any additional payments to holders of the affected series in respect of such withholding or deduction.

Certain notes will be treated by the issuer as debt for U.S. federal income tax purposes ("**senior notes**") and certain notes will be treated by the issuer as equity for U.S. federal income tax purposes ("**junior notes**"). The final terms of each series will indicate which classes will be classified as senior notes and which will be classified as junior notes. Each noteholder, by accepting an interest in such notes, will agree to follow this treatment for U.S. federal income tax purposes. Senior notes may be issued with original issue discount for U.S. federal income tax purposes, requiring U.S. investors to account for income on such senior notes under special U.S. tax accounting rules. Junior notes will be considered interests in a passive foreign investment company for U.S. federal income tax purposes, which may have materially adverse consequences for a taxable U.S. investor. See "*Taxation -United States taxation*" below.

Optional Redemption of the Notes for Tax and other reasons: The issuer may redeem all (but not some only) of the notes of a series at their principal amount outstanding together with any accrued but unpaid interest in the event that any amount for or on account of tax will be required to be deducted or withheld from any payment due from the issuer under the notes of a series, from funding under the

corresponding loan note tranche or from Barclays under the MRCLN (which deduction or withholding cannot be avoided by the issuer, funding or Barclays, as the case may be, taking reasonable measures available to it including, where appropriate, the substitution of the issuer and/or funding with a company incorporated in another jurisdiction) if:

- (a) the issuer gives not more than 60 nor less than 30 days' notice to holders of the notes of that series, the issuer security trustee, each issuer swap provider and the rating agencies in accordance with the terms and conditions of the notes of that series; and
- (b) the issuer has, prior to giving the above notice, provided all necessary opinions to the issuer security trustee and certified to the issuer security trustee that, amongst other things, the conditions in relation to such redemption have been satisfied and the issuer will have the necessary funds to pay all principal and interest due in respect of the notes of that series on the issuer payment date on which it is proposed that such notes will be redeemed.

In addition, if specified in the relevant final terms the issuer may redeem, in a manner similar to that described above, all (but not some only) of the notes of a series then outstanding:

- (a) on any issuer payment date after it has become unlawful for the corresponding loan note tranche collateralising such series to remain outstanding and the issuer has required funding to redeem such loan note tranche;
- (b) on the issuer payment date which is the interest rate step up date applicable to that series (as specified in the relevant final terms) (each a "**series issuer step up date**") and on any issuer payment date thereafter;
- (c) on any issuer payment date on which the aggregate principal amount outstanding of the notes of such series is less than 10 per cent. of the aggregate principal amount outstanding of the notes of that series as at the issue date of that series; or
- (d) on any issuer payment date falling after the date on which a notice has been delivered to the issuer and the issuer security trustee from Barclays which states that the regulatory capital treatment for Barclays applicable in respect of the transaction to which the issue of the relevant series relates has become materially impaired by the implementation of the new Basel Capital Accord of 1988 (as described in the document "**International Convergence of Capital Measurement and Capital Standards**" and otherwise known as the "**New Basel Capital Accord**" published on 26 June 2004 by the Basel Committee on Banking Supervision, and as updated by the Basel Committee on 15 November 2005, 4 July 2006, 1 November 2007 and 16 July 2008) whether by rule

of law, recommendation of best practice or by any other regulation, and **provided that** an issuer enforcement notice has not been served, but with such option no longer being able to be exercised by the issuer on any issuer payment date falling on or after 1 January 2010.

Any notes that the issuer redeems under these circumstances will be redeemed at their principal amount outstanding together with all accrued but unpaid interest on that principal amount.

Any notes that are redeemed by the issuer in any of the circumstances specified above may also result in the early termination of the applicable issuer swaps (if any) associated with such series. The issuer may, following such early termination, therefore be obliged to make a termination payment to the applicable issuer swap provider.

Security granted by the Issuer:

To secure its obligations to the holders of any notes, the issuer security trustee, the issuer account bank, each issuer swap provider (if any), each paying agent, the agent bank, the registrar, each transfer agent and the issuer corporate services provider, (together, the "**issuer secured creditors**"), the issuer: (a) on the first issue date, entered into the issuer security trust deed; and (b) on each issue date, will enter into an issuer security trust deed supplement with, *inter alios*, the issuer security trustee. The issuer security trust deed is, and each issuer security trust deed supplement will be, governed by English law.

Pursuant to the terms of the issuer security trust deed and each issuer security trust deed supplement, the issuer has granted and will grant, *inter alia*, the following security interest to the issuer security trustee for the benefit of itself and the other issuer secured creditors:

- (a) an assignment by way of first fixed security of the issuer's right, title, interest and benefit in and to the related loan note tranche for that series under the funding security trust deed and the related supplement to the global loan note for the related loan note tranche for that series;
- (b) an assignment by way of first fixed security of all of the issuer's right, title, interest and benefit in, to and under the transaction documents (except in relation to any issuer swap agreements, such assignment to be subject to any netting and set-off provisions contained therein);
- (c) a first fixed charge over all of the issuer's right, title, interest and benefit in and to all moneys now or at any time hereafter standing to the credit of the issuer accounts and any applicable swap collateral accounts, and any other account of the issuer from time to time, and all amounts standing to the credit of such accounts (including all interest accruing thereon from time to time) (which security may however take effect as a floating charge);

- (d) a first fixed charge over all of the issuer's right, title, interest and benefit in and to all authorised investments made by or on behalf of the issuer (including all moneys, income, other distributions and proceeds payable in respect of such authorised investments from time to time) (which security may however take effect as a floating charge); and
- (e) a first floating charge over the whole of the issuer's undertaking and all its property, assets and rights whatsoever and wheresoever, present and future, which ranks in point of priority behind all fixed security granted in favour of the issuer security trustee pursuant to the terms of the issuer security trust deed and any issuer security trust deed supplement (which, for the avoidance of doubt, extends over all the assets and undertaking of the issuer situated in Scotland or governed by Scots law),

together, the "**issuer security**". See "*The Issuer Security and the Issuer Security Trust Deed*".

Pursuant to the terms of the issuer security trust deed and each issuer security trust deed supplement, the issuer security trustee holds the issuer security on trust for the benefit of itself and the other issuer secured creditors. Except in very limited circumstances, only the issuer security trustee is entitled to enforce the issuer security.

Enforcement of the Issuer Security:

The issuer security will become enforceable upon the earlier to occur of:

- (a) the enforcement of the funding security; and
- (b) the occurrence of an event of default (which is continuing and not waived by the issuer security trustee).

See "*The Issuer Security and the Issuer Security Trust Deed*".

Rating of the Notes:

Each series of notes is expected on issue to be assigned a rating by each rating agency (except any class RF notes, which may be assigned a rating, although this is considered by the issuer to be unlikely to occur). The ratings expected, to be assigned to each series will be stated in the final terms for that series. 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 agency.

Investor Information:

The Issuer will prepare or procure the preparation of quarterly investor reports (each a "**quarterly investor report**") which detail, *inter alia*:

- (a) payments of interest and repayments and prepayments on the global loan note no. 1 and the notes;
- (b) the performance by the mortgages trustee, funding and the issuer and compliance by such companies

with, their obligations under the transaction documents; and

- (c) the current state of the mortgage account portfolio (including as to details of any purchase of new mortgage loans by the mortgages trustee, required repurchases of mortgage loans by the seller and the making of any additional MRCLN advances since the last quarterly investor report).

The relevant quarterly investor report (or, potentially, in relation to the first interest period only a brief summary of financial information relating to the global loan note no. 1 and the notes) will be sent by the issuer (or the issuer cash manager on its behalf) to, *inter alios*, the paying agents, the issuer trustee and the rating agencies and will be posted by the issuer (or the issuer cash manager on its behalf) on Bloomberg or another similar financial news media or web site and also on Barclays' investor website: www.investorrelations.barclays.co.uk. Such quarterly investor reports are generally available by the last day of February, May, August and November.

Governing Law: English law.

Selling Restrictions: The general selling restrictions that are applicable to each series are described in the section entitled "*Plan of Distribution*" below. Any selling restrictions applicable to a particular series are as described in the applicable final terms.

Post-Enforcement Call Option: On each issue date in respect of a series of notes, a call option (each a "**post-enforcement call option**") will be granted to the PECO to acquire all (but not some only) of that series (plus accrued interest thereon) then outstanding for a consideration of £0.01 per note outstanding on the earlier of:

- (i) any date falling 20 days after the issuer payment date that falls on the final maturity date for that series; and
- (ii) in the event that the issuer security is enforced, the date on which the issuer security trustee determines that the proceeds of such enforcement are insufficient after payment of all other claims ranking in priority to that series to pay in full any amount due in respect of that series after paying in full any amounts available to pay amounts outstanding under such series.

Under the terms and conditions of the notes of such series, the issuer security trustee is authorised to cause the noteholders to be bound by the terms of the post-enforcement call option granted to the PECO in respect of that series.

As the relevant post-enforcement call option may only be exercised in the situations described above, the economic position of the noteholders of the relevant series will not, in the view of the issuer, be disadvantaged by such exercise. In

addition, other than the rights to payment of amounts due in respect of such series, the exercise of the relevant post-enforcement call option and the delivery by the noteholders of such series to the PECO will not extinguish any rights or claims that the noteholders of such series may otherwise have against the issuer.

PECOH Loan Facility Agreement:

In addition, on each issue date, as consideration for the subscription by the issuer of the relevant loan note tranche and the requirement for the issuer to enter into the relevant post-enforcement call option in order for the issuer to be in a position to finance (by way of the issue of the relevant series of notes) the subscription for such loan note tranche, funding shall pursuant to the terms of a limited recourse loan facility agreement (the "**PECOH loan facility agreement**") between funding, PECO and the funding security trustee:

- (i) pay an upfront fee of £250 to PECO upon the issuer, the issuer security trustee and PECO entering into such post-enforcement call option; and
- (ii) lend an amount in sterling to PECO equal to the physical number of notes (if such notes were required to be issued in individual certificated form) issued by the issuer on such issue date multiplied by 0.01, which will become repayable in full on the final maturity date for the relevant series issued on such issue date.

Such amount is lent to the PECO by funding so as to enable PECO to meet its obligations under the relevant post enforcement call option.

Funding will finance its obligations under the PECO loan facility agreement on each issue date by requesting, pursuant to the terms of the junior expenses loan facility agreement, a drawdown for an equivalent amount under the junior expenses loan facility from the junior loan facility provider.

4. **Overview of Operation and Cashflows relating to Global Loan Note No. 1**

Global Loan Note No. 1:

On the first issue date, funding issued a global loan note ("**global loan note no. 1**"). Global loan note no. 1 is a registered note, denominated in sterling and governed by English law.

Global loan note no. 1 comprises multiple notional tranches, which are referred to in this base prospectus as "**loan note tranches**". Each loan note tranche is issued pursuant to the terms of the funding security trust deed, global loan note no. 1 and a supplement to global loan note no. 1 (each a "**supplement to global loan note no. 1**"). The cash flows from a particular loan note tranche forming part of global loan note no. 1 support the corresponding series. Each loan note tranche has an initial class designation, including a possible designation as a loan note tranche the proceeds of which, as applicable, have been and will be used to fund the common funding reserve fund or any segregated funding reserve fund (each an "**RF loan note tranche**").

The maturity date of a loan note tranche will be stated in the relevant final terms, but a loan note tranche may be subject to earlier mandatory redemption in certain circumstances.

Each loan note tranche may only be issued upon the satisfaction of certain tests. Each loan note tranche (each a "**senior loan note tranche**") which has at least one loan note tranche ranking below it (in relation to such senior loan note tranche, each a "**subordinated loan note tranche**"), as applicable, has and will have a required level of credit enhancement (the "**required subordination percentage**") including a level of subordination provided by subordinated loan note tranches, as set out in the related supplement to global loan note no. 1.

Each loan note tranche is registered in the name of the issuer security trustee as holder of all security granted by the issuer under the terms of each respective issuer security trust deed supplement. However, prior to any enforcement of the issuer security over the assets of the issuer by the issuer security trustee, the issuer will have the right to receive all amounts of interest and principal paid or payable by funding in respect of the loan note tranche.

Pursuant to the terms of the funding security trust deed, the loan note registrar for the global loan note no. 1 is The Bank of New York Mellon, acting through its London Branch.

The aggregate proceeds of the issuance of any loan note tranche, other than an RF loan note tranche, are to be paid by funding to the mortgages trustee as a contribution to the mortgages trust or applied by funding to repay an existing loan note tranche.

Interest on the Loan Note Tranches:

Interest accrues on each loan note tranche from the relevant issue date at the applicable interest rate for that loan note tranche as specified in the related supplement to global loan note no. 1 and in the relevant final terms. Interest on a loan note tranche is due and payable on each funding payment date or as otherwise specified in the related supplement to global loan note no. 1.

The interest periods and payment dates for each loan note tranche are as specified in the related supplement to global loan note no. 1 and the relevant final terms, however by way of general synopsis:

- (a) interest on each loan note tranche is payable by reference to successive interest periods (each a "**funding interest period**");
- (b) in relation to each loan note tranche, interest is payable quarterly in arrear on the 20th day of February, May, August and November in each year (subject to adjustment as specified in the relevant final terms for non business days and the first payment date) (each, a "**funding payment date**"); and
- (c) the first funding interest period for a loan note tranche commences on (and includes) the issue date

of the related series of notes and ends on (but excludes) the relevant funding payment date falling on the date specified in the applicable supplement to global loan note no. 1 (and as specified in the relevant final terms), with each successive funding interest period for that loan note tranche commencing on (and including) the next (or first) funding payment date and ending on (but excluding) the following funding payment date.

**Scheduled
Redemption:**

If so specified in the related supplement to the global loan note for a loan note tranche and in the relevant final terms for the series which such loan note tranche supports, a loan note tranche may be scheduled to be repaid in full on a single funding payment date (each a "**bullet pay loan note tranche**"). The funding payment date on which a bullet pay loan note tranche is scheduled to be redeemed in full will be the scheduled redemption date for such bullet pay loan note tranche as specified in the related supplement to the global loan note for such bullet pay loan note tranche and in the relevant final terms for the series which such bullet pay loan note tranche supports. However, upon the occurrence of a trigger event, a bullet pay loan note tranche may begin to be redeemed prior to its scheduled redemption date and to the extent that funding available principal receipts are insufficient to redeem such bullet pay loan note tranche in full on its final redemption date such shortfall shall be met (in respect of the class A loan note tranches only) from the funds (if any) standing to the credit of, first, the common funding reserve fund (to the extent there are funds credited to the common funding reserve fund), then second, the funding liquidity reserve fund (if at such time established and only to the extent there are funds credited to the liquidity reserve fund) and lastly, any applicable segregated funding reserve fund (to the extent there are funds credited to the applicable segregated funding reserve fund). Prior to the occurrence of a trigger event, a bullet pay loan note tranche will have an accumulation period during which principal will be accumulated in order to repay such bullet pay loan note tranche in full on its scheduled redemption date and to the extent that funding available principal receipts are insufficient to redeem such bullet pay loan note tranche in full on its scheduled redemption date such shortfall shall be met (in respect of the class A loan note tranches only) from the funds (if any) standing to the credit of, first, the common funding reserve fund (to the extent there are funds credited to the common funding reserve fund), then second, the funding liquidity reserve fund (if at such time established and only to the extent there are funds credited to the liquidity reserve fund) and lastly, any applicable segregated funding reserve fund (to the extent there are funds credited to the applicable segregated funding reserve fund) (see "*The Loan Note Tranches and Funding Cashflows -Accumulation and early amortisation periods*").

Each loan note tranche which is not a bullet pay loan note tranche will have a controlled amortisation schedule (each a "**loan note tranche controlled amortisation schedule**") for the repayment of principal on such loan note tranche prior to the occurrence of a trigger event or the enforcement of the

funding security. Each loan note tranche controlled amortisation schedule will specify the required outstanding principal amount for each such loan note tranche immediately after each funding payment date (such required outstanding principal amount being the "**target balance**" for such loan note tranche). Each principal payment required to be paid by funding on each funding payment date in respect of each loan note tranche, so that the outstanding principal amount on each loan note tranche equals the relevant target balance immediately after such funding payment date, is known as a "**controlled amortisation amount**".

The loan note tranche controlled amortisation schedule (if any) in respect of each loan note tranche will be set out in the relevant final terms for the series which such loan note tranche supports.

Early Redemption Events:

Global loan note no. 1 is subject to early redemption in respect of each loan note tranche. The occurrence of a trigger event in relation to any loan note tranche will cause that loan note tranche to enter an amortisation period (an "**early amortisation period**"). An early amortisation period will consist of either an "**asset trigger amortisation period**" or a "**non-asset trigger amortisation**" period depending on whether the trigger event causing the early amortisation period is an asset trigger event or a non-asset trigger event.

Mandatory Early Redemption and Final Redemption:

Whenever funding redeems a loan note tranche, it will do so only to the extent that mortgages trust revenue receipts and, other than with respect to an RF loan note tranche, mortgages trust principal receipts allocated to that loan note tranche are sufficient to redeem that loan note tranche in full, and only to the extent that the loan note tranche to be redeemed is not at such time required to provide subordination for the senior loan note tranches which are then outstanding. The issuer or issuer security trustee as holder of a loan note tranche will have no claim against funding if funding fails to make a required redemption of a loan note tranche in full or in part:

- (i) in relation to a bullet pay loan note tranche, on a scheduled redemption date; and/or
- (ii) in relation to a loan note tranche with a controlled amortisation schedule, on a funding payment date up to the amount of the relevant target balance for that loan note tranche,

such scheduled redemption dates or funding payment dates being a "**scheduled date**", because no funds are available for that purpose or because the loan note tranches that would otherwise be redeemed are required to provide subordination for senior loan note tranches. The failure to redeem a loan note tranche in full or in part on a scheduled date under these circumstances will not be a loan note event of default.

Funding will also be required to redeem a loan note tranche if the series of notes collateralised by such loan note tranche is optionally redeemed by the issuer (see "*Optional Redemption of the Notes for Tax and other reasons*" above).

Security granted by Funding:

To secure its obligations to the issuer and any new issuer (if any), the funding security trustee, the funding cash manager, the funding account bank and the basis rate swap provider, (together, the "**funding secured creditors**"), funding on the first issue date, entered into the funding security trust deed and on each issue date will enter into a funding security trust deed supplement with, *inter alios*, the funding security trustee. The funding security trust deed is, and each funding security trust deed supplement will be, governed by English law.

Pursuant to the terms of the funding security trust deed, funding granted, *inter alia*, the following security interests to the funding security trustee for the benefit of itself and the other funding secured creditors:

- (a) an assignment (which is likely to take effect as a floating charge) of the funding share of the trust property;
- (b) an assignment (which is likely to take effect as a floating charge) of all of its right, benefit and interest in the transaction documents to which funding is a party from time to time;
- (c) a first ranking fixed charge (which is likely to take effect as a floating charge) over all of the right, title, interest and benefit of funding in the funding GIC account, the yield supplement GIC account, the funding transaction account, all amounts standing to the credit of those accounts from time to time and all authorised investments purchased from those accounts including all monies and income payable under them; and
- (d) a first floating charge over all of the property, assets and undertaking of funding not otherwise secured by any fixed security interest detailed above,

together, the "**funding security**". See "*The Funding Security and the Funding Security Trust Deed*".

Pursuant to the terms of the funding security trust deed, the funding security trustee holds the funding security on trust for the benefit of itself and the other funding secured creditors. Except in very limited circumstances, only the funding security trustee will be entitled to enforce the funding security.

Enforcement of the Funding Security:

The funding security will become enforceable upon the occurrence of a loan note event of default (which is continuing and not waived by the funding security trustee) (See "*The Funding Security and the Funding Security Trust Deed*").

5. **The Mortgages Trust**

The Mortgages Trust:

Pursuant to the terms of a trust deed dated on the mortgages trust establishment date (as amended from time to time) (the "**mortgages trust deed**") between the mortgages trustee, the

seller, funding, funding (no. 2) and the mortgages trustee cash manager, the mortgages trustee established a mortgages trust (the "**mortgages trust**").

The mortgages trustee holds any property the subject of the mortgages trust (the "**trust property**") as to capital and income on bare trust absolutely for funding (as to the funding share), funding (no. 2) (as to the funding (no. 2) share) and the seller (as to the seller share) (together, the "**beneficiaries**"). Funding, funding (no. 2) and the seller each have a joint and undivided beneficial interest in the trust property. Unless otherwise expressly provided in the mortgages trust deed, payments of interest and principal arising from mortgage loans which are included in the trust property and from the MRCLN are allocated to funding, funding (no. 2) and the seller as described below.

Unless otherwise expressly provided in the mortgages trust deed, the mortgages trustee cash manager on behalf of the mortgages trustee: (i) distributes interest and principal payments received from borrowers in respect of the mortgage loans in the mortgage loan portfolio; (ii) distributes interest and principal payments received from the seller by the mortgages trustee in respect of the MRCLN; (iii) allocates losses in relation to such mortgage loans; and (iv) allocates mortgage reserve principal loss reductions on the MRCLN, to the seller, funding and funding (no. 2) according to the share that each of them then has in the trust property. The respective shares of the trust property that the seller, funding and funding (no. 2) have in the trust property fluctuate from time to time in accordance with the terms of the mortgages trust deed.

The only beneficiaries of the mortgages trust on the mortgages trust establishment date were and, as at the date of this base prospectus, are funding, funding (no. 2) and the seller. However, it may be the case that a new party will become, subject to the satisfaction of certain conditions, a further beneficiary of the mortgages trust in the future. (See "*Risk Factors — Potential future role of new beneficiaries of the mortgages trust*").

Trust Property:

On and after each assignment date, the trust property will consist of, *inter alia*:

- (i) the then existing mortgage loan portfolio, the then issue date mortgage loan portfolio and each new mortgage loan portfolio (and any income generated by the mortgage loans or their related security on or after the relevant date of sale of such mortgage loans to the mortgages trustee);
- (ii) the MRCLN (including any increase in the principal amount outstanding on the MRCLN and any payments of interest or repayments of principal in respect of the MRCLN);
- (iii) the MRCLN Collateral (if any at such time);
- (iv) any other contribution made by any beneficiary to the mortgages trustee (until the relevant funds are

applied by the mortgages trustee in accordance with the mortgages trust deed); and

- (v) any money in the mortgages trustee transaction account and the mortgages trustee GIC account (and any interest earned on such amounts).

See "*The Mortgages Trust*" and "*The MRCLN*".

**Collection of
Revenue Receipts
and Principal
Receipts on
Mortgage Loans:**

The administrator undertakes that all payments due under the mortgage loans which are included in the trust property, as applicable, are and will be made by the relevant borrower by direct debit, standing order or by cheque into accounts in the name of the seller (in such capacity the "**collection bank**" and each such account, a "**collection account**") which the seller may utilise from time to time in accordance with and pursuant to the terms of the administration agreement.

The amounts held in the collection accounts, as applicable, are and will be held on trust by the seller for, *inter alios*, the mortgages trustee in accordance with an existing English law declaration of trust (the "**collection account declaration of trust**") dated 21 December 2005, as amended and restated on the mortgages trust establishment date so as to incorporate the mortgages trustee as a beneficiary of the collection account declaration of trust in relation to amounts held in such collection accounts and that have been received in relation to any mortgage loans which at such time form part of the trust property, with certain other beneficiaries (including Barclays) being beneficiaries in relation to other amounts held from time to time in such collection accounts.

Amounts standing to the credit of the collection accounts representing receipts or recoveries in respect of the mortgage loans in the mortgage loan portfolio are to be transferred by the administrator to the mortgages trustee transaction account for further transfer to the mortgages trustee GIC account in the manner and in the time limits described in "*The Administrator and the Administration Agreement — The administration agreement — Collection of payments*".

The administrator may, from time to time and in accordance with and pursuant to the terms of the administration agreement, change its administration policy in respect of the mortgage loans.

Barclays, in its capacities as both seller and administrator, agrees to use its reasonable endeavours to credit any monthly payment made by a borrower to the relevant collection account within the following time limits:

- (a) in the case of any direct debit payment, by close of business on the London business day which immediately follows the day on which such amounts are received;
- (b) in the case of any payment by cash into a branch, within three London business days after the funds are received by such branch;
- (c) in the case of any payment by cheque where

reference to the relevant borrower is provided, within two London business days following the day after such cheque is received by Barclays mortgage administration unit;

- (d) in the case of any payment by cheque where reference to the relevant borrower is not provided, by close of business on the next London business day after notification from the relevant bank of the identity of the relevant borrower;
- (e) in the case of any payment via a standing order or funds transfer from another bank account, including if any such payments have been effected via internet banking, within three London business days from the day the funds are remitted;
- (f) in the case of any payment by cash, transfer payment from another account of the seller or cheque where reference to the relevant borrower is provided, by close of business on the London business day which immediately follows the day on which such amounts are received by Barclays mortgage administration unit;
- (g) in the case of any payment by debit card or credit card (accepted in the case where a mortgage is in arrears), within two London business days following the day when such funds are requested.

In addition, any payments towards a mortgage reserve are credited the day that such payments are collected by Barclays.

**Funding Share,
Funding (No. 2)
Share and Seller
Share of the Trust
Property:**

The funding share of the trust property, the funding (no. 2) share of the trust property and the seller share of the trust property, and the percentage of the total which each represents, will be recalculated in accordance with the mortgages trust deed on each trust calculation date, in respect of the immediately preceding trust calculation period and trust determination date, to take into account, *inter alia*:

- (a) the allocation of mortgages trust principal receipts from the mortgage loans in the mortgage loan portfolio and from the MRCLN, to funding, funding (no. 2) and/or the seller on the immediately preceding distribution date;
- (b) losses arising on the mortgage loans in the mortgage loan portfolio;
- (c) mortgage reserve principal loss reductions on the MRCLN;
- (d) the sale of new mortgage loans and their related security;
- (e) the required repurchase of a mortgage loan by the seller pursuant to the terms of the mortgage sale agreement;

- (f) the sale of further advances to the mortgages trustee;
- (g) the making of any additional MRCLN advances to the seller pursuant to the terms of the MRCLN;
- (h) funding increasing its beneficial interest in, and hence the funding share of, the trust property by making contributions to the mortgages trustee in accordance with and pursuant to the terms of the mortgages trust deed;
- (i) funding (no. 2) increasing its beneficial interest in, and hence the funding (no. 2) share of, the trust property by making contributions to the mortgages trustee in accordance with and pursuant to the terms of the mortgages trust deed;
- (j) the seller increasing its beneficial interest in, and hence the seller share of, the trust property by making contributions to the mortgages trustee in accordance with the mortgages trust deed;
- (k) any special distributions being made by the mortgages trustee to the seller, funding and/or funding (no. 2), respectively, on each distribution date immediately succeeding such trust calculation period; and
- (l) the capitalisation of arrears in respect of any mortgage loan in the mortgage loan portfolio.

Notwithstanding the recalculation of each beneficiary's respective share of the trust property, the beneficiaries together will at all times be absolutely entitled to 100 per cent. of the trust property and its income.

Distribution of Mortgages Trustee Available Revenue Receipts from the Mortgages Trust:

On each distribution date, mortgages trust revenue receipts from the trust property which are then available for distribution by the mortgages trustee ("**mortgages trustee available revenue receipts**") will be distributed by the mortgages trust cash manager (on behalf of the mortgages trustee) to, *inter alios*, funding, funding (no. 2) and the seller in accordance with the mortgages trust revenue priority of payments (as set out in "*The Mortgages Trust — Cash management of trust property — Mortgages trust revenue receipts*").

Distribution of Mortgages Trust Principal Receipts from the Mortgages Trust:

On each distribution date, the mortgages trustee cash manager (on behalf of the mortgages trustee) will allocate and distribute mortgages trust principal receipts and any amounts credited in the immediately preceding trust calculation period as a result of a contribution to the mortgages trustee GIC account. Mortgages trust principal receipts will be distributed to funding, funding (no. 2) and the seller in accordance with the then relevant mortgages trust principal priority of payments (as set out in "*The mortgages trust — Cash management of trust property -Mortgages trust principal receipts*").

Trigger Events:

The relevant mortgages trust principal priority of payments

will be determined by whether any trigger event has occurred, which affects and alters the priority and right of allocation of principal receipts at the mortgages trust, funding and issuer levels of the transaction.

The following events are referred to in this base prospectus as "**trigger events**":

- (a) a "**non-asset trigger event**" will occur if:
 - (i) an insolvency event occurs in relation to Barclays; and/or
 - (ii) a MRCLN event of default occurs (and which is continuing and not waived by the mortgages trustee); and/or
 - (iii) Barclays role as administrator is terminated and a new administrator is not appointed in accordance with the terms of the administration agreement within 60 days; and/or
 - (iv) the then current seller share is equal to or less than the minimum seller share for two consecutive distribution dates.
- (b) an "**asset trigger event**" will occur if an amount is debited to any class A funding principal deficiency sub-ledger.

Allocation of Losses: All realised losses experienced on the mortgage loans in the mortgage loan portfolio ("**mortgage loan losses**") will, save as otherwise provided in the mortgages trust deed, be applied in reducing proportionately the funding share of the trust property, the funding (no. 2) share of the trust property and the seller share of the trust property.

Allocation of Mortgage Reserve Principal Loss Reductions: Write downs on the MRCLN ("**mortgage reserve principal loss reductions**") as a result of losses experienced by the seller on reference mortgage reserves ("**mortgage reserve losses**") will, save as otherwise provided in the mortgages trust deed, be applied in reducing proportionately the funding share of the trust property, the funding (no. 2) share of the trust property and the seller share of the trust property.

6. The Mortgage Account Portfolio

Mortgage Loans and Mortgage Reserves: References in this base prospectus to a "**mortgage loan**" means a mortgage loan originated by the seller and references in this base prospectus to a "**mortgage reserve**" means each of the overdraft facilities which are granted by Barclays on the bank accounts which may be opened, operated and maintained by Barclays in connection with the opening and operation of certain mortgage loans.

Any mortgage reserve linked to a mortgage loan which is sold to the mortgage trustees and thus forms part of the then mortgage loan portfolio is referred to in this base prospectus as a "**reference mortgage reserve**". Upon any mortgage loan being removed from the mortgage loan portfolio the associated mortgage reserve will cease to be a reference

mortgage reserve. It should be noted that not all mortgage loans in the mortgage loan portfolio will have a mortgage reserve.

The mortgage loans and the mortgage reserves together are referred to as the "**mortgage assets**" and a mortgage loan and its associated mortgage reserve is referred to as a "**mortgage account**".

The principal amount outstanding on a mortgage loan is referred to as the "**current balance**" on a mortgage loan. The aggregate amount outstanding on each mortgage reserve is referred to as the "**mortgage reserve account balance**", and the combined mortgage reserve account balance and the current balance on a mortgage loan is referred to as the "**mortgage account balance**".

**The Mortgage
Account Portfolio:**

References in this base prospectus to:

- (a) an "**issue date mortgage loan portfolio**" means:
 - (i) the portfolio of mortgage loans;
 - (ii) the security (the "**related security**") granted by the borrower of each such mortgage loan (each a "**borrower**") as security for the repayment of each such mortgage loan and also any corresponding mortgage reserve (including, *inter alia*, a mortgage over such borrower's property the subject of such mortgage loan (the "**mortgaged property**") and all other matters acquired by the mortgages trustee relating to such mortgage loan when such mortgage loan is sold to the mortgages trustee);
 - (iii) the aggregate of all interest accrued (the "**accrued interest**") on any given date but not yet due and payable on each mortgage loan from (and including) the monthly payment date of such mortgage loan (the "**monthly payment date**") immediately preceding such date until but excluding such date (and where the period beginning on (and including) a monthly payment date and ending on (but excluding) the immediately following monthly payment date is herein referred to as the "**monthly period**" for such mortgage loan);
 - (iv) the benefit of certain insurance policies relating to the mortgaged properties; and
 - (v) any other amounts derived from such mortgage loans,

that the seller may sell, pursuant to the terms of the mortgage sale agreement, to the mortgages trustee on a particular issue date.

The mortgage loans comprising an issue date mortgage loan portfolio may be standard variable rate mortgage loans, fixed rate mortgage loans, tracker rate mortgage loans or discounted variable rate mortgage loans and/or other types of mortgage loans that may be assigned into the mortgages trust, from time to time, in accordance with the mortgage sale agreement.

An issue date mortgage loan portfolio together with all the mortgage reserves associated with such mortgage loans contained in such issue date mortgage loan portfolio are together referred to herein as an "**issue date mortgage account portfolio**".

- (b) A "**new mortgage loan portfolio**" means a portfolio of mortgage loans, their related security, accrued interest, the benefit of certain insurance policies relating to the mortgaged properties and other amounts derived from such mortgage loans that are to be sold to the mortgages trust on any date (each such date, together with the master trust establishment date, an "**assignment date**", and which, for the avoidance of doubt, may or may not be an issue date and, therefore, an issue date mortgage loan portfolio will always be a new mortgage loan portfolio, but not all new mortgage loan portfolios will be issue date mortgage loan portfolios).

A new mortgage loan portfolio together with all the mortgage reserves associated with such mortgage loans contained in such new mortgage loan portfolio are together referred to herein as a "**new mortgage account portfolio**".

- (c) the then "**existing mortgage loan portfolio**" means all mortgage loans, their related security, accrued interest, the benefit of certain insurance policies relating to the mortgaged properties and other amounts derived from such mortgage loans that have been sold to the mortgages trust prior to any assignment date as it is constituted as of the trust determination date immediately prior to such assignment date, taking account of, amongst other things, amortisation of such mortgage loans and the addition and/ or removal of any such mortgage loans to or from the then existing mortgage loan portfolio prior to such assignment date;

The existing mortgage loan portfolio together with all the reference mortgage reserves associated with such mortgage loans contained in the then existing mortgage loan portfolio are together referred to herein as the then "**existing mortgage account portfolio**";

- (d) the then "**mortgage loan portfolio**" means the combined existing mortgage loan portfolio and the relevant new mortgage loan portfolio following the

sale of such new mortgage loan portfolio to the mortgages trustee on the applicable assignment date as they are constituted as of any date of determination following such assignment date, taking account of, amongst other things, amortisation of mortgage loans in the existing mortgage loan portfolio and such new mortgage loan portfolio and the addition and/or removal of any mortgage loans to or from the mortgage loan portfolio after such issue date.

The then mortgage loan portfolio together with all the reference mortgage reserves associated with such mortgage loans contained in the then mortgage loan portfolio are together referred to herein as the then "**mortgage account portfolio**";

- (e) a "**potential mortgage loan portfolio**" means the relevant portfolio of mortgage loans, their related security, accrued interest, the benefit of certain insurance policies relating to the mortgaged properties and other amounts derived from such mortgage loans that the seller anticipates selling to the mortgages trustee on a particular assignment date (which, if so sold, would form the then new mortgage loan portfolio to be sold to the mortgages trustee on such assignment date, and the mortgage loans contained in the potential mortgage loan portfolio together with any associated mortgage reserves being the "**potential mortgage account portfolio**", with any such associated mortgage reserves (if the associated mortgage loan was contained in the new mortgage loan portfolio) becoming reference mortgage reserves), pursuant to the terms of the mortgage sale agreement dated the mortgages trust establishment date (as amended from time to time) (the "**mortgage sale agreement**") between, *inter alios*, the seller, funding, funding (no. 2), the funding security trustee and the mortgages trustee; and
- (f) a "**cut-off date mortgage loan portfolio**" means, in relation to the issue of notes on an issue date, the potential mortgage loan portfolio combined with the then existing mortgage loan portfolio at a pre-determined date prior to the relevant issue date (each a "**cut-off date**") as specified in the relevant final terms; and the relevant cut-off date mortgage loan portfolio together with any mortgage reserves linked to such mortgage loans in the cut-off date mortgage loan portfolio is referred to herein as the relevant "**cut-off date mortgage account portfolio**").

All of the mortgage loans and reference mortgage reserves in the then mortgage account portfolio will be secured by first ranking legal charges over freehold or leasehold properties located in England or Wales or by first priority standard securities over heritable properties located in Scotland or by first ranking mortgage (in the case of unregistered land) or first ranking charge (in the case of registered land) over

freehold or leasehold properties located in Northern Ireland.

**Statistical
Information in the
Final Terms:**

For each series, selected statistical information concerning the then relevant cut-off date mortgage account portfolio will be set out in the final terms for each series to be issued on such issue date.

**Sale of Mortgage
Loans:**

On any assignment date and subject to the terms of the mortgage sale agreement, the seller will sell the then new mortgage loan portfolio to the mortgages trustee.

After each assignment date, further mortgage loans and their related security may be sold to the mortgages trustee in order to increase or maintain the size of the trust property.

An increase in the size of the trust property may be financed from time to time by way of an issue of further series of notes by the issuer, the proceeds of which are applied ultimately to fund the acquisition of a future mortgage loan portfolio by the mortgages trustee and in the making of any additional MRCLN advance to the seller pursuant to the terms of the MRCLN note purchase facility agreement as a result of further mortgage reserves becoming reference mortgage reserves.

The seller will also, subject to certain conditions, sell to the mortgages trustee any further advance (as defined below) made by the seller to a borrower which is associated with a mortgage loan which is in the mortgage loan portfolio at such time. The sale of any further advance will increase the then size of the trust property by an amount equal to the size of such further advance, and the size of the seller share of the trust property will also increase by a proportionate amount as a result of the seller being required to make a purchase contribution to the mortgages trust in an amount equal to such further advance. The seller shall be entitled to set-off the amount payable as a purchase contribution against the relevant purchase price payable to it by the mortgages trustee for the relevant further advance.

On each assignment date and pursuant to the terms of the mortgage sale agreement, the seller will sell the mortgage loans and their related security included in the then new mortgage loan portfolio to the mortgages trustee and in relation to any mortgage loans secured over heritable properties in Scotland will give effect to that sale by executing a declaration of trust in favour of the mortgages trustee over the seller's interest in the Scottish mortgage loans and their related security included in the then new mortgage loan portfolio (but will not be required to perfect transfer of the legal title to such mortgage loans and their related security to the mortgages trustee unless requested to do so by, *inter alios*, the mortgages trustee). As a result of that sale and declaration of trust, the beneficial interest in such mortgage loans and their related security will pass, on each such assignment date, to the mortgages trustee in its capacity as trustee for and on behalf of the beneficiaries of the mortgages trust, with legal title to such mortgage loans and their related security being retained by the seller. Until certain events have occurred and certain additional steps have been taken (including the execution and (where

necessary) registration or recording of certain transfers and the giving of notices of the sale to the relevant borrowers), legal title to such mortgage loans and their related security will remain with the seller.

Pursuant to the terms of the mortgage sale agreement, the seller has also sold the right to any accrued interest which has accrued on any mortgage loan included in a new mortgage loan portfolio up to (but excluding) the date of sale of such mortgage loan to the mortgages trustee such sale being effected in relation to any accrued interest on any Scottish mortgage loan by means of a declaration of trust. Such accrued interest will also form part of the relevant new mortgage loan portfolio and as such trust property.

Any mortgage reserves that are linked to mortgage loans which are sold into the mortgages trust have and will, as applicable, pursuant to the terms of the MRCLN note purchase agreement, the mortgage sale agreement and the mortgages trust deed, automatically become reference mortgage reserves (and thus cause an increase in the principal amount outstanding on the MRCLN as a result of the required additional MRCLN advance to be made to the seller by the mortgages trustee in an amount equal to the then aggregate mortgage reserve account balance on such mortgage reserves that become reference mortgage reserves at such time) it should be noted that there will be no transfer at either the relevant issue date or at any time thereafter of any reference mortgage reserves to the mortgages trustee. However, pursuant to the terms of the mortgage sale agreement, the MRCLN note purchase agreement and the mortgages trust deed, the seller is obliged to transfer the related security relating to each reference mortgage reserve (such security also securing the associated mortgage loan) to the mortgages trustee, which the mortgages trustee will thereafter hold on trust for the seller (in relation to any security enforcement proceeds resulting therefrom that are in respect of any mortgage reserve account balance then outstanding on the relevant reference mortgage reserve) and itself (in relation to any security enforcement proceeds resulting therefrom that are in respect of any amounts outstanding from a borrower in respect of the relevant mortgage loan). The mortgages trustee will however be entitled to set-off any security enforcement proceeds it receives in relation to a reference mortgage reserve following the enforcement of such related security, which become owing to the seller, against any amount then owed by the seller to the mortgages trustee pursuant to the terms of the MRCLN note purchase facility agreement.

**Seller's Lending
Criteria:**

The mortgage accounts in the mortgage account portfolio have been and will have been, as applicable, originated according to the lending criteria of the seller (the "**lending criteria**") which were applicable at the time each such mortgage account was offered.

The seller is entitled to change its lending criteria from time to time, so that new mortgage loans and mortgage reserves originated after the date of that change will be subject to such new lending criteria. Notwithstanding any such change to such lending criteria, such new mortgage loans may still

be sold to the mortgages trust and such mortgage reserves may become reference mortgage reserves **provided that** the mortgage loans and mortgage reserves are able to continue to comply with the seller's representations and warranties set out in the mortgage sale agreement, including a representation that those new mortgage loans and mortgage reserves were originated in accordance with the seller's lending criteria applicable at the time of such origination.

**Mortgage Loan
Terms and
Conditions and
Mortgage Reserve
Terms and
Conditions:**

The seller is entitled to change its mortgage loan terms and conditions and/or the mortgage reserve terms and conditions, from time to time.

It may also be the case that such change in the seller's terms and conditions will affect the terms and conditions of new mortgage loans and mortgage reserves originated after the date of such change. However, notwithstanding any such change, such new mortgage loans may still be sold to the mortgages trust and such mortgage reserves may become reference mortgage reserves **provided that** the mortgage loans and mortgage reserves are able to continue to comply with the seller's representations and warranties set out in the mortgage sale agreement.

It may also be the case that such change in the seller's terms and conditions will also amend the terms and conditions of the existing mortgage loans already within the mortgage loan portfolio and/or the terms and conditions of mortgage reserves which are already reference mortgage reserves. However, notwithstanding any such change, such mortgage loans may still remain within the mortgage loan portfolio and such mortgage reserves may still remain as reference mortgage reserves **provided that** no such changes constitute a product switch. If such change constitutes a product switch, the seller will be required to repurchase the relevant mortgage loans and the associated mortgage reserves will cease to be reference mortgage reserves for the purposes of the MRCLN (resulting in a repayment of the relevant portion of the MRCLN in accordance with its terms).

In addition, the seller will be required, pursuant to the terms of the mortgage sale agreement and prior to being able to adopt any new set of mortgage loan conditions and/or mortgage reserve conditions in respect of any mortgage loans to be sold to the mortgages trustee or in respect of any mortgage loans already in the mortgage portfolio or any mortgage reserves that are already reference mortgage reserves, to provide a legal opinion addressing, *inter alia*, the regulatory enforceability of any new set of mortgage loan conditions and/or mortgage reserve conditions to each of funding, funding (no. 2), the funding security trustee and the funding (no. 2) security trustee (if any) and in a form satisfactory to such addressees.

See "*The Assignment of the Mortgage Loans and Related Security*".

**Representation and
Warranties given in**

The seller is required to give certain representations and warranties to the mortgages trustee pursuant to the mortgage

**respect of the
Mortgage Assets:**

sale agreement in respect of the mortgage loans and any associated mortgage reserve. If a mortgage loan in the mortgage loan portfolio (or its related security and/or associated reference mortgage reserve) does not materially comply with such warranties, then the seller will have 28 days, from becoming aware of or being notified of such breach, in which to remedy the situation. If the breach cannot be or is not remedied to the satisfaction of, *inter alios*, funding and the funding security trustee within the required time period, the seller will be required to repurchase the relevant mortgage loan and its related security from the mortgages trustee (and at such time the associated reference mortgage reserve will cease to be a reference mortgage reserve (a "**non-reference mortgage reserve**") and the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such non-reference mortgage reserve). If the seller does not repurchase such mortgage loan and its related security and repay the relevant portion of the MRCLN in accordance with its terms, the trust property will be deemed to be reduced by an amount equal to the mortgages account balance of the mortgage account of such mortgage loan and associated reference mortgage reserve and the size of the seller share of the trust property will accordingly be deemed to be reduced by that amount (with there being no change in the size of the funding share of the trust property or the funding (no. 2) share of the trust property).

Further Advances:

A borrower may in certain circumstances be entitled to borrow further amounts under the terms of the relevant mortgage loan. A borrower will, subject to certain conditions, be entitled to do so by requesting the seller to make a voluntary further advance (any such further advance to a borrower is referred to as a "**further advance**").

The seller (in its capacity as originator of the mortgage loans) is solely responsible for funding any further advance relating to a mortgage loan in the mortgage loan portfolio to a borrower. In accordance with and pursuant to the terms of the mortgage sale agreement, the further advance relating to a mortgage loan in the mortgage loan portfolio will be sold to the mortgages trust at the time that such further advance is made to the relevant borrower and will from such time also form part of the trust property. The mortgages trust deed provides that the seller will be required to make a purchase contribution to the mortgages trustee at the time of such further advance in order to fund the mortgages trustee's purchase of such further advance from the seller and the size of the seller share of the trust property will increase by an amount equal to the amount of such purchase contribution made on such date by the seller (but there shall be no change to the size of the funding share or the funding (no. 2) share).

However, following the sale of such further advance to the mortgages trust, the seller will be further required to repurchase the mortgage loan (together with its related security) associated with such further advance as of the next trust determination date for an amount not less than the current balance of such mortgage loan as of the date of such repurchase (together with all unpaid interest (including all accrued interest and arrears of interest) and other sums) and

which, for the avoidance of doubt, would include the amounts of the relevant further advance (and any accrued but unpaid interest in respect of such further advance), and in addition at such time the associated reference mortgage reserve will become a non-reference mortgage reserve and the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such non-reference mortgage reserve.

See "*The Mortgage Assets — Overpayments, unauthorised underpayment and further advances on mortgage loans*".

Mortgage Reserve Interest:

Interest (and other fees) shall be charged by the seller to a borrower in relation to amounts outstanding on a mortgage reserve account (such interest and fees being "**mortgage reserve interest**"). Any such amounts charged to a mortgage reserve account will automatically increase the mortgage reserve account balance.

Mortgage Reserve Credit Limit Increase:

Each mortgage reserve has a maximum permitted credit limit (a "**mortgage reserve credit limit**"), which may be either decreased or increased by the seller from time to time (any increase being a "**mortgage reserve credit limit increase**").

To the extent that a mortgage reserve credit limit increase in relation to a reference mortgage reserve causes the aggregate permitted debt owed by a borrower in respect of its mortgage account to increase (a "**mortgage reserve credit and aggregate debt limit increase**"), that reference mortgage reserve will, on the next trust determination date, become a non-reference mortgage reserve. Accordingly, the seller will be required to repurchase the associated mortgage loan (together with its related security) as of such trust determination date for an amount not less than the current balance of such mortgage loan as of the date of such repurchase (together with all unpaid interest (including all accrued interest and arrears of interest) and other sums) and in addition, the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such non-reference mortgage reserve.

See "*The Mortgage Assets — Mortgage reserve credit and aggregate permitted debt limit increases*".

7. **The MRCLN**

The MRCLN and the MRCLN note purchase facility agreement

On the mortgages trust establishment date the mortgages trustee (subject to the satisfaction of certain conditions precedent) subscribed for and purchased a variable funding credit linked note (the "**MRCLN**") issued by the seller pursuant to the terms of a note purchase facility agreement (the "**MRCLN note purchase facility agreement**") dated on the mortgages trust establishment date (as amended from time to time) between, *inter alios*, the seller and the mortgages trustee.

The Subscription Price for the MRCLN

Pursuant to the terms of the MRCLN note purchase facility agreement, the subscription price paid and to be paid by the mortgages trustee to the seller for the MRCLN was and will be:

- (a) on the mortgages trust establishment date, an amount equal to the then aggregate mortgage reserve account balances of all reference mortgage reserves which are linked to the mortgage loans purchased by the mortgages trustee on the mortgages trust establishment date (the "**MRCLN initial subscription price**"); and
- (b) on each distribution date, an amount determined in accordance with the then application of the MRCLN deferred subscription price calculation formula to the amount of deferred contribution received by the mortgages trustee during the immediately preceding trust calculation period (such amount being the then "**MRCLN deferred subscription price**").

MRCLN Interest: Pursuant to the terms of the MRCLN note purchase facility agreement, the amount of interest that is charged on the then principal amount outstanding under the MRCLN (the "**MRCLN interest**") during a trust calculation period and which becomes due and payable under the MRCLN in relation to such trust calculation period shall be an amount equal to the aggregate of the then MRCLN immediately due and payable interest and the then MRCLN subsequently due and payable interest for such trust calculation period. MRCLN interest shall form part of the trust property and will be treated as a mortgage trust revenue receipt. See "*The MRCLN — Interest on the MRCLN*".

Additional MRCLN advances: On the mortgages trust establishment date the principal amount outstanding on the MRCLN equalled the MRCLN initial subscription price. However, the MRCLN is a variable funding note and as such the mortgages trustee, pursuant to the terms of the MRCLN note purchase facility agreement, is under an obligation, in the circumstances described herein, to lend further amounts to the seller on: (i) any distribution date; and (ii) any assignment date, each such additional amount lent to the seller being an "**additional MRCLN advance**".

Upon the mortgages trustee making an additional MRCLN advance to the seller, the principal amount outstanding on the MRCLN will increase by an amount equal to such additional MRCLN advance.

See "*The MRCLN — The MRCLN — Additional MRCLN advances*".

Funding an additional MRCLN advance: The mortgages trustee shall fund an additional MRCLN advance in the following ways and in the following order of priority:

- (a) from any sum received by the mortgages trustee from funding in respect of any initial contribution to be made by funding to the mortgages trustee on an assignment date;
- (b) from any mortgages trust available principal receipts which are available on a distribution date, but only up to an amount equal to the sum of the then MRCLN aggregate debt principal balancing

amount and the then MRCLN aggregate mortgage reserve substitution balancing amount;

- (c) from any sum received by the mortgages trustee from the seller in respect of any MRCLN contribution to be made by the seller to the mortgages trustee on any distribution date.

See "*The MRCLN — The MRCLN — Funding an additional MRCLN advance*".

Repayment of the MRCLN:

The seller will be required on each MRCLN payment date to repay the MRCLN in an amount equal to the then aggregate mortgage reserve principal repayment amount for all mortgage reserves which were reference mortgage reserves as at the beginning of the immediately preceding trust calculation period or, in relation to any mortgage reserve which only became a reference mortgage reserve during such trust calculation period, as at the applicable assignment date.

See "*The MRCLN — Repayment of the MRCLN*".

MRCLN Collateral:

Pursuant to the terms of the MRCLN and the MRCLN note purchase facility agreement, the seller was also required to enter into on the mortgages trust establishment date a collateral agreement between, *inter alios*, the mortgages trustee and the seller (the "**MRCLN collateral agreement**").

Pursuant to the terms of the MRCLN note purchase facility agreement, if the seller ceases to have a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB- and by Moody's of at least Baa3 (unless each of the rating agencies confirm in writing to, *inter alios*, the issuer and the mortgages trustee that the then current ratings of any existing series of notes and any funding (no. 2) notes will not be adversely affected) to provide in accordance with the terms of the MRCLN collateral agreement and within 30 days and on a then ongoing basis, collateral on an ongoing basis in an amount equal to the principal amount outstanding on the MRCLN, so as to support its payment obligations under the MRCLN (any such collateral being "**MRCLN collateral**") until such time as the Seller again has a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB- and by Moody's of at least Baa3.

Any MRCLN collateral will, pursuant to the mortgages trust deed, be held on trust by the mortgages trustee and will constitute trust property.

8. **Hedging Arrangements**

Basis Rate Swaps:

The amount of mortgages trust revenue receipts that funding receives are to be received on a monthly basis and will fluctuate according to the interest rates applicable to the mortgage loans in the mortgages trust and to the reference mortgage reserves. However, funding will be required to pay interest on global loan note no. 1 on a quarterly basis

based on LIBOR for three-month sterling deposits.

To protect against the possible variance between the amount of mortgages trust revenue receipts it receives and the amount of interest it is required to pay under the loan note tranches, funding, as applicable, has entered and will enter into interest rate hedging arrangements (the "**basis rate swaps**") with the basis rate swap provider pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency-Cross Border) (as published by ISDA) dated on the mortgages trust establishment date (together with the schedule and confirmations and any amendment agreements thereto, the "**basis rate swap agreement**") between funding, the funding security trustee and the basis rate swap provider. In addition, funding will be permitted to enter into from time to time additional swap arrangements or add additional features to the existing swap arrangement in order to hedge against interest rate risks that may arise in connection with new mortgage products that the seller wishes to sell to the mortgages trust at a later date.

Under the basis rate swaps, Barclays (in its capacity as calculation agent) will calculate on the trust calculation date immediately preceding each funding payment date, in respect of each such funding payment date:

- (a) the swap provider amount; and
- (b) the funding amount,

in relation to the calculation of which, see "*The Basis Rate Swap Agreement*".

After the swap provider amount and the funding amount are calculated in relation to a funding payment date, the following payment (if any) will be made on that funding payment date:

- (a) if the swap provider amount is greater than the funding amount, then the basis rate swap provider will pay the difference to funding;
- (b) if the funding amount is greater than the swap provider amount, then funding will pay the difference to the basis rate swap provider; and
- (c) if the swap provider amount is equal to the funding amount, neither party will make any payment to the other party.

If a payment is to be made by the basis rate swap provider, once received by funding that payment will be included in the funding available revenue receipts and will be applied on the relevant funding payment date according to the relevant funding priority of payments. If a payment is to be made by funding, it will be made according to the relevant funding priority of payments.

Issuer Swaps:

Payments made by:

- (a) the mortgages trustee to funding, pursuant to the

terms of the mortgages trust deed;

- (b) the basis rate swap provider to funding, pursuant to the terms of the basis rate swap agreement; and
- (c) funding to the issuer, pursuant to the global loan note no. 1,

will be made in sterling and, in relation to payments under the global loan note no. 1 and the basis rate swaps, with interest rates linked to the London interbank offered rate for three month sterling deposits.

So that the issuer can meet its obligations to make payments on: (a) non-sterling notes and/or (b) on any notes denominated in sterling whose interest rates are not linked to the London interbank offered rate for three month sterling deposits and/or (c) on any notes whose issuer payment dates are not identical to the equivalent funding payment dates for the related loan note tranche (for example, money market notes), the issuer will on each issue date enter into relevant issuer swap agreements with relevant issuer swap providers.

RISK FACTORS

This section describes the principal risk factors associated with any investment in the notes. Prospective investors should read and consider carefully all the information set out in this base prospectus and the applicable final terms, including the considerations below, and form their own views prior to making any investment decision.

Integral multiples of less than €50,000

Although notes which are admitted to trading on a regulated market in the European Economic Area or offered to the public in a member state of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive are required to have a minimum denomination of €50,000 (or, where the specified currency is not euro, its equivalent in the specified currency), it is possible that the notes may be traded in the clearing systems in amounts in excess of €50,000 (or its equivalent in alternate currencies) that are not integral multiples of €50,000 (or its equivalent in alternate currencies). In relation to any issue of notes which have a denomination consisting of the minimum specified denomination plus a higher integral multiple of another smaller amount, it is possible that the notes may be traded in amounts in excess of €50,000 (or its equivalent) that are not integral multiples of €50,000 (or its equivalent). In such a case a noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum specified denomination may not receive a definitive note (should definitive notes be printed) and may need to purchase a principal amount of notes such that, its holding is an integral multiple of the minimum specified denomination.

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

Each series of notes are the obligations of the issuer only

The issuer is the only entity responsible for making any payments on each series of notes. Each series of notes will not represent an obligation of, or the responsibility of, and will not be guaranteed by funding, funding (no. 2), the mortgages trustee, the funding security trustee, any funding (no. 2) security trustee (if appointed), the issuer security trustee, the principal paying agent or any other paying agent, the agent bank, the issuer swap providers, the basis rate swap provider, the account banks, the arranger, the dealers or Barclays or any other party to the transaction documents (other than the issuer) (or any company in the same group of companies as, or affiliated to, Barclays or any other party to the transaction documents (other than the issuer)), or any other party to the transaction other than the issuer. Furthermore, no person other than the issuer will accept any liability whatsoever to a noteholder in respect of any failure by the issuer to pay any amount due to the noteholders under any series of notes.

The issuer has limited resources

The issuer is a special purpose financing entity with no business operations other than the issue of each series of notes, the purchase of loan note tranches and the transactions ancillary thereto. The ability of the issuer to make payments of principal and interest on a series of notes and its ability to pay its operating and administrative expenses will depend primarily on funds being received under the loan note tranches. In addition, the issuer will also rely, pursuant to the terms of the issuer swap agreements, on the issuer swap providers to provide, as applicable, appropriate currency and interest rate hedging so as to meet its relevant obligations under the relevant notes.

The issuer will not have any other significant sources of funds available to meet its obligations under the notes and/or any other payments ranking in priority to a series of notes. If the resources described above cannot provide the issuer with sufficient funds to enable the issuer to make required payments on a series of notes, the noteholders may incur a loss of interest and/or principal which would otherwise be due and payable to the noteholders on the relevant series of notes.

Limited recourse obligation of funding

Funding's ability to pay required amounts of interest, principal and fees due and payable to the issuer in respect of global loan note no. 1 will depend upon, *inter alia*:

- (a) funding receiving a sufficient amount of principal and revenue collections in relation to the funding share of the trust property, including in respect of funding's share of:
- (b) mortgage loan revenue receipts and mortgage loan principal receipts on the mortgage loans included in the mortgages trust with regards to the immediately preceding trust calculation period; and
- (c) MRCLN revenue receipts and MRCLN principal receipts received by the mortgages trustee in respect of the MRCLN with regards to the immediately preceding trust calculation period;
- (d) funding having funding revenue allocated yield supplement amounts able to be withdrawn and utilised from the yield supplement account on each distribution date (as described in "*The Loan Note Tranches and Funding Cashflows – Yield Supplement Account*");
- (e) funding receiving required payments from the basis rate swap provider pursuant to the terms of the basis rate swap agreement on or before each funding payment date; and
- (f) sufficient funds having been credited to the common funding reserve fund, any segregated funding reserve funds and/or, if established, the funding liquidity reserve fund (as described in "*The Loan Note Tranches and Funding Cashflows*", "*The Loan Note Tranches and Funding Cashflows – Common funding reserve fund*", "*The Loan Note Tranches and Funding Cashflows – Segregated funding reserve fund*" and "*The Loan Note Tranches and Funding Cashflows – Funding liquidity reserve fund*").

According to the terms of the mortgages trust deed, the mortgages trustee will be obliged to pay to funding on each distribution date, its entitlement of that portion of:

- (i) mortgage loan revenue receipts on the mortgage loans;
- (ii) mortgage loan principal receipts on the mortgage loans;
- (iii) MRCLN revenue receipts on the MRCLN (which will on a borrower-by-borrower basis and to the extent that a borrower's mortgage reserve account balance is in excess of the borrower's then permitted mortgage reserve credit limit, be dependant on such borrower making payments in respect of the relevant reference mortgage reserve); and
- (iv) MRCLN principal receipts on the MRCLN (which will be dependant upon borrowers making payments in respect of the relevant reference mortgage reserve),

which are then payable to funding in accordance with the terms of the mortgages trust deed.

On each funding payment date, funding will only be obliged to pay amounts due to the issuer under a loan note tranche to the extent that it has funds available to do so after, in accordance with the relevant funding priority of payments, making payments ranking in priority to those to be made to the issuer (for example payments of certain fees and expenses of funding).

If funding subsequently issues further loan note tranches to the issuer or issues further global loan notes, funding will also be obliged to make payments due to the issuer on such further loan note tranches or to the holders of any new global loan notes issued by funding and such payments will rank equally with payments to the issuer on the then existing loan note tranches, each in accordance with the relevant funding priority of payments. If funding does not pay amounts to the issuer under a loan note tranche due to having insufficient funds available, such amounts will be due but not payable until such funds are available, in accordance with the relevant funding priority of payments, to pay those amounts. Funding's failure to pay such amounts to the issuer when due in such circumstances will not constitute a loan note event of default pursuant to the terms of global loan note no. 1 and any related supplement to global loan note no. 1.

If there is a shortfall between the amounts paid by funding to the issuer under a loan note tranche and the amounts payable by the issuer on the relevant series of notes, then (unless met by discharge of the obligations of any issuer swap provider pursuant to the terms of an issuer swap agreement), noteholders may not receive the full amount of interest and/or principal which would otherwise be then due and payable to the noteholders on the relevant series of notes.

Limited recourse to funding

If, on the final maturity date of a loan note tranche, funding is unable to pay all amounts then due under the relevant loan note tranche having used all funds available to it in accordance with the applicable funding priority of payments, funding's obligation to pay any amount left outstanding to the issuer under the relevant loan note tranche and any claim that the issuer may have against funding in respect of such outstanding amounts will be extinguished. If there is a shortfall in interest, principal and/or fee payments then due and payable pursuant to the terms of a loan note tranche, the issuer may not have sufficient funds to make payments on the relevant series of notes and the noteholders may incur a loss on interest, principal or other amounts which would otherwise be then due and payable on the relevant series of notes.

Enforcement of the issuer security

The only remedy for recovering amounts due on a series of notes is through the enforcement of the issuer security. If funding does not pay amounts due under a loan note tranche because it does not have sufficient funds available, those amounts will be deemed to be not due and payable and there will not be a loan note event of default pursuant to the terms of global loan note no. 1 and any related supplement to global loan note no. 1 and the issuer will not have recourse to the assets of funding in that instance.

The issuer will only have recourse to the assets of funding if funding has defaulted on its obligations under a loan note tranche and the funding security trustee (on behalf of the issuer and other funding secured creditors) has enforced the funding security.

Upon the enforcement of the issuer security and prior to the occurrence of a trigger event or the enforcement of the funding security, funding will still be required to continue to repay the relevant loan note tranche in accordance with the funding pre-enforcement principal priority of payments and the issuer will be required to repay, *inter alia*, the relevant series of notes in accordance with the issuer post-enforcement priority of payments. Therefore no assurance can be given that there will not be a mismatch between the repayment of the relevant loan note tranche and the relevant series of notes which could, ultimately, result in the issuer having insufficient assets to repay in full the notes.

The proceeds of the enforcement of the issuer security may be insufficient to pay all interest and principal due on the notes.

Ranking of each series of notes

Both pre-enforcement and post-enforcement of the issuer security and/or the funding security the obligations of the issuer in respect of the class A notes will rank equally amongst themselves in point of security, but in priority to the obligations of the issuer in respect of the class B notes, the class C notes, the class D notes, the class E notes, the class F notes and the class RF notes.

Both pre-enforcement and post-enforcement of the issuer security and/or the funding security the obligations of the issuer in respect of the class B notes will rank equally amongst themselves in point of security, but in priority to the obligations of the issuer in respect of the class C notes, the class D notes, the class E notes, the class F notes and the class RF notes. Pre-enforcement of the issuer security and/or the funding security: (a) interest payments to the class B noteholders will not be made until all interest amounts then due and payable to the class A noteholders have been paid in full; and (b) principal payments to the class B noteholders will not be made until all principal amounts then due and payable to the class A noteholders have been paid in full. Post-enforcement of the issuer security and/or the funding security, neither interest payments nor principal payments to the class B noteholders will be made until all interest and principal amounts then due and payable to the class A noteholders have been paid in full. This could cause the class B noteholders not to receive the full amount of interest and principal due to them.

Both pre-enforcement and post-enforcement of the issuer security and/or the funding security the obligations of the issuer in respect of the class C notes will rank equally amongst themselves in point of

the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and the class F noteholders have been paid in full. Post-enforcement of the issuer security and/or the funding security, neither interest payments nor principal payments to the class RF noteholders will be made until all interest and principal amounts then due and payable to the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and the class F noteholders have been paid in full. This could cause the class RF noteholders not to receive the full amount of interest and principal due to them.

There is no assurance that these subordination rules will protect the noteholders from all loss of risk if the noteholder is a class A noteholder, a class B noteholder, a class C noteholder, a class D noteholder, a class E noteholder or a class F noteholder.

Conflicts of interest

Various potential and actual conflicts may arise as between noteholders themselves and as between noteholders and other issuer secured creditors.

Between noteholders and other issuer secured creditors

The issuer security trust deed requires the issuer security trustee to consider the interests of each of the issuer secured creditors as to the exercise of its powers, trusts, authorities, duties and discretions, but further requires the issuer security trustee in the event of a conflict between the interests of the noteholders and the interests of any other issuer secured creditor, to consider only, unless stated otherwise, the interests of the noteholders.

Between the class A notes, the class B notes, the class C notes, the class D notes, the class E notes, the class F notes and the class RF notes

As among noteholders, the issuer security trustee will exercise its rights under the issuer security trust deed only in accordance with the directions of the class of noteholders with the highest class designation. If there is a conflict between the interests of: the class A noteholders of one series and the class A noteholders of another series or group of series; or a conflict between the interests of class B noteholders of one series and the class B noteholders of another series or group of series; or a conflict between the interests of the class C noteholders of one series and the class C noteholders of another series or group of series; or a conflict between the interests of the class D noteholders of one series and the class D noteholders of another series or group of series; or a conflict between the interests of the class E noteholders of one series and the class E noteholders of another series or a group of series; or a conflict between the interests of the class F noteholders of one series and the class F noteholders of another series or a group of series; or a conflict between the interests of the class RF noteholders of one series and the class RF noteholders of another series or a group of series, then a resolution directing the issuer security trustee to take any action must be passed at separate meetings of the holders of each series of the class A notes or, as applicable, each series of the class B notes, each series of the class C notes, each series of the class D notes, each series of the class E notes, each series of the class F notes or each series of the class RF notes. In all such cases, the issuer security trustee will only act if it is indemnified and/or secured to its satisfaction.

The issuance of additional series of notes from time to time may, in certain circumstances, adversely affect noteholders' rights by diluting noteholders' voting power

The issuer may issue additional series of notes from time to time. Noteholders of a given series may be entitled to instruct the issuer security trustee to enforce their rights against the issuer. Under the issuer security trust deed, the giving of some instructions to the issuer security trustee may only necessitate the vote of the noteholders of one particular series. However, the giving of other instructions to the issuer security trustee may require the consent or approval of a percentage of the noteholders of all outstanding series of notes. Thus, under the latter scenario, the issuance of future series that will be entitled to vote together with pre-existing series will dilute the voting power of holders of those pre-existing series.

Money market fund eligible securities

Any series of money market notes are intended to be 'eligible securities' for purchase by money market funds under Rule 2a-7 of the Investment Company Act. However, neither the issuer, nor the arranger or any dealer makes any representation as to the suitability of any money market notes as 'money market

notes' for investment by money market funds subject to Rule 2a-7 under the United States Investment Company Act. Any determination as to such qualification and compliance with Rule 2a-7 is solely the responsibility of each money market fund and its investment adviser.

Modification to the transaction documents and waivers of breach of terms

Pursuant to the terms of the issuer security trust deed and the conditions of the notes, the issuer security trustee is permitted to agree to certain matters, including modifications to any of the transaction documents and waivers in respect of any breach thereof **provided that** in its opinion, any such matter would not be materially prejudicial to the interests of the holders of the relevant series, the issuer secured creditors or to the most senior class of notes then outstanding (as applicable). Modifications will not be prejudicial to the noteholders merely because a series may be issued which ranks ahead of or *pari passu* with other series.

In addition, pursuant to the terms of the funding security trust deed, the funding security trustee is permitted to agree to modifications to any of the transaction documents to which funding is a party and which in its opinion, would not be materially prejudicial to the funding secured creditors.

The issuer security trust deed and the funding security trust deed also provide that the issuer security trustee or the funding security trustee will give its consent to modifications to the transaction documents if the issuer or issuer cash manager or funding or the funding cash manager, as appropriate, certifies to the issuer security trustee or the funding security trustee, as appropriate, that the modifications are required to accommodate, *inter alia*, the issue (directly or indirectly) of a new series of notes or the entry of funding (or the issuer) into new global loan notes or supplements to the global loan notes and, provided further that a rating agency confirmation is received.

In each case, the issuer security trustee, and/or the funding security trustee, as the case may be, is entitled to be indemnified and/or secured to its, or their, satisfaction prior to agreeing such modification.

Impact of further series of notes

The proceeds of any new series of notes will be used by the issuer to subscribe for a further loan note tranche to be issued by funding. Funding will use the proceeds of such loan note tranche to do one or more of the following:

- (a) pay to the mortgages trustee funding's initial contribution for the funding share in respect of any new trust property to be sold by the seller to the mortgages trustee;
- (b) pay to the mortgages trustee a further contribution to increase the funding share of the trust property;
- (c) further fund the common funding reserve fund or a segregated funding reserve fund; and/or
- (d) repay one or more loan note tranches outstanding at that time (which would cause the noteholders of the relevant series which is reported by any such loan note tranche to be repaid early).

Funding will apply amounts it receives from the trust property to pay interest and fees and repay principal on the then existing loan note tranches, without regard to when the relevant loan note tranches were issued.

The noteholders should note that the obligation of funding to pay interest and repay principal on any loan note tranche will be governed by the relevant funding priority of payments and, in the case of repayment of principal on a loan note tranche which is not a bullet pay loan note tranche, the loan note tranche controlled amortisation schedule for such loan note tranche. Payments of interest and repayments of principal on senior loan note tranches will rank above payments of interest and repayments of principal on subordinated loan note tranches. In the case of RF loan note tranches, prior to the enforcement of funding security, the payments of interest and repayments of principal shall rank below the payments of interest of the class A loan note tranches, the class B loan note tranches, the class C loan note tranches, the class D loan note tranches, the class E loan note tranches and the class F loan note tranches and following the enforcement of the funding security, the payments of interest and repayments of principal shall rank below the payments of interest and repayments of principal of the class A loan note tranches,

the class B loan note tranches, the class C loan note tranches, the class D loan note tranches, the class E loan note tranches and the class F loan note tranches.

Therefore, the amount and timing of payments on a loan note tranche will be determined by the amount and timing (and, in respect of principal, the relevant loan note tranche controlled amortisation schedule) of other loan note tranches. The loan note tranche controlled amortisation schedule and other terms of any further loan note tranche may therefore result in such loan note tranche (and hence the series which such loan note tranche supports) being repaid prior to the repayment of another loan note tranche (and hence prior to the repayment of the series which such loan note tranche supports). It is therefore possible that the timing of payments on a lower ranking class of notes may be such that such notes may be repaid prior to an equal or higher ranking class of notes of a different series.

Existing noteholders will not have any right of prior review or consent with respect to the issue of a further series of notes. Similarly, the terms of the transaction documents (including the mortgage sale agreement, the mortgages trust deed, the funding security trust deed, the funding priority of payments, the definition of the trigger events and the criteria for the sale of additional mortgage loans to the mortgages trustee) may be amended to reflect the issue of a further loan note tranche, subject to the approval of the funding security trustee. The consent of the existing noteholders to these changes will not be required or requested. There can be no assurance that these changes will not affect the cashflow available to pay amounts due on the notes.

Before issuing further series, however, the issuer will be required to satisfy a number of conditions, including satisfaction of the ratings test in respect of any series of notes then outstanding at the time of the issue of such further series of notes and the issuance of the related further loan note tranche.

New loan note tranche holders

Subject to satisfaction of certain conditions, new entities may be established (each a "**new issuer**") to hold a new global loan note and raise finance from further investors. The proceeds of such financing will be used by the relevant new issuer to subscribe for a new global loan note to be issued by funding. Funding will use the proceeds of the new global loan note to do one or more of the following:

- (a) pay to the mortgages trustee funding's initial contribution for the funding share in respect of any new trust property to be sold by the seller to the mortgages trustee;
- (b) pay to the mortgages trustee a further contribution to increase the funding share of the trust property;
- (c) further fund the common funding reserve fund or any segregated funding reserve fund; and/ or
- (d) refinance one or more existing loan note tranches outstanding at that time (which would cause the noteholders of a series which is supported by such refinanced loan note tranche to be repaid early).

Funding will apply amounts it receives from the trust property to pay interest and fees and repay principal on the then existing loan note tranches, without regard to when the relevant loan note tranches were issued.

If funding establishes a new issuer, existing noteholders will not have any right of prior review or consent with respect to such new global loan note or the corresponding issuance by such new issuer of new notes. Similarly, the terms of the funding transaction documents (including the mortgage sale agreement, the mortgages trust deed, the funding security trust deed, the funding priority of payments, the definition of the trigger events and the criteria for the sale of additional mortgage loans to the mortgages trustee) may be amended to reflect the issue of new notes, subject to the approval of the funding security trustee. The consent of the existing noteholders to these changes will not be required or requested. There can be no assurance that these changes will not affect the cashflow available to pay amounts due on certain notes.

Before issuing new notes, however, a new issuer will be required to satisfy a number of conditions, including satisfaction of the ratings test in respect of any existing series of notes then outstanding at the time of the issue of such new notes.

Each new issuer will become a party to the relevant supplement to a global loan note and, as a funding secured creditor, will be entitled to share, with equal ranking as the issuer, the funding security granted by funding in accordance with and pursuant to the terms of the funding security trust deed for the benefit of the funding secured creditors (including the issuer). If the funding security is enforced and there are insufficient funds to make the payments that are due to all issuers, each issuer will only be entitled to its proportionate share of those limited funds on a tranche by tranche basis. This could ultimately cause a reduction in the payments the noteholders receive on the notes.

Role of funding (no. 2)

Funding (no. 2) is a beneficiary of the mortgages trust. Noteholders should note that funding (no. 2) may at any time in the future raise financing from, *inter alia*, the capital markets and use funds so raised to increase the then funding (no. 2) share in the trust property.

The seller, funding and funding (no. 2) each have a joint and undivided interest in the trust property but their entitlement to the proceeds from the trust property are in proportion to their respective shares of the trust property from time to time. On each distribution date and in accordance with and pursuant to the terms of the mortgages trust deed, the mortgages trustee distributes mortgages trust revenue receipts and mortgages trust principal receipts to the beneficiaries of the mortgages trust.

Neither the issuer nor funding will have any direct or indirect interest in funding (no. 2)'s share of the trust property.

The noteholders should further note that the prior consent of the noteholders to the ability of funding (no. 2) to make contributions to the trust and/or raise financing in respect of the making of such contributions will not be obtained. However, before funding (no. 2) can make any initial contribution or raise any such finance, certain conditions will need to be satisfied by funding (no. 2) including:

- (a) satisfaction of the ratings test in respect of any existing series of notes of the issuer then outstanding at the time;
- (b) funding providing written certification to the funding security trustee that no loan note event of default under any loan note tranche outstanding at such time has occurred which has not been either remedied or waived and no loan note event of default under any loan note tranche will occur as a result of the making of such initial contribution or the entering into of such financing by funding (no. 2); and
- (c) funding providing written certification to the funding security trustee that no principal deficiency is recorded at such time on the funding principal deficiency ledger.

Neither the issuer nor funding can give any assurance that, were funding (no. 2) to make an initial contribution or raise any finance in connection therewith, there would be no effect on cashflows available to pay amounts due on the notes or adversely affect the noteholders' interests.

There may, from time to time, be conflicts of interest between funding and funding (no. 2). Accordingly, funding and funding (no. 2) and the seller (in its capacity as a beneficiary), have on the mortgages trust establishment date entered into a controlling beneficiary deed, whereby funding and funding (no. 2) agree to exercise any discretion, power or authority under the mortgages trust deed, the mortgage sale agreement, the mortgages trustee cash management agreement and/or the administration agreement in accordance with the controlling directions (as to which see "*The Mortgages Trust – The controlling beneficiary deed*"). Therefore in circumstances where there is a conflict of interest, the directions of funding (no. 2) may prevail over the directions of funding which may adversely affect noteholders' interests.

Potential future role of new beneficiaries of the mortgages trust

Noteholders should note that third parties may in the future raise financing from, *inter alia*, the capital markets and, if the seller, funding and funding (no. 2) agree to the necessary modification of the mortgages trust deed, use funds so raised to acquire a direct beneficial interest in the trust property.

If a new party were to become a beneficiary of the mortgages trust, the seller, funding, funding (no. 2) and that new party would each have a joint and undivided interest in the trust property but their

entitlement to the proceeds from the trust property would be in proportion to their respective shares of the trust property from time to time. On each distribution date and in accordance with and pursuant to the terms of the mortgages trust deed (as amended in connection with the new party becoming a beneficiary of the mortgages trust), the mortgages trustee would distribute mortgages trust revenue receipts and mortgages trust principal receipts to one, two, three or more of the beneficiaries of the mortgages trust.

Neither the issuer nor funding will have any direct or indirect interest in the new beneficiary's share of the trust property.

In order for a new party to become a beneficiary of the mortgages trust, certain amendments would be required to be made to a number of the transaction documents, including (but without limitation):

- (a) the mortgage sale agreement, so as to enable the purchase by the new party of interests in the trust property;
- (b) the mortgages trust deed, so as to: (i) establish the new party as a beneficiary of the mortgages trust; (ii) enable the acquisition by the new party of an interest in the trust property from time to time; and (iii) regulate the distribution of mortgages trust revenue receipts and mortgages trust principal receipts to each of the four (or more) beneficiaries (i.e. the seller, funding, funding (no. 2) and any new beneficiaries); and
- (c) the mortgages trustee cash management agreement, so as to regulate the application of monies to the new party.

There may be conflicts of interest between funding, funding (no. 2) and the new party, in which case it is expected that the mortgages trustee will follow the directions given by the beneficiary (excluding the seller) that has the largest share of the trust property at such time. The interests of the new party may therefore prevail, which may adversely affect the noteholders' interests.

Noteholders should further note that the prior consent of the noteholders to the inclusion of a new party as a beneficiary of the mortgages trust and the subsequent amendments to the transaction documents and/or the release of security by funding and/or funding (no. 2) will not be obtained. However, before the new party becomes a beneficiary of the mortgages trust a number of conditions would need to be satisfied, including:

- (a) agreement between the seller, funding and funding (no. 2) to the inclusion of the new party as a beneficiary of the mortgages trust and the purchase by the new party of an interest in the mortgages trust;
- (b) satisfaction of the ratings test in respect of any existing series of notes then outstanding at the time that any new party becomes a beneficiary of the mortgages trust;
- (c) the provision of written certification to the funding security trustee that no loan note event of default under any loan note tranche outstanding at such time has occurred which has not been either remedied or waived and no loan note event of default under any loan note tranche will occur as a result of the new beneficiary becoming a beneficiary of the mortgages trust;
- (d) the provision of written certification to any funding (no. 2) security trustee (if appointed) that no event of default under any funding (no. 2) loan note tranche outstanding at such time has occurred which has not been either remedied or waived and no event of default under any funding (no. 2) loan note tranche will occur as a result of the new beneficiary becoming a beneficiary of the mortgages trust; and
- (e) the provision of written certification to the funding security trustee that no principal deficiency is recorded at such time on the funding principal deficiency ledger and providing written certification to any funding (no. 2) security trustee (if appointed) that no principal deficiency is recorded at such time on the principal deficiency ledger of funding (no. 2).

Neither the issuer nor funding can give any assurance that, were a new party to become a beneficiary of the mortgages trust, there would be no effect on cashflows available to pay amounts due on the notes or adversely affect noteholders' interests.

Changes in the characteristics of the trust property

The issuer does not make any representation, warranty or guarantee that any new mortgage loan sold to the mortgages trustee (and/or any mortgage reserve associated with such new mortgage loan) will have the same characteristics as the mortgage loans in the mortgage loan portfolio (or, as applicable, any other reference mortgage reserve then linked to the MRCLN) as of any issue date. In particular, new mortgage loans and/or any associated mortgage reserves may have different payment characteristics and/or terms and conditions than the mortgage loans in the mortgage loan portfolio (or, as applicable, any other reference mortgage reserve then linked to the MRCLN) as of an issue date. The ultimate effect of this could be to delay or reduce the payments which the noteholders receive on the notes or increase the rate of repayment of the notes. However, the new mortgage loans will be required to meet the conditions described in "*The Assignment of the Mortgage Loans and Related Security*".

In addition, in order to promote the retention of borrowers, the seller may periodically contact certain borrowers in respect of the seller's total portfolio of outstanding mortgage accounts (including for these purposes only the mortgage loan portfolio (and associated reference mortgage reserves)) in order to encourage a borrower to consider the seller's other mortgage products and to discuss switching that borrower to an alternative Barclays mortgage product. The seller also may periodically contact borrowers in a similar manner in order to offer to a borrower the opportunity to apply for a further advance or a mortgage reserve credit and aggregate debt limit increase. The employee of the seller who contacts a borrower will not know whether that borrower's original mortgage account is the subject of the Gracechurch Mortgage Financing residential mortgage backed note programme. However, if such relevant original mortgage account is the subject of the Gracechurch Mortgage Financing residential mortgage backed note programme and that borrower decides to switch mortgage products or take a further advance or a mortgage reserve credit and aggregate debt limit increase, then the seller will be required, as of the trust determination date immediately following such product switch, further advance or mortgage reserve credit and aggregate debt limit increase, to repurchase the relevant mortgage loan from the mortgages trust and repay the MRCLN in an amount equal to the then mortgage reserve account balance of the associated (if any) reference mortgage reserve of such mortgage loan.

As the seller usually only contacts those borrowers whose mortgage accounts are not in arrears and who are also otherwise in good standing and to the extent that these borrowers switch to a different Barclays mortgage product or take a further advance and their original mortgage loans are (as described above) required to be repurchased by the seller, the percentage of fully performing mortgage loans in the mortgage loan portfolio and any associated reference mortgage reserves may decrease, which could delay or reduce payments which noteholders receive on the notes. However, as described above, the seller's decision as to which borrowers to target for new mortgage products and/or further advances and the decision whether to approve a new mortgage product and/or further advance for a particular borrower will be made without regard to whether a borrower's mortgage account is the subject of the Gracechurch Mortgage Financing residential mortgage backed note programme.

The lending criteria

Each of the mortgage accounts was originated in accordance with the seller's lending criteria applicable at the time of origination. The seller's lending criteria consider a variety of factors such as a potential borrower's credit history, employment history and status and repayment ability, as well as the value of the property to be mortgaged. In the event of the sale of any new mortgage loans and their related security to the mortgages trustee, representations and warranties will at such time be given to the mortgages trustee, funding and the funding security trustee that those new mortgage loans and any associated reference mortgage reserves and their related security were originated in accordance with the seller's lending criteria then applicable at the time of the origination of such new mortgage loans. The lending criteria applicable to each mortgage loan included in the mortgage loan portfolio as of an issue date is anticipated to be the same as or substantially similar to the criteria described later in this base prospectus (see "*The Mortgage Assets – Lending criteria*"). However, the seller retains the right to revise its lending criteria as determined from time to time, and so the lending criteria applicable to any new mortgage loan at the time of its origination may not be the same as those set out in this base prospectus.

If any new mortgage loans and any associated reference mortgage reserves have been originated under revised lending criteria and the mortgage loans are then sold to the mortgages trustee in accordance with and pursuant to the terms of the mortgage sale agreement and the associated mortgage reserves (if any) become reference mortgage reserves and become linked to the MRCLN in accordance with and pursuant

to the terms of the MRCLN note purchase facility agreement, the characteristics of the trust property could at such time change. This could lead to a delay or a reduction in the payments which noteholders receive on the notes or it could increase the rate of repayment of the notes.

The mortgage loan conditions and mortgage reserve conditions

The seller will be entitled to change its mortgage loan terms and conditions and/or the mortgage reserve terms and conditions, from time to time.

It may be the case that such change in the seller's terms and conditions will affect the terms and conditions of new mortgage loans and mortgage reserves originated after the date of such change. However, notwithstanding any such change, such new mortgage loans may still be sold to the mortgage trust and such mortgage reserves may become reference mortgage reserves **provided that** the mortgage loans and mortgage reserves are able to continue to comply with the seller's representations and warranties and conditions for the assignment of new mortgage loans each as set out in the mortgage sale agreement (see "*The Assignment of the Mortgage Loans and Related Security – Product switches, further advances, mortgage reserve credit limit increases and new mortgage loans – Conditions for new mortgage loans*").

In addition, it may also be the case that such change in the seller's terms and conditions will also amend the terms and conditions of the existing mortgage loans already within the mortgage loan portfolio and/or the terms and conditions of mortgage reserves which are already reference mortgage reserves. However, notwithstanding any such change, such mortgage loans may still remain within the mortgage loan portfolio and such mortgage reserves may still remain **provided that** no such changes constitute a product switch. If any such change constitutes a product switch, the seller will be required to repurchase the relevant mortgage loans and the associated mortgage reserves will cease to be reference mortgage reserves for the purposes of the MRCLN.

In addition, the seller will be required, pursuant to the terms of the mortgage sale agreement and prior to being able to adopt any new set of mortgage loan conditions and/or mortgage reserve conditions in respect of any mortgage loans to be sold to the mortgages trustee or in respect of any mortgage loans already in the mortgage portfolio or any mortgage reserves that are already reference mortgage reserves, to provide a legal opinion addressing, *inter alia*, the regulatory enforceability of any new set of mortgage loan conditions and/or mortgage reserve conditions to each of funding, funding (no. 2), the funding security trustee and the funding (no. 2) security trustee (if any) and in a form satisfactory to such addressees.

If such changed mortgage loan terms and conditions or mortgage reserve terms and conditions therefore apply to any mortgage loans then in the mortgage loan portfolio or apply, as applicable, to any associated reference mortgage reserves, the characteristics of the trust property could at such time change. This could lead to a delay or a reduction in the payments which noteholders receive on notes or it could increase the rate of repayment of the notes.

See "*The Assignment of the Mortgage Loans and Related Security – Product switches, further advances, mortgage reserve credit limit increases and new mortgage loans*".

Value of the mortgage loan portfolio and the MRCLN

The security granted by funding in respect of a loan note tranche, which is the principal source of funding for the notes, will, *inter alia*, consist of funding's interest in the mortgages trust (i.e. the funding share of the trust property). Since the economic value of the mortgage loan portfolio and the economic value of the MRCLN may increase or decrease, the value of the funding security may decrease (for example if there is a general decline in property values). The issuer makes no representation, warranty or guarantee that the value of a mortgaged property and/or the associated reference mortgage reserves and thus also the MRCLN will remain at the same level as it was on the date of the origination of the related mortgage account or at any other time. If the residential property market in England, Wales, Northern Ireland and/or Scotland experiences an overall decline in property values, the value of the security created by the mortgage accounts could be significantly reduced and, ultimately, may result in losses to the noteholders if such security is required to be enforced.

Geographic concentration of the mortgage accounts

To the extent that specific geographic regions have experienced or may experience in the future weaker regional economic conditions and housing markets than other regions, a concentration of the mortgage accounts in such a region may be expected to exacerbate all of the risks relating to the mortgage accounts described in this section. The issuer can predict neither when nor where such regional economic declines may occur nor to what extent or for how long such conditions may continue. Any natural or other disasters including terrorist attacks and outbreaks of pandemic flu in a particular region may reduce the value of affected mortgaged properties. The geographic distribution of the cut-off date mortgage loan portfolio in respect of the issue of any series of notes will be set out in the final terms.

Payments on the mortgage loans and the associated reference mortgage reserves

Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal on the mortgage loans and in relation to any associated reference mortgage reserves (and thus also the MRCLN). These factors include 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, increasing utility costs and other day to day expenses, political developments and government policies. Other factors in borrowers' personal or financial circumstances may also affect the ability of borrowers to repay mortgage loans and the associated reference mortgage reserves. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by, and bankruptcies of, borrowers, and could ultimately have an adverse impact on the ability of borrowers to repay mortgage loans. In addition, any natural or other disasters including terrorist attacks and outbreaks of pandemic flu may adversely affect the ability of a borrower to make scheduled payments on a loan.

The recent downturn in the United Kingdom economy has had a negative effect on the housing market. The fall in property prices resulting from the deterioration of the housing market and increased unemployment leading to borrowers defaulting on their mortgage loans could result in losses being incurred by residential mortgage lenders where the net recovery proceeds are insufficient to redeem the outstanding loan. If deterioration occurs in the portfolio, it could have an adverse effect on the issuer's ability to make payments under the notes. There can be no assurance that the housing and employment markets will not continue to deteriorate.

The current United Kingdom economic environment may also affect the rate at which the seller originates new mortgage loans and may also affect the level of attrition of the seller's existing borrowers, which could in turn also adversely affect the ability of the issuer to make payments under the notes.

In addition, the ability of a borrower to sell the mortgaged property relating to the relevant mortgage account at a price sufficient to repay the amounts outstanding under such mortgage loans and, if applicable, the associated reference mortgage reserves will depend upon a number of factors, including the availability of buyers for that property, the value of the property and property values and the property market in general at the time of such proposed sale.

If the timing and payment of the mortgage loans and the repayment of any associated reference mortgage reserves (and thus also the MRCLN) is adversely affected by any of the risks described above, the payments on the notes could be reduced or delayed.

Considerations relating to yield and prepayments

The yield to maturity of a series of notes will depend mostly on:

- (a) the amount and timing of the repayment of principal on the mortgage loans and the repayment of any associated reference mortgage reserves (and thus also the MRCLN); and
- (b) the price paid by the noteholders of each series of notes.

The yield to maturity of a series of notes may be adversely affected by a higher or lower than anticipated rate of prepayments on the mortgage loans and the repayment of any associated reference mortgage reserves (and thus also the MRCLN).

The rate of prepayment of mortgage loans and the repayment of any associated reference mortgage reserves (and thus also the MRCLN) is influenced by a wide variety of economic, social and other factors, including prevailing interest rates, the availability of alternative financing programs, local and regional economic conditions and homeowner mobility. For instance, prepayments on the mortgage loans may be due to borrowers refinancing their mortgage loans and associated reference mortgage reserves and sales of mortgaged properties by borrowers (either voluntarily or as a result of enforcement action taken), as well as the receipt of proceeds from buildings insurance, life insurance policies and other investment vehicles that a borrower may have. The rate of prepayment of mortgage loans and associated reference mortgage reserves may also be influenced by the presence or absence of early repayment charges and the fact that certain of the seller's mortgage products allow the borrower to make larger repayments than are due on a given monthly payment date.

Variation in the rate and timing of prepayments of principal on the mortgage loans and the repayment of associated reference mortgage reserves (and thus the MRCLN) may affect each series of notes differently depending upon, *inter alia*:

- (a) the amounts already repaid by funding to the issuer in accordance with and pursuant to the terms of a loan note tranche;
- (b) whether a trigger event has occurred; and/or
- (c) whether the issuer security has been enforced.

If prepayments on the mortgage loans in the mortgage loan portfolio and the repayment of associated reference mortgage reserves (and thus the MRCLN) occur less frequently than anticipated, then the actual yields on a series of notes may be lower than noteholders may anticipate and the amortisation of a series of notes may take longer than is anticipated.

The yield to maturity of a series of notes may be affected if the seller is required to repurchase from the mortgages trustee a mortgage loan in the mortgage loan portfolio and its related security (and thus also repay the MRCLN in an amount equal to the amount outstanding under any associated reference mortgage reserve):

because such mortgage account does not comply with the representations, warranties and conditions set out in the mortgage sale agreement; or

which is the subject of a product switch, further advance and/or a mortgage reserve credit and aggregate debt limit increase. Any such payment received by the mortgages trustee from the seller as a consequence of a repurchase of a mortgage loan and, as applicable, the consequential repayment of the MRCLN will have the same effect as a prepayment of such mortgage loan and the repayment of associated reference mortgage reserves (and thus the MRCLN). As these factors are not within the control of the issuer, funding or the mortgages trustee, the issuer cannot give any assurances as to the level of prepayments that may be experienced.

Mortgage loans that may be included from time to time in the mortgage loan portfolio will be subject to variable, capped or fixed rates of interest, and generally allow the relevant borrower to make larger repayments than are due on a given monthly payment date (which may reduce the life of the mortgage loan). Mortgage reserves allow the borrower, in accordance with and pursuant to the terms and conditions of the relevant mortgage reserve, to make withdrawals at any time from the mortgage reserve (but in aggregate only up to the then specified mortgage reserve credit limit) which ultimately may reduce the amount of money available to make payments under a series of notes and may extend the life of the related mortgage account. In addition a repayment of principal on a mortgage loan by a borrower will increase the then mortgage reserve credit limit on the mortgage reserve (but such an increase in the mortgage reserve credit limit will not in itself require the seller to repurchase the mortgage loan or repay the MRCLN as described above) (See "*The Mortgage Assets – Certain characteristics of the mortgage assets*").

If a series of notes are not repaid on or before the interest rate step-up date, then to the extent that borrowers under mortgage loans in the mortgage loan portfolio and associated reference mortgage reserves consistently prepay principal or to the extent that mortgage loans amortise more quickly than otherwise expected, the timing of payments on the relevant series of notes may be adversely affected.

Amounts available to funding from the yield supplement account

It should be noted that any amounts required to be deposited within the yield supplement account by way of any initial required yield supplement deposit amount are only calculated and intended to support the yield on any yield supplement supported mortgage loan for a period of 12 months from the relevant assignment date. In addition, the amount of any required yield supplement utilisation amount that is permitted to be treated by funding as funding available revenue receipts is limited on each distribution date to the then funding revenue allocated yield supplement amount for such distribution date. (see "*The Loan Note Tranches and Funding Cashflows – Yield Supplement Account*").

Occurrence of a trigger event, the enforcement of the funding security and/or the issuer security

In relation to a series of notes supported by a loan note tranche with a controlled amortisation schedule, if neither a trigger event has occurred nor the funding security or the issuer security has been enforced, then payments of principal on any series of notes on any funding payment date will not be greater than the relevant loan note tranche controlled amortisation amount for the relevant loan note tranche which supports such series of notes on the payment date.

If a series of notes is supported by a bullet pay loan note tranche, prior to the occurrence of a trigger event or the enforcement of either the funding security or the issuer security, such series will only receive repayment of all of its outstanding principal on the scheduled redemption date for the relevant bullet pay loan note tranche which will correspond to the scheduled redemption date for the series of notes.

Occurrence of a non-asset trigger event

If a non-asset trigger event has occurred, but prior to the occurrence of an asset trigger event and/or whether or not the funding security or issuer security has at such stage been enforced, the mortgages trustee will, after first advancing to the seller pursuant to the terms of the MRCLN the then required MRCLN aggregate debt principal balancing amount, distribute all remaining mortgages trust principal receipts to funding and funding (no. 2) (in no order of priority between them, and *pro rata* in accordance with their respective shares) until the funding share and the funding (no. 2) share of the trust property is zero. (See "*The Mortgages Trust – Cash management of trust property – Principal receipts*").

After the occurrence of a non-asset trigger event, the loan note tranches issued by funding will each enter a non-asset trigger amortisation period and funding will on each funding payment date apply such distributions from the mortgages trust to repay the loan note tranches in accordance with, if the funding security has not at such stage been enforced, the funding pre-enforcement priority of payments or, if the funding security has been enforced, the funding post-enforcement priority of payments. (See "*The Loan Note Tranches and Funding Cashflows*").

Following the occurrence of a non-asset trigger event but prior to the occurrence of an asset trigger event, the issuer will apply any principal repayments of a loan note tranche in accordance with, if the issuer security has not been enforced, the issuer pre-enforcement principal priority of payments or, if the issuer security has been enforced, the issuer post-enforcement priority of payments. (See "*Issuer Cashflows*").

As repayment of principal on a loan note tranche will not in these circumstances be limited to or controlled by the relevant loan note tranche controlled amortisation schedules, this may result in certain noteholders being repaid more rapidly than if a non-asset trigger event had not occurred, and may result in other noteholders being repaid less rapidly than if a non-asset trigger event had not occurred.

Occurrence of an asset trigger event

If an asset trigger event has occurred and whether or not the funding security or issuer security has at such stage been enforced, the mortgages trustee will, after first advancing to the seller pursuant to the terms of the MRCLN the then required MRCLN aggregate debt principal balancing advance, distribute any remaining mortgages trust principal receipts on the mortgage loans to funding, funding (no. 2) and the seller proportionally based on the funding share percentage, the funding (no. 2) share percentage and the seller share percentage respectively (or, in certain circumstances, the weighted average funding share percentage, the weighted average funding (no. 2) share percentage and the weighted average seller share percentage respectively) of the trust property. (See "*The Mortgages Trust – Cash management of trust property – Principal receipts*").

Upon the occurrence of an asset trigger event, the loan note tranches issued by funding will each enter an asset trigger amortisation period and funding will on each funding payment date apply such distributions from the mortgages trust to repay any loan note tranche in accordance with, if the funding security has not at such stage been enforced, the funding pre-enforcement principal priority of payment or, if the funding security has been enforced, the funding post-enforcement priority of enforcement. (See "*The Loan Note Tranches and Funding Cashflows*").

Following the occurrence of an asset trigger event, the issuer will apply any principal repayments of any loan note tranche in accordance with, if the issuer security has not been enforced, the issuer pre-enforcement principal priority of payments or, if the issuer security has been enforced, the issuer post-enforcement priority of payments. (See "*Issuer Cashflows*").

Repayment of principal on a loan note tranche will not in these circumstances be limited to or controlled by the relevant loan note tranche controlled amortisation schedules and this may result in certain noteholders being repaid more rapidly than if an asset trigger event had not occurred, and may result in other noteholders being repaid less rapidly than if an asset trigger event had not occurred.

Enforcement of the funding security

Following the enforcement of the funding security and whether or not a trigger event has occurred, funding will distribute mortgages trust principal receipts and/or mortgages trust revenue receipts which funding receives from the mortgages trust in accordance with the funding post enforcement priority of payments. (See "*The Loan Note Tranches and Funding Cashflows*").

Enforcement of the issuer security

Following the enforcement of the issuer security (but not, for the avoidance of doubt, the enforcement of the funding security) and whether or not a trigger event has occurred, funding will continue to distribute mortgages trust revenue receipts in accordance with the funding pre-enforcement revenue priority of payments and mortgages trust principal receipts in accordance with the funding pre-enforcement priority of payments.

Upon the enforcement of the issuer security, the issuer will apply any principal repayments of and/ or payments of interest on the relevant loan note tranche in accordance with the issuer post-enforcement priority of payments. (See "*Issuer Cashflows*").

Competition in the UK residential mortgage industry

The residential mortgage industry in the United Kingdom is highly competitive. Both traditional and new lenders use heavy advertising, targeted marketing, aggressive pricing competition and loyalty schemes in an effort to expand their presence in or to facilitate their entry into the market and compete for customers. For example, lenders have implemented aggressive pricing policies (via discount mortgages, fixed rate and tracker style mortgage products) to attract borrowers to re-mortgage with such lender.

This competitive environment may affect the rate at which the seller originates new mortgage accounts and may also affect the level of attrition of the seller's existing borrowers, which could result in an early redemption of a series of notes.

Basis rate risks

All of the mortgage loans in the mortgage loan portfolio as of an issue date carry either variable rates of interest based on the Barclays Bank base rate, the Barclays Bank standard variable rate, the Bank of England base rate or fixed rates of interest. Mortgage loans that may (subject to the prior satisfaction of the ratings test in respect of any existing series of notes and the entering into by funding of any additional necessary hedging arrangements) be transferred to the mortgages trust in the future may include mortgage loans that may alternatively pay interest at variable rates which track other indices. The interest rates on the mortgage loans in the mortgage loan portfolio and on the reference mortgage reserves (and hence the amount of interest payable by the seller to the mortgages trustee on the MRCLN on each distribution date) at any time will not necessarily match the floating rates on the loan note tranches at such time.

If the basis rate swap provider defaults in its obligation to make payments under the basis rate swap agreement, funding will be exposed to the variance between the rates of interest then payable on the

variable rate mortgage loans and/or the fixed rate mortgage loans and/or the MRCLN (being linked to variable rate on the reference mortgage reserves) and the rates of interest then payable on the loan note tranches.

Unless a relevant replacement basis rate swap is entered into, if any of the above circumstances occur, funding may as a result have insufficient funds to make payments due on the loan note tranches and therefore, as the issuer is reliant on payments from funding under a loan note tranche, the issuer may have insufficient funds to make payments due on a series of notes. Neither funding nor the issuer can provide any assurance that such an alternative basis rate swap counterparty will be available at the relevant time.

Effect of the obligation to pay termination payments on the basis rate swap agreement

To hedge the exposure against the possible variance between the interest rates on the mortgage loans in the mortgage loan portfolio and the MRCLN and the interest rates on a loan note tranche, funding entered into the basis rate swap agreement on the mortgages trust establishment date with the basis rate swap provider and the funding security trustee (see "*The Basis Rate Swap Agreement*").

If the basis rate swap is terminated, funding may be obliged to pay a termination payment to the basis rate swap provider. The amount of any such termination payment will be based, *inter alia*, on the cost of entering into a replacement basis rate swap. Neither funding nor the issuer can give noteholders any assurance that funding will have the funds available to make that payment. Nor can funding or the issuer give noteholders any assurance that funding will be able to enter into a replacement basis rate swap, or if one is entered into, that the then credit rating of the replacement basis rate swap provider will be sufficiently high to prevent a downgrading of the then current ratings of the notes by the rating agencies.

Except where the basis rate swap provider has caused the basis rate swap to terminate by its own default, any termination payment due by funding to that basis rate swap provider will rank ahead of payments due on the loan note tranches. Any additional amounts required to be paid by funding following termination of the basis rate swap (including any extra costs incurred if funding cannot immediately enter into a replacement basis rate swap (for example, from entering into "spot" basis rate swaps)), will also rank ahead of payments due on the loan note tranches.

Therefore, if funding is obliged to make a termination payment to the basis rate swap provider or to pay any other additional amount as a result of the termination of the basis rate swap, this may affect the funds which funding has available to make payments on a loan note tranche and therefore, as the issuer is reliant on payments from funding under a loan note tranche, the issuer may have insufficient funds to make payments due on the relevant series of notes.

Currency and other interest rate risks

To hedge any currency exchange rate exposure as a result of the issuer receiving payment in sterling under the terms of each loan note tranche but, depending on the denomination of the relevant series of notes, needing to pay amounts in a different currency or at a rate that is not LIBOR for three month sterling deposits, the issuer will, on each issue date, enter into the relevant issuer swap agreements with the relevant issuer swap providers (see "*The Issuer Swaps*").

If the issuer fails to pay when due amounts owing under any issuer swap agreement, then the issuer will have defaulted under such issuer swap agreement and the relevant issuer swap provider will be entitled to terminate the relevant issuer swap agreement. If on any issuer payment date or money market note exclusive payment date, as applicable, an issuer swap provider is not obliged to make required payments, or if it defaults in its obligation to make payments of, any relevant amounts, the issuer will be exposed to changes in currency exchange rates and/or in applicable interest rates. Unless a replacement swap is entered into, the issuer may have insufficient funds to make payments due on the relevant series of notes.

Effect of the obligation to pay termination payments on the issuer swap agreements

If an issuer swap terminates, the issuer may be obliged to pay termination payments to the relevant issuer swap provider. The amount of the termination payment will be based, *inter alia*, on the cost of entering into a replacement swap agreement. Pursuant to the terms of a loan note tranche, funding will be required to pay the issuer a fee equal to the amount required by the issuer to pay any termination payments due from the issuer to an issuer swap provider. Funding will also be obliged to pay the issuer an additional fee equal to any extra amounts which the issuer is required to pay to enter into a replacement swap.

The issuer cannot give any assurance that funding will have the funds available to pay such fees or that the issuer will have sufficient funds available to make any termination payments under an issuer swap or to make subsequent payments to noteholders in respect of the notes. Nor can the issuer give any assurance that the issuer will be able to enter into a replacement issuer swap, or if one is entered into, that the then 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, any termination payment due from the issuer will rank ahead of payments due on the relevant series of notes. 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 or interest rate swaps) if the issuer cannot immediately enter into a replacement issuer swap), will also rank ahead of payments due on the relevant series of notes (see "*Issuer Cashflows*").

Therefore, if the issuer is obliged to make a termination payment to an issuer swap provider or to pay any other additional amount as a result of the termination of an issuer swap, this may affect the funds which the issuer has available to make payments on the notes.

Ratings of each class of notes

The ratings (if any) assigned by S&P or Fitch to each class of notes will address the likelihood of full and timely payment to the noteholders of all payments of interest on each issuer payment date and/or any money market note payment date under those classes of notes. The ratings (if any) assigned by S&P or Fitch to each class of notes will also address the likelihood of ultimate payment of principal on the final maturity date of each class of notes. The ratings (if any) assigned by Moody's to each class of notes address the expected loss posed to investors by the legal final maturity. In Moody's opinion, the structure allows for timely payment of interest and ultimate payment of principal by the legal final maturity date. Any rating agency may lower its rating or withdraw its rating if, in the sole judgement of the rating agency, the credit quality of a class of notes has declined or is in question. If any rating assigned to a class of notes is lowered or withdrawn, the market value of the relevant class of notes may be reduced and, in the case of any money market notes, such notes may no longer be eligible for investment by money market funds in accordance with Rule 2a-7 of the Investment Company Act.

Satisfaction of the ratings test

Where the funding security trustee and/or the issuer security trustee is required under a transaction document to make a determination whether a modification is materially prejudicial to the interests of the funding secured creditors or of issuer secured creditors or to give a consent or approval in circumstances where it is specified that such consent or approval will be given if the ratings test is satisfied, the funding security trustee and/or the issuer security trustee, as applicable, will have regard to confirmations (if available) from each of the rating agencies that the then current ratings of the notes would not be downgraded, withdrawn or qualified as a result of any proposed action or event (each such confirmation shall satisfy the "**ratings test**") and any other confirmation which it considers in its sole and absolute discretion is necessary and/or appropriate.

The decision to give (or not give) such a confirmation will at all times be at the sole discretion of the rating agencies and the rating agencies are not obliged under the transaction documents to provide such confirmations if so requested. It should further be noted that, depending on the timing of the delivery of the request and any information required to be provided as part of any such request, it may be the case that the rating agencies cannot provide their confirmation in the time available or at all, and the rating agencies are not and will not be responsible for the consequences thereof.

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 since the issue date. A confirmation of ratings represents only a restatement of the opinions given at the issue date or (as the case may be) the last date on which ratings confirmations were given, and cannot be construed as advice for the benefit of any parties to the transaction. In particular, noteholders should be aware that the rating agencies owe no duties whatsoever to any parties to the transaction (including to the noteholders) in providing any confirmation of ratings. A modification to the transaction documents which is undertaken on the basis of satisfaction of the ratings test may not be beneficial to noteholders. There can be no assurance that the rating agencies will agree to perform a ratings test and, accordingly, the mortgages trustee, funding

and/or, as applicable, the issuer, amongst others, may not be able to make a modification to or gain a consent or waiver in respect of the transaction documents. This may affect, *inter alia*, funding's and/or the issuer's ability to meet their respective obligations under the transaction documents to which they are a party.

It should be noted that the satisfaction of the ratings test:

- (a) only addresses the effect of any relevant event, matter or circumstance on the current ratings assigned by the relevant rating agency to the relevant notes;
- (b) does not address whether any relevant event, matter or circumstance is permitted by the transaction documents; and
- (c) does not address whether any relevant event, matter or circumstance is in the best interests of, or prejudicial to, some or all of, *inter alios*, the noteholders, funding secured creditors and/ or, as applicable, issuer secured creditors.

Furthermore, there can be no assurance that each of the rating agencies will take the same view as each other in relation to a ratings test, and this may affect the mortgages trustee's, funding's and/ or the issuer's ability to adapt the structure of the transaction to changes in the market over the long term.

Effect of the loan note tranche controlled amortisation schedules

The noteholders should note that, prior to the occurrence of a trigger event or the enforcement of the funding security, the loan note tranche controlled amortisation amount payable on each funding payment date for each loan note tranche which is not a bullet pay loan note tranche is determined by: (i) prior to the relevant interest rate step up date, the relevant loan note tranche controlled amortisation schedule, which indicates the target balance for each tranche of the relevant loan note tranche on the relevant funding payment date; and (ii) post the interest rate step up date, the rules governing such target balances as set out in the relevant supplement to the global loan note no. 1. Repayment of principal on each series of notes is dependent on the issuer receiving repayment by funding of principal on each loan note tranche, such repayment being subject to the target balances for the relevant loan note tranches in accordance with the loan note tranche controlled amortisation schedule for such loan note tranche. (See "*The Loan Note Tranches and Funding Cashflows – Scheduled Redemption*").

Deferral of principal payments on subordinated loan note tranches

Principal payments on subordinated loan note tranches issued by funding, except as noted in the following paragraph, will be paid only to the extent that sufficient funds are available and such loan note tranches are not needed to provide the required subordination for senior loan note tranches. In addition, principal receipts available to funding will be applied first to pay funding available revenue deficit amounts, then funding liquidity reserve deficit amounts and then to make deposits to the principal funding account ledgers of, or used to make principal payments on, senior loan note tranches before being applied to make deposits to the principal funding account ledgers of or for repayment of principal on subordinated loan note tranches.

If subordinated loan notes reach their scheduled redemption date, or an early redemption event or loan note event of default occurs with respect to such subordinated loan note tranches prior to their final maturity date, such loan note tranches may not be repaid because of the subordination provisions of the funding security trust deed. The subordinated loan note tranches will be paid only if, and to the extent that:

- enough senior loan note tranches are repaid so that the subordinated loan note tranches are no longer necessary to provide the required subordination;
- new subordinated loan note tranches are issued so that the subordinated loan note tranches which are payable are no longer necessary to provide the required subordination;
- the subordinated loan note tranches reach their final maturity date.

This may result in a delay or loss of principal payments to holders of subordinated loan note tranches (see "*The Loan Note Tranches and Funding Cashflows*" below).

Furthermore, on any funding payment date and prior to the occurrence of a trigger event or the enforcement of the funding security, the obligation of funding to pay principal on any class B loan note tranche, class C loan note tranche, class D loan note tranche, class E loan note tranche or class F loan note tranche will be subject to the satisfaction, as of the immediately preceding trust calculation date, of the funding principal repayment tests to the extent that any class A loan note tranches are outstanding on such funding payment date.

If any class of loan note tranches are outstanding on such funding payment date and any of the funding principal repayment tests are not satisfied in respect of such funding payment date then funding is neither required nor permitted to make any repayment of principal on or credit to the principal funding account ledger of any class B loan note tranche, class C loan note tranche, class D loan note tranche, class E loan note tranche or class F loan note tranche and hence if such a situation is in existence, principal repayments will not be received on the relevant loan note tranches and hence it may be the case that no principal repayment will be payable on the notes on such an issuer payment date.

Absence of secondary market; limited liquidity

The global financial system has been experiencing difficulties since approximately mid-2007 and financial markets have deteriorated dramatically since the bankruptcy filing of Lehman Brothers in September 2008. Despite measures taken by the United Kingdom and United States governments and the European Central Bank and other central banks to stabilise the financial markets, the volatility and disruption of the capital and credit markets have continued. Together with the significant declines in the property markets in the United Kingdom, the United States, Spain and other countries, these events over the past two years have contributed to significant write-downs of asset values by financial institutions, including government-sponsored entities and major retail, commercial and investment banks. These write-downs have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions, to be nationalised and, in some cases, to fail. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have substantially reduced and, in some cases, stopped their funding to borrowers, including other financial institutions.

While the capital and credit markets have been experiencing difficulties for some time, the volatility and disruption reached unprecedented levels in the final months of 2008 and economic activity started to contract in many of the economies in which the Issuer operates. These conditions have produced downward pressure on stock prices and credit capacity for certain issuers. The resulting lack of credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could continue to materially and adversely affect the Issuer's business, financial condition and results of operations.

There is not, at present, an active and liquid secondary market for the notes, and there can be no assurance that a secondary market for the notes will develop. If a secondary market does develop, it may not continue for the life of the notes or it may not provide holders of the notes with liquidity of investment with the result that a holder of the notes may not be able to find a buyer to buy its notes readily or at prices that will enable the holder of the notes to realise a desired yield. Any class of the notes may experience illiquidity, although generally illiquidity is more likely to occur in respect of classes that are especially sensitive to prepayment, credit or interest rate risk, or that have been structure to meet the investment requirements of limited categories of noteholders.

Potential noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a severe lack of liquidity in the secondary market for instruments similar to the notes. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the notes to investors.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including instruments similar to the notes. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the notes will recover at the same time or to the same degree as such other recovering global credit market sectors.

Funding's reliance on third parties

Funding is a party to contracts with a number of other third parties that have agreed to perform certain services in relation to a loan note tranche. For example, the basis rate swap provider has agreed to provide the basis rate swap, the seller has agreed to post the MRCLN collateral to the mortgages trustee as and when required pursuant to the terms of the MRCLN collateral agreement and the funding corporate services provider has agreed to provide corporate services to funding. In the event that any relevant third party fails to perform its obligations under the respective agreements to which it is a party, funding's ability to make payments on the relevant loan note tranche may be adversely affected and, as the issuer is reliant on payments from funding under a loan note tranche, one or more series of notes may be adversely affected.

The issuer's reliance on third parties

The issuer is a party to contracts with a number of other third parties that have agreed to perform certain services in relation to the notes. For example, the issuer swap providers have agreed to provide the issuer swaps, the issuer corporate services provider has agreed to provide corporate services to the issuer and the paying agent and the agent bank have agreed to provide payment and calculation services in connection with a series of notes. In the event that any relevant third party was to fail to perform its obligations under the respective agreements to which it is a party, one or more series of notes may be adversely affected.

Excess revenue receipts may not be sufficient to replenish principal that has been used to pay interest on any loan note tranches

If, on any funding payment date, mortgages trust revenue receipts available to funding are insufficient to enable funding to pay interest on the loan note tranches and other expenses ranking in priority to interest due on the loan note tranches, then funding may use mortgages trust principal receipts distributed to it from the mortgages trust to make up such revenue shortfall.

During the term of the transaction, however, it is expected that these principal deficiencies will be recouped from subsequent excess funding available revenue receipts. However, if subsequent excess funding available revenue receipts are insufficient to recoup those principal deficiencies, then noteholders may receive later than anticipated, or noteholders may not receive in full, repayment of the principal amount outstanding on one or more series of notes.

For more information on principal deficiencies, see "*The Loan Note Tranches and Funding Cashflows – Funding principal deficiency ledger*".

Seller share of the trust property

Subject to certain exceptions as described under "*The Mortgages Trust – Adjustments to trust property*", any realised losses from mortgage loans included in the trust property or mortgage reserve principal loss reductions on the MRCLN will be allocated to funding, funding (no. 2) and the seller on each distribution date in proportion to the then current funding share percentage (or, in certain circumstances, the weighted average funding share percentage) of the trust property, the then current funding (no. 2) share percentage (or, in certain circumstances, the weighted average funding (no. 2) share percentage) of the trust property and the then current seller share percentage (or, in certain circumstances, the weighted average seller share percentage) of the trust property, respectively.

The seller share of the trust property and the funding (no. 2) share of the trust property do not provide credit enhancement for the funding share of the trust property.

Enforcement action and recourse to the seller

After enforcement of the funding security as a result of delivery of a loan note tranche enforcement notice under any loan note tranche by the funding security trustee, the funding security trustee may, in accordance with the terms of the funding security trust deed, sell the funding share of the trust property. There is however no assurance that a buyer would be found or that such a sale would realise enough money to repay, in accordance with the funding post enforcement priority of payments, amounts due and payable under the relevant loan note tranche.

Other than in respect of a breach of warranty under the mortgage sale agreement and/or the MRCLN note purchase facility agreement and the obligations of the seller under the MRCLN, the MRCLN note purchase agreement and the MRCLN collateral agreement, none of the issuer, funding and/or the mortgages trustee will have any recourse to the seller.

Searches, investigations and warranties in relation to the mortgage loans and associated reference mortgage reserves

None of the issuer, the issuer security trustee, funding, funding (no. 2), the funding security trustee, any funding (no. 2) security trustee (if appointed) and the mortgages trustee has or will undertake any investigations, searches or any other actions on any mortgage loan contained in the mortgage loan portfolio or its related security or, if applicable, its associated reference mortgage reserve and the issuer, the issuer security trustee, funding, funding (no. 2), any funding security trustee, the funding (no. 2) security trustee (if appointed) and the mortgages trustee will instead rely on the representations and warranties given by the seller to the mortgages trustee, funding and funding (no. 2) in accordance with and pursuant to the terms of the mortgage sale agreement and/or MRCLN note purchase facility agreement.

If any of the warranties made by the seller is materially untrue on the date on which the relevant mortgage loan is sold to the mortgages trustee, then, in the first instance, the seller will be required to remedy the breach within 28 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 a breach within 28 days, then the seller will be required to repurchase the mortgage loan or mortgage loans and their related security at their current balance as of the date of completion of such repurchase together with all interest (whether due or accrued but not due) and arrears of interest payable thereon to the date of repurchase and in addition, if applicable, repay the MRCLN in an amount equal to the then aggregate mortgage reserve account balance of the associated reference mortgage reserves (less an amount equal to the then aggregate potential MRCLN interest on such associated reference mortgage reserves (if any)) and pay interest on the MRCLN in an amount equal to, *inter alia*, the aggregate potential MRCLN interest in respect of such associated reference mortgage reserves. There can be no assurance that the seller will have the financial resources to repurchase the mortgage loan or mortgage loans and their related security and/or repay the MRCLN. However, if the seller does not repurchase those mortgage loans and their related security when required and/or repay the MRCLN, then the seller share of the trust property will be deemed to be reduced by an amount equal to the sum of: (i) the current balance of those mortgage loans together with any arrears of interest and accrued and unpaid interest and expenses; and (ii) the then aggregate mortgage reserve account balance of the associated reference mortgage reserves. In addition, upon a failure to repay the MRCLN, the mortgages trustee will be entitled to utilise, in accordance with the terms of the MRCLN collateral agreement, any MRCLN collateral posted to the mortgages trustee to satisfy the payment obligations of the seller at such time under the MRCLN.

Other than as described herein, none of the mortgages trustee, funding, funding (no. 2), the noteholders and the issuer will have any recourse to the assets of the seller.

Interest-only mortgage loans

Each mortgage loan in the mortgage loan portfolio will have been advanced on one of the following basis:

- (a) a repayment basis, with principal and interest repaid on a monthly basis through the term of the mortgage loan; or
- (b) an interest-only basis with or without a capital repayment vehicle.

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

The ability of a borrower to repay the principal on an interest-only mortgage loan at maturity depends on: (i) such borrower ensuring that sufficient funds will be available from an investment plan (for example, individual savings accounts, pension policies, personal equity plans or endowment policies); (ii) the financial condition of the borrower; (iii) tax laws during the term of the mortgage loan and on its

maturity; and (iv) general economic conditions at the time. There can be no assurance that there will be sufficient funds from any investment plan of the borrower to repay the principal or (in the case of a combination mortgage loan) the part of the principal that such investment plan is designed to cover.

The seller does not (and in certain circumstances cannot) take security over the investment plans of a borrower. Consequently, in the case of a borrower in poor financial condition any investment plan of the borrower will be an asset available to meet the claims of other creditors. The seller also recommends the borrower to take out term life insurance cover in relation to the mortgage loan, although the seller again does not take security over such policies.

In the case of interest-only mortgage loans there can be no assurance that the borrower will have the funds required to repay the principal at the end of the term. If a borrower cannot repay the mortgage loan and a loss occurs on the mortgage loan, then this may affect payments on one or more series of notes.

Repayment of a mortgage reserve

There is no obligation on a borrower to repay any outstanding mortgage reserve account balance prior to the end of the term of the associated mortgage loan. In addition, whilst interest is charged by the seller on a mortgage reserve (thereby increasing the size of the outstanding mortgage reserve account balance) there is no obligation on a borrower to pay any such interest on any scheduled date prior to the end of the term of the mortgage loan (**provided that** the mortgage reserve account balance remains below the then mortgage reserve credit limit).

The ability of a borrower to repay the outstanding mortgage reserve account balance on the maturity of the associated mortgage loan depends on: (i) such borrower ensuring that sufficient funds will be available from an investment plan (for example, individual savings accounts, pension policies, personal equity plans or endowment policies); (ii) the financial condition of the borrower; (iii) tax laws during the term of the mortgage loan and on its maturity; and (iv) general economic conditions at the time. There can be no assurance that there will be sufficient funds from any investment plan of the borrower to repay the outstanding mortgage reserve account balance on a mortgage reserve.

The seller does not (and in certain circumstances cannot) take security over the investment plans of a borrower. Consequently, in the case of a borrower in poor financial condition any investment plan of the borrower will be an asset available to meet the claims of other creditors. The seller also recommends the borrower to take out term life insurance cover in relation to the mortgage reserve, although the seller again does not take security over such policies.

There can therefore be no assurance that the borrower will have the funds required to repay the outstanding mortgage reserve account balance at the end of the term of the associated mortgage loan. If a borrower cannot repay the amount owed on the mortgage reserve and thus as a result a mortgage reserve principal loss reduction on the MRCLN occurs, then this may affect payments on one or more series of notes.

Seller initially to retain legal title to the mortgage loans

The sale by the seller to the mortgages trustee of the English loans and the Northern Irish loans and their related security will (until legal title is conveyed) take effect in equity only. The sale by the seller to the mortgages trustee of the Scottish loans and their related security on each issue date will be given effect in the first instance by a declaration of trust by the seller (and any sale of Scottish loans and their related security in the future will be given effect by further declarations of trust) by which the Seller's interest in such Scottish loans and their related security will be held in trust absolutely by the Seller for the benefit of the mortgages trustee. In each case this means that legal title to the mortgage 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 mortgage loan and its related security (which rights and benefits are subject to the trust in favour of the beneficiaries). The seller will be required to perfect the transfer of legal title to the mortgage loans and the related security to the mortgages trustee if requested to do so in writing by funding and/or the funding security trustee or by funding (no. 2) and/or any funding (no. 2) security trustee (if appointed). Each of the mortgages trustee, funding, the funding security trustee and funding (no. 2) has undertaken, and any funding (no. 2) security trustee (if appointed) shall undertake, not to make such a request of the seller except in the circumstances described in "*The Assignment of the Mortgage Loans and Related Security – Transfer of legal title to the mortgages trustee*". Until such time as such

transfer of legal title to the mortgages is perfected, each of the mortgages trustee, funding, the funding security trustee and funding (no. 2) has agreed, and any funding (no. 2) security trustee (if appointed) shall agree, that it will not apply to the Land Registry or the Central Land Charges Registry or the Land Registry of Northern Ireland or the Registry of Deeds of Northern Ireland to register or record its equitable interest in the English mortgages or Northern Irish mortgages, and cannot in any event apply to the Registrars of Scotland to register or record its interest in the Scottish mortgages. For more information on the Scottish loans and the Northern Irish loans and their related security see "*The Mortgage Assets – Scottish loans and the Northern Irish loans*" and "*Material Legal Aspects of the Mortgage Loans and the Related Security – Scottish mortgages*", and "*Material Legal Aspects of the Mortgage Loans and the Related Security – Northern Irish Mortgages*".

Because the mortgages trustee has not obtained legal title to the mortgage loans in the mortgage loan portfolio or their related security, there are risks, as follows:

first, if the seller wrongly sold a mortgage loan to another person which has already been sold to the mortgages trustee, then she or he might obtain good title to the mortgage 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 mortgage loan and its related security and it would not be entitled to payments by a borrower in respect of that mortgage loan. This may affect the ability of the issuer to repay the notes; and

second, 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 "*Risks in relation to mortgage loans*") which occur in relation to transactions or deposits made between some borrowers and the seller (including the right to withdraw amounts from the associated reference mortgage reserve) and the rights of borrowers to redeem their mortgage loans by repaying the loan directly to the seller. If these rights were exercised, the mortgages trustee may receive less money than anticipated from the mortgage loans, which may affect the ability of the issuer to repay 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 the issuer can give no assurance that the minimum seller share will be adequately sized).

Once notice has been given to borrowers of the transfer of the mortgage loans and their related security to the mortgages trustee, independent set-off rights which a borrower has against the seller (such as, for example, set-off rights associated with borrowers holding deposits with the seller or the ability to make a withdrawal from the associated reference mortgage reserve) will crystallise and further rights of independent set-off would cease to accrue from that date and no new rights of independent set-off could be asserted following that notice. Set-off rights arising under claims arising out of a transaction connected with the mortgage loan ("**transaction set-off**") (including those described in "*Risks in relation to mortgage loans*" below) will not be affected by that notice.

Risks in relation to mortgage loans

As described in "*Seller initially to retain legal title to the mortgage loans*" (above), the seller will (prior to notification) retain legal title to the mortgage loans and their related security in the mortgage loan portfolio and any new mortgage loans and their related security that are sold to the mortgages trustee in accordance with the mortgage sale agreement. 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 mortgage loans and their related security to the mortgages trustee. Such set-off rights (including analogous rights in Scotland) may occur if the seller fails to advance an agreed to further advance to a borrower under a mortgage loan in the mortgage loan portfolio when the borrower is at such time legally entitled to such further advance.

If the seller fails to advance an agreed further advance in accordance with the mortgage conditions of the relevant mortgage loan, then the relevant borrower may set-off any damages claim (or analogous rights in Scotland) arising from the seller's breach of contract against the seller's (and, as the assignee in equity or beneficiary under trust of the mortgage loans in the mortgage loan portfolio and their related security, the mortgages trustee's) claim for payment of principal and/or interest under the mortgage loan as and when it

becomes due. Such set-off claims will constitute transaction set-off as described in the immediately preceding risk factor.

The amount of the claim in respect of such a further advance will, in many cases, be the cost to the borrower of finding an alternative source of funds (although in the case of Scottish loans it is possible, though regarded as unlikely, that the borrower's rights of set-off could extend to the full amount of such further advance). The borrower may obtain a mortgage 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), incurred by such borrower. If the borrower is unable to obtain an alternative mortgage 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 borrower entered into the mortgage loan or which otherwise were reasonably foreseeable.

A borrower whose mortgage loan is in the mortgage loan portfolio, may also attempt to set-off against his or her mortgage loan payments an amount greater than the amount of his or her damages claim (or analogous rights in Scotland), including potentially for other, however unjustified or unenforceable, reasons (for example, post-notification to the borrower of the transfer of his mortgage loan to the mortgages trustee, in relation to any right the borrower believes he may have as a result of not being able to access any of his bank deposits held by the seller or borrow any further amounts from the seller out of the relevant reference mortgage reserve). In that case, the administrator will be entitled to take enforcement proceedings against such a borrower although the period of non-payment by the borrower may continue until a judgment or decree is obtained.

The exercise of set-off rights by borrowers whose mortgage loans are in the mortgage loan portfolio would reduce the incoming cash flow to the mortgages trustee during such exercise. However, the amounts set-off will at first be applied to reduce the seller share of the trust property only.

Further, there may be circumstances in which:

- (a) a borrower may seek to argue that certain further advances are unenforceable by virtue of non-compliance with the Consumer Credit Act 1974; or
- (b) certain further advances may rank behind liens created by a borrower after the date upon which the borrower entered into its mortgage loan with the seller.

The minimum seller share has been sized in an amount expected to cover these risks, although the issuer can give no assurance that the minimum seller share has been adequately sized. If the minimum seller share is not sufficient in this respect then there is a risk that noteholders may not receive all amounts due on one or more series of notes or that payments to noteholders may not be made when due.

Administration

The seller has been appointed by the mortgages trustee and the beneficiaries as the initial administrator for the transaction.

Pursuant to the terms of the administration agreement, the then current administrator will agree with the mortgages trustee and the seller:

on behalf of the mortgages trustee, to perform certain administrative functions in respect of the mortgage loans in the mortgage loan portfolio, including collecting payments under the mortgage loans and taking steps to recover arrears; and

on behalf of Barclays, to perform (unless Barclays is at such time insolvent) certain administrative functions in respect of the reference mortgage reserves, including collecting payments from borrowers and taking steps to recover arrears.

If the administrator breaches the terms of the administration agreement, then, *inter alios*, the mortgages trustee, funding and/or the funding security trustee will be entitled to terminate the appointment of the administrator and to appoint a substitute administrator.

There can be no assurance that a substitute administrator whose appointment satisfies the ratings test could be found who would be willing and able to:

service the mortgage loans in the mortgage loan portfolio; or

service the reference mortgage reserves (although it should also be noted that at all times any administrator will be able to delegate its role in servicing the reference mortgage reserves to Barclays and if Barclays is at such time insolvent such administrator will no longer have any duty to service the reference mortgage reserves),

on the terms of the administration agreement.

In addition, as described in "*Mortgage loans regulated by the Financial Services Authority under the Financial Services and Markets Act 2000*" below, any substitute administrator will be required to be authorised under the FSMA. The ability of a substitute administrator fully to perform the required services would depend, among other things, on the information, software and records available at the time of the appointment. Any delay or inability to appoint a substitute administrator may affect payments on the mortgage loans in the mortgage loan portfolio or collections on the reference mortgage reserves and hence, ultimately, the ability of the issuer to make payments when on one or more series of notes (although it should be noted that the obligation on the seller to repay the MRCLN (as supported by the MRCLN collateral) will not be affected or discharged by reason of a failure of the then administrator to service the reference mortgage reserves in accordance with the required servicing standards).

It should be noted that the administrator will have no obligation itself to advance payments that borrowers fail to make in a timely fashion.

Buildings insurance

The practice of the seller in relation to buildings insurance is described under "*The Mortgage Assets – Buildings insurance policies*". As described therein, the issuer cannot provide any assurance that the mortgages trustee will always receive the benefit of any claims made under any applicable insurance contracts or that the amount received in the case of a successful claim will be sufficient to reinstate the mortgaged property. This could reduce the mortgages trust principal receipts received by funding and could adversely affect the ability of the issuer to make payments on one or more series of notes. It should be noted that buildings insurance is normally renewed annually.

The Banking Act 2009

Actions may also be taken by the Treasury and the Bank of England under Part 1 of the Banking Act 2009 (the "**Banking Act**") pursuant to the special resolution regime, instituted to address a situation where a bank (a UK institution with permission to accept deposits under the FSMA (the "**UK Bank**")) has encountered, or is likely to encounter, financial difficulties. The Banking Act gives the Treasury and the Bank of England certain wide powers to support the implementation of the stabilisation measures contemplated by the Banking Act.

These powers, which apply regardless of any contractual restrictions, include (a) power to issue share transfer orders pursuant to which there may be transferred to a commercial purchaser or to the Treasury or a nominee of the Treasury, all or some of the Securities issued by a bank. The transfers can extend to a wide range of "Securities" including shares and bonds issued by the UK Bank or its UK holding company and warrants; Securities may be converted from one form or class to another; Securities Listings may be discontinued; and (b) the power to transfer all or some of the property, rights and liabilities of the UK Bank to a commercial purchaser or Bank of England entity. In certain circumstances, encumbrances and trusts can be over-reached or varied and the terms of a trust removed (although in the case of partial property transfers the terms of the trust can only be removed or altered to the extent that it is necessary or expedient to transfer to the transferee: (i) the legal or beneficial title of the banking institution in the property held on trust or (ii) any powers, rights or obligations of the banking institution in respect of the property held on trust) and provision may be made concerning any powers, provisions and liabilities in respect of trust property and how these are to be exercisable or have effect. Power also exists to over-ride any default provisions, provisions restricting transfer contracts or other agreements including provisions that would otherwise allow a party to terminate a contract or accelerate the payment of an obligation. Compensation may be payable in the context of both share transfer instruments and/or orders and

property transfer instruments. In the case of share transfer instruments any compensation will be paid to the transferor, who may not be the encumbrancer.

The Banking Act also includes provisions relating to two new insolvency procedures which may be commenced by specified UK authorities, namely bank insolvency and bank administration.

The Banking Act also vests power in the Bank of England and/or the Treasury (amongst other things) to override, vary or impose contractual obligations between the UK Bank or its UK holding company and its former group undertakings (as defined in the Act) or the bridge bank or private sector purchaser, for reasonable consideration, in order to enable any transferee or successor bank of the UK Bank, or its UK holding company, to operate the transferred business, or any part of it, effectively. In doing so the Bank of England and/or the Treasury (as defined in the Act) shall aim, so far as is reasonably practicable, to preserve or include provision for reasonable consideration. There is also power for the Treasury to amend the law (save for a provision made by or under the Banking Act) by order for the purpose of enabling it to use the special resolution regime powers effectively, potentially with retrospective effect.

Mortgage loans regulated by the Consumer Credit Act 1974

The Consumer Credit Act 1974 (as amended) (the "CCA") imposes requirements on Mortgage Loans and Further Advances which are regulated credit agreements. Mortgage Loans and Further Advances entered into prior to 6 April 2008 will be subject to the CCA if the "amount of credit" (as defined in the CCA) does not exceed the £25,000 financial limit or the loan is not otherwise exempt. On 6 April 2008 the £25,000 threshold was removed with the effect that unless an exemption applies, a loan of any amount entered into after that date could be subject to the CCA.

Mortgage Loans and Further Advances provided by a deposit taker or a wholly-owned subsidiary of such an institution (as defined under Section 16(10) of the CCA) that finance the purchase of land or the provision of dwellings on any land and which are secured by a land mortgage (or, in Scotland, a standard security) on that land are treated as exempt agreements. Such Mortgage Loans and Further Advances are not subject to the origination, documentation or ongoing compliance requirements of the CCA. However they are subject to the unfair relationship provisions under sections 140A to 140D of the CCA. Mortgage Loans and Further Advances which are regulated under the Financial Services and Markets Act 2000 (Regulated Mortgage Contracts) are, by reason of section 16(6C) of the CCA exempt from the origination, documentation and ongoing compliance requirements of the CCA as well as from the unfair relationship provisions of the CCA.

Each mortgage reserve constitutes a debtor creditor agreement enabling the debtor to overdraw on a current account that falls within the scope of Section 74(1)(b) of the CCA. Such an agreement is excluded from the application of Part V of the CCA (the origination and documentation requirements of the CCA). Insofar as the mortgage loan finances the supply of insurance under arrangements with the supplier of the insurance, that part of the mortgage loan may fall to be treated as a regulated agreement under the CCA and may give rise to liability under Section 56 and/or Section 75 of the CCA (liability of creditor for misrepresentations and breaches of contract by supplier). Part V of the CCA sets requirements for the format, content and execution of regulated agreements and for the procedures to be taken by the lender when originating a CCA regulated agreement.

Any agreement that is wholly or partly regulated by the CCA or treated as such has to comply with specific documentation, procedures and (in so far as applicable) pre-contract disclosure requirements. Further, the CCA also imposes licensing obligations on lenders and brokers. If a regulated credit agreement does not comply with those requirements, then to the extent that the agreement is regulated by the CCA or treated as such, it is unenforceable against the borrower if (in respect of agreements secured on land):

- (a) the lender or any broker does not hold the required "enforcement" licence at the relevant time; or
- (b) totally, if the credit agreement has been made before 6 April 2007 and if it is not properly signed by the borrower or if it omits or mis-states a "prescribed term"; or
- (c) without a court order in other cases.

Where the court is able to exercise its discretion, the court will take into account any prejudice suffered by the borrower and any culpability by the Seller.

The court has the power, if it appears just to do so, to amend the regulated agreement or any further advance that may fall within the scope of CCA regulation or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

In addition under section 126 of the CCA, a land mortgage securing a regulated credit agreement is only enforceable by a court order.

Pursuant to the terms of the Mortgage Sale Agreement, the seller will represent and warrant to, *inter alios*, the mortgages trustee that no agreement for any Mortgage Loan gives rise (whether on its own or taken together with any related agreement) to an unfair relationship under Sections 140A to 140D of the Consumer Credit Act 2006.

Recent reforms to the Consumer Credit Act 1974 and subordinate legislation

The Consumer Credit Act 2006, which amends the Consumer Credit Act 1974, was enacted in March 2006. Recent reforms which came into force include:

- (i) the removal of the £25,000 financial limit from the CCA in respect of credit for non-business lending (with the exception of buy to let lending);
- (ii) the exemption from the CCA regime of high net worth debtors and credit above the value of £25,000 where such credit agreement is entered into by the debtor predominantly for the purposes of a business carried on, or intended to be carried on, by him;
- (iii) the creation of an independent ombudsman service, allowing consumers to challenge agreements without court proceedings and the creation of a Consumer Credit Appeals Tribunal;
- (iv) the extension of the unfair relationship test to all existing credit agreements (except for those regulated by the FSA);
- (v) the strengthening of the powers of the Office of Fair Trading ("**OFT**") in relation to CCA licence holders;
- (vi) new provisions relating to the licensing of consumer credit businesses.

However, the new Consumer Credit Directive which is expected to be implemented by May 2010, may result in further amendment of the CCA and secondary legislation (see "*Consumer Credit Directive*" below).

Unfair relationships under the CCA

As from 6 April 2008 the unfair relationship test under Sections 140A to 140D of the CCA applies to all regulated credit agreements including those entered into prior to the commencement date of the unfair relationship test and those to which most CCA exemptions apply. For example, where a loan was exempt by the reason of the amount advanced or where a loan is an advance of credit for unrestricted use in respect of land (Sections 16(1) and (2) of the CCA), the unfair relationship provisions of the CCA will apply. It should be noted that the test does not apply to Regulated Mortgage Contracts (Section 140A(5)).

There is no statutory definition of what constitutes an unfair relationship. The provisions were kept intentionally wide to allow the courts to be able to consider a broad range of circumstances including the creditor's conduct before and after making the agreement.

If a Mortgage Loan subject to the unfair relationship test is found to be unfair, the court may require the creditor to repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return surety, alter the terms of the agreement, direct accounts to be taken or otherwise set aside any duty imposed on the debtor or surety. The term creditor as defined under section 189 of the CCA means the person providing the credit under a consumer credit agreement or the person to whom his rights and duties under the agreement have passed by assignment or operation of law.

Variations to agreements regulated by the CCA and the abolition of the financial threshold

The variation of credit agreements is regulated by section 82(2) of the CCA. Section 82 states that where an agreement (a "modifying agreement") varies or supplements an earlier agreement, the modifying agreement shall for the purposes of the CCA be treated as (a) revoking the earlier agreement and (b) creating a new combined agreement. Section 82 effectively operates to create a new CCA regulated agreement comprising the earlier agreement and the modifying agreement.

With the abolition of the £25,000 financial threshold on 6 April 2008, previously unregulated agreements which are varied or supplemented after this date could potentially fall within the scope of the CCA.

The Consumer Credit Act 2006 (Commencement No.4 and Transitional Provisions) Order 2008 (the "Order") provides that unregulated loans entered into prior to 6 April 2008 and subsequently varied, will not be subject to CCA regulation, if the variation (e.g. an interest rate switch) does not relate to the advance of further credit or an appropriate exemption applies. Notwithstanding the points above, many lenders do not treat further advances on unregulated loans as comprising a separate agreement but instead treat the loan (having been made before 6 April 2008) and further advance as a unitary agreement which avoids CCA regulation and therefore obviates the need to rely on the Order.

Mortgage loans regulated by the Financial Services Authority under the Financial Services and Markets Act 2000

Prior to the introduction of FSA regulation as from 31 October 2004, the business relating to the provision of residential owner-occupied mortgages was subject to self-regulation by The Council of Mortgage Lenders' ("CML") Mortgage Code (the "**CML Code**"). The CML Code was introduced for lenders on 1 July 1997 and April 1998 for mortgage intermediaries. When the CML Code was extended to mortgage intermediaries, subscribing lenders undertook not to accept mortgage introductions from intermediaries who were not also registered as subscribers. The CML Code remained in force until 31 October 2004, when it was superseded by the Financial Services Authority's Mortgages and Home Finance: Conduct of Business sourcebook: ("**MCOB**"). Barclays was a member of the CML and subscribed to the Code during the relevant period.

As from 31 October 2004, a number of activities relating to regulated mortgage loans (as defined in "*Regulation of the UK Residential Mortgage Market*" below) became "regulated activities" under section 19 of FSMA and the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**order**") and these activities require authorisation from the Financial Services Authority ("**FSA**"). These activities are: (a) entering into a regulated mortgage loan as lender; (b) administering a regulated mortgage loan (administering in this context means notifying borrowers of changes in payments, interest rates or other notifiable matters and/or collecting payments due); (c) advising on regulated mortgage loans; (d) arranging regulated mortgage loans; and (e) agreeing to do any of the foregoing.

Barclays is authorised by the FSA to carry out such regulated activities (other than advising on regulated mortgage loans) and is registered by the FSA with registration number 122702. The mortgages trustee, funding and the issuer are each of the view that they do not require to be authorised since their activities are such that they either do not fall within the regulated activities as defined in the order or they benefit from a specific exclusion in respect of those activities.

In addition, on or after 31 October 2004 no variation has been or will be made to the mortgage loans, and no further advance or product switch has been or will be made under the mortgage loans, where it would result in the mortgages trustee, funding or the issuer arranging or advising in respect of administering or entering into a regulated mortgage loan.

Authorisation by the FSA subjects the seller to the full regulatory regime imposed by FSMA and the FSA. In particular, the seller is required to have in place full systems and controls, to ensure that those carrying out controlled functions are authorised by the FSA, to maintain prescribed prudential ratios, and its activities and regulated mortgage loans will be subject to the Financial Ombudsman Scheme. In addition, the regulated activities relating to regulated mortgage loans will be subject to mortgage conduct of business rules set out in the FSA Handbook ("**MCOB**") (as described in further detail in "*Regulation of the UK Residential Mortgage Market – Loans regulated by the Financial Services Authority under the Financial Services and Markets Act 2000*", below).

Failure to comply with the provisions of MCOB will not render any regulated mortgage loans unenforceable. However, breach of the rules in MCOB are actionable by borrowers who suffer loss as a

result of the contravention. A breach could therefore give rise to a claim by a borrower to set-off sums due under a regulated mortgage loan. However, regulated mortgage loans will be unenforceable if they are advised upon, arranged, entered into or administered by a company which is not authorised. The seller is authorised by the FSA to carry out such regulated activities (other than advising on regulated mortgage loans) as stated above. Regulated mortgage loans will also be unenforceable if they are originated as a result of financial promotion in relation to which there has been a contravention of Section 21(1) of the FSMA. In both cases a court may allow the regulated mortgage loan in question to be enforced against the borrower if it considers it just and equitable to do so in the circumstances of the particular case.

The FSA has significant regulatory flexibility to alter its rules and to provide guidance on existing rules. No assurance can be given that the FSA will not change its rules or guidance or take a particular regulatory approach which may adversely affect the seller's particular sector in the mortgage market or the seller specifically. Any such development may have a material adverse effect on the mortgages trustee and/or funding and/or the issuer and/or the administrator, as applicable, and their respective businesses and operations.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

In the United Kingdom, the Unfair Terms in Consumer Contracts Regulations 1994 apply to all of the mortgage loans that were subject to standard terms and entered into during the period 1 July 1995 to 30 September 1999, and the Unfair Terms in Consumer Contracts Regulations 1999 apply to all of the mortgage loans that are subject to standard terms and have been entered into since 1 October 1999. The effect of these regulations (collectively, the "UTCCR") on the mortgage loans is that:

- (a) a borrower may challenge a term in an agreement on the basis that it is an "unfair" term within the meaning of the UTCCR. An unfair term will not be binding on the borrower, although the contract itself will continue to bind the parties if it is capable of continuing in existence without the unfair term; and
- (b) the OFT, the FSA and any "qualifying body" (as defined in the UTCCR) may take court proceedings to injunct (or in Scotland, interdict) the seller from using and relying on unfair terms.

The UTCCR will not generally affect "core terms" which set out the main subject matter of the contract **provided that** they are written in plain and intelligible language (such as the borrower's obligation to repay principal) but may affect terms deemed to be ancillary terms, which may include, *inter alia*, interest variation provisions and other terms the application of which are in the seller's discretion. For example, if a term permitting the seller to vary the interest rate is found to be unfair, the borrower will not be liable to pay the increased rate or, to the extent that she or he has paid it, will be able, as against the seller or the mortgages trustee, to claim repayment of the extra interest amounts paid or to set-off the amount of such claim (or exercise of analogous rights in Scotland) against the amount owing by the borrower under the mortgage loan. Any such non-recovery, claim or set-off ultimately may adversely affect the ability of the issuer to make payments on the notes such that the payments on the notes could be reduced or delayed.

On 24 February 2000, the OFT issued a guidance note on what the OFT considers to be fair and unfair terms for interest variation in mortgage contracts. The guidance note accepts the principle of a term linking an interest rate to an external rate which is outside the lender's control. It provides that, generally, the OFT and Consumers' Association will not regard such a term as unfair if the lender explains at the outset how the interest rate is linked to the external rate and, if the link does not provide for precise and immediate tracking, the maximum margin of difference, and the time limits within which charges will be made. 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 could be considered to be locked in by an early repayment charge, the OFT indicated that it considered the term would be open to challenge as unfair under the UTCCR unless the lender (i) notifies the borrower in writing at least 30 days before the rate change and (ii) permits the borrower to repay the whole loan during the next three months after the rate change, without paying the early repayment charge. The seller has reviewed the guidance note and believes that the mortgage loans and its business in general complies with the guidance note.

The guidance note was withdrawn from the OFT website a number of years ago. Prior to regulation by the FSA of regulated mortgage loans, the FSA agreed with the OFT to take responsibility for the enforcement of the UTCCR in mortgage agreements. Following this understanding, the FSA published

guidance on interest rate variation practices in May 2005. The FSA also published a general FSA fact sheet entitled "*Challenging unfair contract terms*" in January 2005. The FSA guidance is not materially different from the withdrawn OFT guidance.

On 31 July 2006 a Concordat between the OFT and FSA became effective. The purpose of the Concordat is to ensure co-ordination of enforcement action and co-operation in delivery of consumer protection in relation to the UTCCR and the Enterprise Act 2002. The FSA published the Unfair Contract Terms Regulatory Guide in August 2007, which explains how the FSA utilises its powers under the UTCCR. Both the FSA and the OFT have issued guidance and undertakings relevant to mortgage contracts.

In August 2002 the Law Commission for England and Wales and the Scottish Law Commission published a Joint Consultation Paper proposing changes to the UTCCR, including harmonising provisions of the UTCCR and the Unfair Contract Terms Act 1977, applying the UTCCR to business-to-business contracts and revising the UTCCR to make it "clearer and more accessible". A final report was published in 2005. In July 2006, the Law Commission stated that the government accepted the recommendations subject to a regulatory impact statement. No assurances can be given that changes to the UTCCR, if implemented, will not have an adverse effect on the seller, the issuer and/or the administrator.

Compliance with Non-Status Lending Guidelines and responsible lending requirements 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 mortgage loans in the mortgage portfolio will have been made to non-status borrowers but, in any event, the seller believes that it currently complies with these guidelines.

The actions of a lender and of any broker or other intermediary involved in marketing a lender's products can jeopardise a 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.

Ability to charge and recover fees on the mortgage assets

Charges payable on any early repayment (in whole or in part) are restricted under the Non-Status Lending 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.

In January 2007, the FSA issued a Statement of Good Practice relating to Mortgage Exit Administration Fees. The FSA set out where it considered mortgage exit administration fees to be contractually unfair under the UTCCR, and under the "Treating Customers Fairly" principles. The FSA stated that lenders could consider five options for the treatment of past and current customers, and all lenders had to decide which options to adopt and put this into practice by 28 February 2007. For new customers, lenders had to decide whether to amend their terms and conditions by 31 July 2007. In August 2007 the FSA updated the statement after analysing the responses of a sample of firms, comprising a significant proportion of the mortgage market, on the outcome of their reviews of how to treat future customers. The results of this review found that most major lenders have opted either to charge a fee that would not be varied during the lifetime of the mortgage or to remove the mortgage exit administration fees altogether. Other lenders have

decided to charge a mortgage exit administration fee which will reflect the administrative costs of exiting the mortgage and can only be varied for valid reasons clearly explained at the outset. Prior to 28 February 2007, Barclays confirmed that it would continue to apply its policy of charging the mortgage exit administration fee as it was set out to the relevant borrower at the time that the original contract was taken out, in line with the FSA Statement of Good Practice. This course of action is in line with the vast majority of other mortgage lenders.

In addition, the OFT carried out investigations into the level of late and over limit fees on credit cards as a result of which many credit card providers, including Barclays, reduced such fees.

In September 2006, the OFT announced that it had decided to undertake a fact find on the application of its statement on credit card fees to current account unauthorised overdraft fees. The fact find was completed in March 2007. On 29 March 2007, the OFT announced its decision to conduct a formal investigation into the fairness of bank current account charges. The OFT initiated a market study into personal current accounts ("PCAs") in the UK on 26 April 2007. The study's focus was PCAs but it also included an examination of other retail banking products, in particular savings accounts, credit cards, personal loans and mortgages in order to take into account the competitive dynamics of UK retail banking. On 16 July 2008, the OFT published its market study report, in which it concluded that certain features of the UK PCA market were not working well for consumers. The OFT reached the provisional view that some form of regulatory intervention is necessary in the UK PCA market. On 16 July 2008, the OFT also announced a consultation to seek views on the findings and possible measures to address the issues raised in its report. The consultation period closed on 31 October 2008.

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 (including, without limitation, in the ability to charge, or the level of, early repayment fees or other types of fees and charges payable in respect of the mortgage assets). Any such action or developments or compliance costs may have a material adverse effect on the mortgage assets, the seller, the issuer and/or the administrator and their respective businesses and operations. This may adversely affect the issuer's ability to make payments in full on the notes when due.

Consumer Credit Directive

The Consumer Credit Directive (2008/48/EC) was adopted in April 2008. The Official Journal states that the directive should be implemented by member states by 12 May 2010. Once fully implemented, it will regulate consumer credit agreements between EUR 200 - 75,000 between credit providers and consumers. Notably, however, the Consumer Credit Directive excludes a number of credit agreements from regulation including credit agreements secured by a mortgage (whether first or second mortgage) and credit agreements the purpose of which is to acquire or retain property rights in land. However, until the details of the implementing legislation are published, it is not certain what effect the adoption and implementation of the directive would have on the mortgage loans, Barclays, the issuer or the administrator and their respective businesses and operations. No assurance can be given that the finalised directive will not adversely affect the ability of the issuer to make payments to noteholders.

Proposed Mortgage Credit Directive

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 Consumer Credit Directive but will be covered by any initiatives resulting from the Green Paper process in relation to mortgage credit.

The European Commission published a White Paper on mortgage credit in December 2007, setting out its tasks for 2008 to 2010 including among other things, an assessment of the regulation of early repayment charges, pre-contract disclosure and interest rate restrictions. The European Commission has stated that, in its view it is too early to decide on whether a mortgage directive would be appropriate.

Until the final text of any initiatives resulting from the White Paper process are decided and the details of the United Kingdom implementation of the Consumer Credit Directive are published, it is not certain what effect the adoption and implementation of the Consumer Credit Directive or any initiatives resulting from the White Paper process would have on the ability of the issuer to make payments to noteholders.

Financial Ombudsman Service

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

Consumer Protection from Unfair Trading Regulations 2008

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

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

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

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

The effect (if any) of the CPRs on the mortgage loans, the seller and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPRs would initiate intervention by a regulator and /or an action for damages by borrowers who have suffered loss due to such activities.

No assurance can be given that the implementation of this directive will not adversely affect the ability of the issuer to make payments to noteholders.

Distance Marketing of Financial Services

With effect from 31 October 2004, the Distance Marketing of Financial Services Directive (the "**DMD**") has been implemented in the United Kingdom by way of the Financial Services (Distance Marketing) Regulations 2004 (the "**regulations**") and amendments to MCOB. In essence the regulations require that in respect of distance contracts, consumers have the right to receive certain information and, for some financial services, a right to cancel.

For the purposes of the regulations, a distance contract means "any contract concerning one or more financial services concluded between a supplier and a consumer under an organised distance sales or

service-provision scheme run by the supplier or by an intermediary, who, for the purposes of that contract, makes exclusive use of one or more means of distance communication up to and including the time at which the contract is concluded". A similar definition is adopted in MCOB.

The regulations and MCOB require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service; contractual terms and conditions; and whether or not there is a right of cancellation. In general, consumers of distance contracts have a right to cancel contracts for financial services during a set period after commencement of the contract. However, subject to the consumer receiving specific pre-contract information, cancellation rights will not apply, amongst others, in the case of contracts for financial services where (i) the price of the service depends on fluctuations in the financial market outside the supplier's control (such as interest rate changes); (ii) the supplier provides credit to a consumer and the consumer's obligation to repay is secured by a legal mortgage on land; or (iii) it is a restricted-use credit agreement (within the meaning of the CCA) to finance the purchase of land or an existing building, or an agreement for a bridging loan in connection with the purchase of land or an existing building. The above provisions may be enforced by way of injunction (interdict in Scotland) and any breach may render the seller and possibly its officers liable to a fine.

Any term in a distance contract will be void and unenforceable if, and to the extent that, it is inconsistent with the application of a provision of the regulations.

If a significant portion of the Mortgage Loans are characterised as being cancellable under the Regulations, then there could be an adverse effect on the issuer, which could affect the ability of the issuer to make payments to the noteholders.

Indemnification of Mortgages Trustee

In order to enforce a power of sale in respect of a mortgaged property, the relevant mortgagee (which may be Barclays, the mortgages trustee or any receiver appointed by the funding security trustee or any funding (no. 2) security trustee (if appointed)) must first obtain possession of the mortgaged property unless the property is vacant. Possession is usually obtained by way of a court order although this can be a lengthy process and the mortgagee must assume certain risks. Each of the mortgages trustee, the funding security trustee, any funding (no. 2) security trustee (if appointed) and any receiver appointed by the funding security trustee or any funding (no. 2) security trustee (if appointed) is entitled to be indemnified to its satisfaction against personal liabilities which it could incur if it were to become a mortgagee in possession before it is obliged to seek possession. The funding security trustee is never obliged to enter into possession of the mortgaged property.

Risks relating to taxation

Securitisation Company Tax Regime

The Taxation of Securitisation Companies Regulations (the "**TSC regulations**") were made under section 84 of the Finance Act 2005 on 11 December 2006 and were amended by inter alia the Taxation of Securitisation Companies (Amendment) Regulations 2007. The TSC regulations deal with the corporation tax position of securitisation companies for their periods of account beginning on or after 1 January 2007.

If the TSC regulations apply to a company, then, broadly, it will be subject to corporation tax on the cash profit retained by it for each accounting period in accordance with the transaction documents.

Each of the issuer and funding have elected into, and (based on advice received) consider that they should be taxed under the special tax regime for which provision is made by the TSC Regulations.

Investors should note that the TSC regulations are in short-form and advice received by the issuer and funding as to the scope and operation of the TSC regulations relies significantly upon guidance from the UK tax authorities.

Investors should also note that if the issuer and funding are not taxed under the TSC Regulations then their profits or losses for tax purposes might be different from their cash position. Any unforeseen

taxable profits in the issuer or funding could have an adverse effect on its ability to make payments to noteholders.

Withholding tax

In the event that any withholding or deduction for or on account of tax is required to be made from payments due under a series of notes, none of the issuer, any paying agent or any other person will be required to make any additional payments to the noteholders, or to otherwise compensate the noteholders for the reduction in the amounts that they will receive as a result of such withholding or deduction. If such a withholding or deduction is required to be made, the issuer will have the option (but no obligation) to redeem all outstanding series of notes in full at their principal amount outstanding (together with accrued interest). (See "*Terms and Conditions of the Notes*"). As to whether a withholding or deduction is required to be made under current United Kingdom tax law, see "*Taxation – United Kingdom taxation*" below.

In the event that any withholding or deduction for or on account of tax is required to be made from any payment due to the issuer under a loan note tranche, funding will not be obliged to make any additional payments to the issuer or to otherwise compensate the issuer for the reduction in the amount which the issuer will receive as a result of such withholding or deduction. If such a withholding or deduction is required to be made, the issuer will have the option (but no obligation) to redeem all outstanding series of notes in full at their principal amount outstanding (together with accrued interest). (See "*Terms and Conditions of the Notes*"). Based on advice received, the directors of the issuer believe that, under current law, all payments made by funding under a loan note tranche can be made without deduction or withholding for or on account of any United Kingdom tax.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other member state; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain member states, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a member state which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the issuer nor any paying agent nor any other person would be obliged to pay additional amounts to the noteholders or to otherwise compensate the noteholders for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax. However, the issuer is required to maintain a paying agent in a member state that will not be obliged to withhold or deduct tax pursuant to the directive (if such a state exists).

European Monetary Union

It is possible that, prior to the repayment in full of a series of notes, the United Kingdom may become a participating member state in the European Economic and Monetary Union and that the euro will become the lawful currency of the United Kingdom. In that event, (a) all amounts payable in respect of any loan

note tranche denominated in pounds sterling may become payable in euro; (b) applicable provisions of law may allow or require funding and any loan note tranche holder to re-denominate the relevant loan note tranche into euro and take additional measures in respect of such loan note tranche; 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 loan note tranche 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 noteholders. It cannot be said with certainty what effect adoption of the euro by the United Kingdom (if it occurs) will have on noteholders.

Insolvency Act 2000

The Insolvency Act 2000 amended the Insolvency Act 1986 with effect from 1 January 2003 so as to allow certain "small companies", as part of the company voluntary arrangement procedure, to seek court protection from their creditors by way of a moratorium for a period of up to 28 days, with the option for creditors to extend this protection for up to a further two months (although the Secretary of State for Trade and Industry may, by order, extend or reduce the duration of either period).

A "**small company**" is defined for these purposes by reference to whether the company meets certain tests contained in section 247(3) of the Companies Act 1985, relating to a company's balance sheet total, turnover and average number of employees in a particular period. The position as to whether or not a company is a "small company" may change from period to period, depending on its financial position and average number of employees during that particular period. The Secretary of State for Trade and Industry may by regulations also modify the qualifications for eligibility of a company for a moratorium and may also modify the present definition of a "small company". Accordingly, the issuer and/or funding may, at any given time, come within the ambit of the "small companies" provisions, such that the issuer and/or funding may (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company voluntary arrangement.

During the period for which a moratorium is in force in relation to a company, amongst other things, no winding up may be commenced or administrator appointed to that company, no administrative receiver of that company may be appointed, no security created by that company over its property may be enforced (except with the leave of the court) and no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the court). In addition, if the holder of security (the "**chargee**") created by that company consents or if the court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the floating charge. Where the security in question is that other than a floating charge, it shall be a condition of the chargee's consent or the leave of the court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security. Further, during the period for which a moratorium is in force in respect of a company it may not make any payments with respect to debts or liabilities existing prior to the date of filing for a moratorium unless (i) there are reasonable grounds for believing the payment will benefit the company, and (ii) the payment is approved by a committee of creditors of the company if established or, if not, by the nominee of the proposed company voluntary arrangement.

Certain companies which qualify as small companies for the purposes of these provisions may be, nonetheless, excluded from being so eligible for a moratorium under the provisions of the Insolvency Act 1986 (Amendment No. 3) Regulations 2002, which were made on 25 July 2002 and came into force on 1 January 2003. Companies excluded from eligibility for a moratorium include those which are party to a capital market arrangement, under which a debt of at least £10,000,000 is incurred and which involves the issue of a capital market investment. The definitions of "capital market arrangement" and "capital market investment" are broad and are such that, in general terms, any company which is a party to an arrangement which involves at least £10 million of debt, the granting of security to a trustee, and the issue of a rated, listed or traded debt instrument, is excluded from being eligible for a moratorium. The Secretary of State may modify the criteria by reference to which a company otherwise eligible for a moratorium is excluded from being so eligible.

Accordingly, the provisions described above will serve to limit the issuer security trustee's ability to enforce the issuer security and/or the funding security trustee's ability to enforce the funding security to the extent that: (i) the issuer and/or funding falls within the criteria for eligibility for a moratorium at the time a moratorium is sought; (ii) if the directors of the issuer and/or funding seek a moratorium in advance of a company voluntary arrangement; and (iii) if the issuer and/or funding is considered not to fall within the capital market exception (as expressed or modified at the relevant time) or any other applicable exception at the relevant time: in those circumstances, the enforcement of any security by the issuer security trustee and/or the funding security trustee, as applicable, will be for a period prohibited by the imposition of the moratorium. In addition, the other effects resulting from the imposition of a moratorium described above may impact the transaction in a manner detrimental to noteholders.

Enterprise Act 2002

By an order made by the Under-Secretary of State for Small Business and Enterprise made on 8 August 2003, the provisions of the Enterprise Act 2002 (the "**Enterprise Act**") amending certain corporate insolvency provisions of the Insolvency Act 1986 came into force on 15 September 2003. As a result of the amendments made by the Enterprise Act, unless a floating charge falls within one of the exceptions contained in the Enterprise Act, the holder of a qualifying floating charge will be prohibited from appointing an administrative receiver to a company. The main advantage of the funding security trustee or the issuer security trustee, as the case may be, being able to appoint an administrative receiver is that a person entitled to appoint an administrative receiver can prevent the appointment of an administrator or receiver of the relevant company by one of its creditors. This allows the funding security trustee or issuer security trustee, as the case may be, to control proceedings in the event funding's or the issuer's other creditors, as the case may be, seek such action.

The floating charges to be granted by: (i) the issuer pursuant to the terms of the issuer security trust deed; and (ii) funding pursuant to the terms of the funding security trust deed, are both qualifying floating charges for the purposes of the Enterprise Act, and as such, unless excepted: (i) the issuer security trustee will be prevented from appointing an administrative receiver in respect of the issuer; and (ii) the funding security trustee will be prevented from appointing an administrative receiver in respect of funding. However, the qualifying floating charges granted by both the issuer and funding will fall within the "**capital market arrangement**" exception to the prohibition on appointment of an administrative receiver and accordingly: (i) the issuer security trustee will still be able to appoint an administrative receiver in respect of the issuer pursuant to the terms of the issuer security trust deed; and (ii) the funding security trustee will still be able to appoint an administrative receiver in respect of funding pursuant to the terms of the funding security trust deed.

Nature of security – fixed charges

Whether an English law fixed security interest expressed to be created by the funding security trust deed and/or issuer security trust deed will be upheld as a fixed security interest rather than floating security will depend, among other things, on whether the funding security trustee or issuer security trustee, as the case may be, 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 security trustee or, as the case may be, the issuer security trustee in practice. For example, it is probable that the funding security trustee or issuer security trustee, as the case may be, does not exert sufficient control over the accounts of funding or 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 as a floating charge if the proceeds thereof are paid into a bank account over which the funding security trustee or issuer security trustee, as the case may be, is not deemed to have sufficient control. There can be no assurance that a court will not recharacterise a charge expressed to be a fixed charge in favour of the funding security trustee or issuer security trustee as a floating charge.

Nature of security – floating charge

Unlike fixed charges, an English law 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 chargor 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 chargor's business. Any assets acquired by the chargor after the mortgages trust establishment date (including assets acquired as a result of the disposition of any other assets of the chargor) which are not subject to

English law fixed charges described in the preceding section (including all of the issuer's Scottish assets) will also be subject to the floating charge.

The interest of the funding secured creditors or the issuer secured creditors, as the case may be, 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 funding security or issuer security. 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 realisation less any amounts payable to 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 in aggregate. 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 the loan note tranche holders and/or the 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 funding security trust deed and the issuer security trust deed may "crystallise" and become a fixed charge over the relevant class of assets owned by the funding or the issuer, as the case may be, at the time of crystallisation. Except in relation to funding's and the issuer's Scottish assets, crystallisation will occur automatically following the occurrence of specific events set out in the funding security trust deed or, as the case may be, the issuer security trust deed, including, among other events, notice to funding or the issuer, as the case may be, from the funding issuer security trustee or the issuer security trustee following an event of default under the notes. In relation to funding's and the issuer's Scottish assets, crystallisation will occur on the appointment of an administrative receiver or on the commencement of the winding-up of funding or, as the case may be, 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 and the beneficiaries of the prescribed part on enforcement of the funding security or the issuer security, as the case may be.

Basel Capital Accord

The original Basel Accord was agreed in 1988 by the Basel Committee on Banking Supervision (the "**Committee**"). The 1988 Accord, now referred to as Basel I, helped to strengthen the soundness and stability of the international banking system as a result of the higher capital ratios that it required. The Committee supervision published the text of the new capital accord under the title: "Basel II; International Convergence on Capital Measurement and Capital Standards: a revised framework" (the "**Framework**") in June 2004. In November 2005, the Committee issued an updated version of the Framework. On 4 July 2006, the Committee issued a comprehensive version of the Framework. This Framework places enhanced emphasis on market discipline and sensitivity to risk and serves as a basis for national and supra-national rule-making and approval processes for banking organisations. The Framework was put into effect for credit institutions in Europe via the recasting of a number of prior directives. This consolidating directive is referred to as the EU Capital Requirements Directive ("**CRD**"). Member States were required to transpose, and financial services industry have to apply, the CRD by 1 January 2007. The more sophisticated measurement approaches for operational risk are required to be implemented from January 2008. Consequently, noteholders should consult their own advisers as to the consequences to and effect on them of the application of the framework, as implemented by their own regulator, to their holding of any series of notes. The issuer is not responsible for informing noteholders of the effects of the changes to risk-weighting which will result for investors from the adoption by their own regulator of the framework (whether or not implemented by them in its current form or otherwise).

In April 2008, the Basel Committee announced its intention to strengthen certain aspects of the Framework. It has published proposals for significant changes and there have been calls from various regulators for further revisions. The European Commission has also proposed changes to the Capital

Requirements Directive and amendments were put forward to the European Parliament and the Council of Ministers for consideration in October 2008.

This information includes, but is not limited to, general information in respect of the supplier and the financial service; contractual terms and conditions; and whether or not there is a right of cancellation. In general, consumers of distance contracts have a right to cancel contracts for financial services during a set period after commencement of the contract. However, subject to the consumer receiving specific pre-contract information, cancellation rights will not apply, amongst others, in the case of contracts for financial services where (i) the price of the service depends on fluctuations in the financial market outside the supplier's control (such as interest rate changes); (ii) the supplier provides credit to a consumer and the consumer's obligation to repay is secured by a legal mortgage on land; or (iii) it is a restricted use credit agreement (within the meaning of the CCA) to finance the purchase of land or an existing building, or an agreement for a bridging loan in connection with the purchase of land or an existing building. The above provisions may be enforced by way of injunction (interdict in Scotland) and any breach may render the seller and possibly its officers liable to a fine.

Any term in a distance contract will be void and unenforceable if, and to the extent that, it is inconsistent with the application of a provision of the Regulations.

If a significant portion of the mortgage loans are characterised as being cancellable under the Regulations, then there could be an adverse effect on the mortgages trustee which in turn may affect the ability of the issuer to make payments under the notes.

As and when implemented, the Framework (and any relevant changes) may affect the risk-weighting of the notes for investors who are subject to capital adequacy requirements that follow the Framework. Investors should consult their own advisers as to the consequences to and effect on them of the application of the Framework and any relevant implementing measures. Proposals and guidelines for implementing the Framework in certain participating jurisdictions are still in development and no predictions can be made as to the precise effects of these or of any changes to the Framework or to the Capital Requirements Directive on any investor or otherwise.

Book-entry interests

Unless and until individual note certificates are issued, persons acquiring notes will not be the legal owners or holders of such notes but will have rights in their capacity as participants in accordance with the rules and procedures of the relevant clearing system and in the case of indirect participants, their agreements with direct participants (such rights, "**book-entry interests**"). After payment to the common depositary and/or, as applicable, the DTC custodian, the issuer will have no responsibility or liability for the payment of interest, principal or other amounts to Euroclear; Clearstream, Luxembourg; the DTC custodian, the common depositary or to holders of book-entry interests. Either the common depositary (in the case of any Regulation S notes or any applicable Rule 144A notes) or Cede & Co as nominee of DTC (in the case of any applicable Rule 144A notes) will be the registered holder and legal owner of each series for so long as such series is represented by a global certificate. Accordingly, each person owning a book-entry interest must rely on the relevant procedures of the common depositary; the DTC custodian; Euroclear; Clearstream, Luxembourg and DTC (as applicable) and, if such person is an indirect participant in such entities, on the procedures of the direct participant through which such person holds its interest, to exercise any of noteholders' rights under the issuer security trust deed.

So long as the notes are in global form, payments of principal and interest on, and other amounts due in respect of, notes will be made to the common depositary (in the case of any Regulation S notes or any applicable Rule 144A notes) and to Cede & Co as nominee of DTC (in the case of any applicable Rule 144A notes). Upon receipt of any payment, Euroclear, Clearstream and DTC will promptly credit direct participants' accounts with payments in amounts proportionate to their respective ownership of book-entry interests, as shown on their records. The issuer expects that payments by direct participants or indirect participants to owners of interests in book-entry interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices, as is now the case with the securities held for the accounts of customers in bearer form or registered in 'street name', and will be the responsibility of such direct participants or indirect participants. None of the issuer, the issuer security trustee, the DTC custodian, any issuer paying agent or the registrar will have any responsibility or liability for any aspect of the records relating to, or payments made on account of,

the book-entry interests or for maintaining, supervising or reviewing any records relating to such book-entry interests.

Unlike holders of individual note certificates, holders of the book-entry interests will not have direct rights under the issuer security trust deed to act upon solicitations of consents or requests by the issuer for waivers or other actions from noteholders. Instead, a holder of book-entry interests will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear; Clearstream or DTC (as the case may be) and, if applicable, direct participants. There can be no assurance that procedures implemented for the granting of such proxies will be sufficient to enable holders of book-entry interests to vote on any requested actions on a timely basis. Similarly, upon the occurrence of an event of default, holders of book-entry interests will be restricted to acting through Euroclear; Clearstream, Luxembourg; DTC or the DTC custodian (as the case may be) unless and until individual note certificates are issued. There can be no assurance that the procedures to be implemented by Euroclear; Clearstream, Luxembourg; DTC and the DTC custodian under such circumstances will be adequate to ensure the timely exercise of remedies under the issuer security trust deed. See "*The Notes and the Global Notes – Form of the notes*".

Holders of beneficial interests in notes which are denominated in sterling or euros and which are held directly with DTC or through its participants must give advance notice to the exchange agent 15 days prior to each payment date that they wish payments on such Rule 144A DTC global certificates to be made to them in sterling or euro (as applicable) outside DTC. If such instructions are not given, sterling or euro payments on such notes will be exchanged for US dollars by the exchange agent prior to their receipt by DTC and the affected holders will receive US dollars on the relevant payment date.

Investment Company Act

The issuer has not registered with the SEC as an investment company pursuant to the Investment Company Act, in reliance on an exclusion under Rule 3(c)(7) of the rules and regulations of the SEC under the Investment Company Act.

If the SEC or a court of competent jurisdiction were to find that the issuer is required but, in violation of the Investment Company Act, had failed to register as an investment company, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors in the issuer could sue the issuer and recover any damages caused by the violation; and (iii) any contract to which the issuer is party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the issuer be subjected to any or all of the foregoing, the issuer would be materially and adversely affected.

Passive Foreign Investment Company Considerations

U.S. holders who hold notes that are deemed to be equity interests in the issuer for U.S. federal income tax purposes should note that the issuer will be treated as a passive foreign investment company ("**PFIC**"). The effects of such classification are that dividends received by noncorporate U.S. holders would not qualify to be taxed at a preferential rate, and all U.S. holders would be subject to additional taxes on any excess distributions received from the issuer and on any gain realized from the sale or other disposition of the notes. The foregoing rules with respect to distributions and dispositions may be avoided if a U.S. holder is eligible for and timely makes a valid qualified electing fund ("**QEF**") election. The QEF election is effective, however, only if certain required information is made available by the issuer. There can be no assurances that the issuer will provide such information to U.S. holders and, therefore, there can be no assurances that a U.S. holder will be able to make a QEF election. The issuer has not determined whether it will provide such information, and the issuer may determine that it will not do so. U.S. holders should consult their own tax advisors as to the consequences of not being able to make a QEF election. For a further discussion of the QEF election and the PFIC rules generally, please see "*Taxation – United States taxation – Junior notes – Passive foreign investment company considerations*."

Changes of law and/or regulatory, accounting and/or administrative practices

The structure of the issue of a series of notes and the ratings which are to be assigned to them are based on English law, regulatory, accounting and administrative practice in effect as at the date of this base prospectus, and having due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of the United Kingdom HM Revenue & Customs in force or applied in the United Kingdom as at the date of this base prospectus. No assurance can be given as to the impact of any possible change to English law, regulatory, accounting or administrative practice in the United Kingdom or to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of the United Kingdom HM Revenue & Customs as applied in the United Kingdom after the date of this base prospectus. Any changes to accounting practice may have an effect on the tax treatment of, *inter alios*, funding and/or the issuer.

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

USE OF PROCEEDS

An amount equal to the gross proceeds of the issue of each series of notes (after taking into account, in accordance with the terms of the then relevant issuer swap agreement, the conversion into sterling of any other currency received with respect to the issue of the notes of that series) will be used by the issuer to subscribe for the corresponding loan note tranche of such value from funding on such terms as further specified in the relevant final terms. The issuer will pay the fees and commissions arising from the issue of each series of notes by applying an amount equal to the fee payable to the issuer from funding on such issue date pursuant to the terms of the then relevant loan note tranche for these purposes.

THE ISSUER

Introduction

Gracechurch Mortgage Financing PLC was incorporated under the laws of England and Wales on 12 January 2006, under the name of Pillbay PLC, with registered number 5673206 and as a public company with limited liability under the Companies Act 1985 (as amended). The name of the issuer was changed to Gracechurch Mortgage Financing PLC by a special resolution dated 26 April 2006. The registered office of the issuer is at 1 Churchill Place, London, E14 5HP. The issuer's authorised share capital comprises 50,000 ordinary shares of £1 each. The issuer's issued share capital comprises 50,000 ordinary shares of £1 each (of which £12,501.50 is paid up). All of the issuer's issued share capital is held by Gracechurch GMF Holdings Limited except for one share held by SFM Corporate Services Limited in its capacity as the issuer share trustee. The one share held by the issuer share trustee is held pursuant to the terms of the issuer share trust dated 3 May 2006, with holdings having the beneficial interest in the issuer share trust. The seller does not own directly or indirectly any of the share capital of the issuer.

Principal activities

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

The issuer is organised as a special purpose company. The issuer was established to raise capital by the issue from time to time of series of notes and to use an amount equal to the gross proceeds of each such issuance to subscribe for a loan note tranche to be issued by funding in accordance with and pursuant to the terms of the funding security trust deed, global loan note no. 1 and the relevant supplement to global loan note no. 1.

Since its incorporation, the issuer has not engaged in any material activities other than those incidental to its registration as a public company under the Companies Act 1985 (as amended), the matters contemplated in this (and previous) base prospectuses, the authorisation of the transaction documents referred to in this base prospectus and any previous base prospectuses and/or supplements relating to the programme or any other matters which are incidental or ancillary to those activities. The issuer has no subsidiaries or employees.

The issuer's ongoing activities will principally comprise of the issue of series of notes, the subscription for loan note tranches from funding pursuant to the funding security trust deed, global loan note no. 1 and the relevant supplement to global loan note no. 1 for such loan note tranche, the entering into of all transaction documents relating to such issue and the loan note tranches to which it is expressed to be a party and the exercise of related rights and powers and other activities referred to in this base prospectus and/or final terms or those reasonably incidental to those activities.

The issuer, as applicable, entered into and will enter into the transaction documents to which it is a party for the purpose of making a profit, which, in each quarter is expected to be an amount (the "**issuer margin**") equal to 0.01 per cent. of the aggregate interest received by the issuer (other than in respect of further interest) on each loan note tranche.

Directors and secretary

The following sets out the directors of the issuer and their business addresses and principal activities. The issuer is organised as a special purpose vehicle and will be largely passive, engaging only in the types of transactions described in this base prospectus. The issuer will be managed and controlled by its directors in England. However, it is expected that whilst the company is conducting business, it will only require a small amount of active management due to its special purpose nature.

<u>Name</u>	<u>Nationality</u>	<u>Business address</u>	<u>Principal activities</u>
SFM Directors Limited	British	35 Great St. Helen's, London EC3A 6AP	Acting as corporate directors of special purpose companies

Name	Nationality	Business address	Principal activities
SFM Directors (No. 2) Limited	British	35 Great St. Helen's, London EC3A 6AP	Acting as corporate directors of special purpose companies
Jonathan Keighley	British	35 Great St. Helen's, London EC3A 6AP	Director
Andrew Robert Gray	British	1 Churchill Place, London E14 5HP	Banker
Matthew Jon Dobson	British	1 Churchill Place, London E14 5HP	Banker
Christopher John Keane (alternate director to Andrew Gray)	British	1 Churchill Place, London E14 5HP	Banker

The directors of the issuer do not have a specific term of office but each may be removed by a resolution passed at a shareholders' meeting.

Noteholders should be aware that each of the directors of the issuer potentially has a number of other directorships and private interests. There are no potential or actual conflicts of interest posed as a result of such positions or interests.

The company secretary of the issuer and its business address is:

Name	Business address
Barcosec Limited	1 Churchill Place, London E14 5HP

The directors of SFM Directors Limited and SFM Directors (No. 2) Limited and their principal activities or business occupations are:

Name	Business address	Principal activities
Jonathan Keighley	35 Great St Helen's, London EC3A 6AP	Managing Director, Structured Finance Management Limited
James Macdonald	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Robert Berry	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Claudia Wallace	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Helena Whitaker	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
John Paul Nowacki	35 Great St Helen's, London EC3A 6AP	Director, Structured Finance Management Limited
Debra Parsall (alternate director)	35 Great St Helen's, London EC3A 6AP	Senior Transaction Manager, Structured Finance Management Limited

Issuer corporate services agreement

Pursuant to the terms of the issuer corporate services agreement, the issuer corporate services provider and Barclays will each provide certain corporate services to the issuer. The issuer corporate services provider will receive an annual fee of between £7,000 and £10,000 each year, (exclusive of VAT), depending on the aggregate amount of the notes outstanding for provision of these services.

Litigation

There are no, nor in the 12 months before the date of this base prospectus, have there been any, governmental, legal or arbitration proceedings, including any proceedings that are pending or threatened of which the issuer is aware which may have, or have had in the recent past, a significant effect on the issuer's financial position or profitability.

Financial Information

The issuer's audited balance sheets, related statements of income and reconciliation of movement in equity shareholders funds are set out in Appendix C to this base prospectus.

There has been no material adverse change in the issuer's financial position or prospects since 31 December 2008 and, since that date, there has been no significant change in the financial or trading position of the issuer.

GRACECHURCH GMF FUNDING 1 LIMITED

Introduction

Gracechurch GMF Funding 1 Limited was incorporated under the laws of England and Wales on 12 January 2006, under the name of Ebonygrange Limited, with registered number 5673075 and as a private company with limited liability under the Companies Act 1985 (as amended). The name of funding was changed to Gracechurch GMF Funding 1 Limited by a special resolution dated 26 April 2006. The registered office of funding is at 1 Churchill Place, London E14 5HP.

Funding's authorised share capital comprises 100 ordinary shares of £1 each. Funding's issued share capital comprises one ordinary share of £1 each (of which £1 is paid up). All of funding's issued share capital is held by (or by nominees for) the Gracechurch GMF IB share trustee.

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

Principal activities

Funding is organised as a special purpose company. Funding has no subsidiaries or employees.

Since its incorporation, funding has not engaged in any material activities other than those relating to the issue of the loan note tranches, becoming a beneficiary of the mortgages trust, authorising the transaction documents referred to in this base prospectus, filing a notification under the Data Protection Act 1998 and other matters which are incidental or ancillary to those activities.

Funding, as applicable, has entered and will enter into the transaction documents to which it is a party for the purpose of making a profit, which, in each quarter, is expected to be an amount (the "**funding margin**") equal to 0.01 per cent. of mortgages trustee available revenue receipts distributed to and received by funding.

The current financial period of funding will end on 31 December 2009. Funding will not prepare interim financial statements. The financial year of funding ends on 31 December each year.

Directors and secretary

The following sets out the directors of funding and their business addresses and principal activities. Funding is organised as a special purpose vehicle and is largely passive, engaging only in the types of transactions described in this base prospectus. Funding is managed and controlled by its directors in England and Wales. However, it is expected that whilst the company is conducting business, it will only require a small amount of active management due to its special purpose nature.

<u>Name</u>	<u>Nationality</u>	<u>Business address</u>	<u>Principal activities</u>
Bedell (Corporate Services) UK Limited	British	11 Old Jewry, London EC2R 8DU	Acting as corporate company director of special purpose companies
Roland Mark Deller	British	11 Old Jewry, London EC2R 8DU	Director
Pauline Audrey Gale	British	11 Old Jewry, London EC2R 8DU	Director
Andrew Robert Gray	British	1 Churchill Place, London E14 5HP	Banker
Matthew Jon Dobson	British	1 Churchill Place, London E14 5HP	Banker
Christopher John Keane (alternate director of Andrew Gray)	British	1 Churchill Place, London E14 5HP	Banker

The directors of funding do not have a specific term of office but each may be removed by a resolution passed at a shareholders' meeting.

The company secretary of funding and its business address is:

Name	Business address
Barcosec Limited	1 Churchill Place, London E14 5HP

the directors of Bedell (Corporate Services) UK Limited and their principal activities or business occupations are:

Name	Business Address	Principal business activities
Pauline Audrey Gale	11 Old Jewry, London EC2R 8DU	Director
John Vincent Ventress	11 Old Jewry, London EC2R 8DU	Lawyer
Michael Robinson	11 Old Jewry, London EC2R 8DU	Accountant
Nicholas Blair Cawley	11 Old Jewry, London EC2R 8DU	Accountant
Shane Michael Hollywood	11 Old Jewry, London EC2R 8DU	Advocate
Roland Mark Deller	11 Old Jewry, London EC2R 8DU	Director

Noteholders should be aware that each of the directors of funding potentially have a number of other directorships and private interests. Roland Deller and Pauline Audrey Gale are directors of Bedell Trust UK Limited which along with Bedell (Corporate Services) UK Limited, Bedell Trust Company Limited, Bedell Trustees Limited and Bedell Secretaries Limited is ultimately owned by the partners for the time being of the Bedell Group. The directors of Bedell (Corporate Services) UK Limited all work within the Bedell Group.

Bedell Cristin Jersey Partnership is legal adviser as to matters of Jersey law to the mortgages trustee, funding, funding (no. 2) and Barclays and fees will be payable to Bedell Cristin Jersey Partnership from time to time for acting in such capacity. Fees are payable to Bedell Trust UK pursuant to and in accordance with the terms of the funding corporate services agreement. Fees are payable to Bedell Trust Company Limited pursuant to and in accordance with the terms of the mortgages trustee corporate services agreement. Funding is aware that the payment of such fees, the group relationships outlined and the appointments of Bedell (Corporate Services) UK Limited, Roland Deller and Pauline Audrey Gale may result in potential conflicts of interest between the duties owed to it and these private interests.

No potential conflicts of interest exist between any duties to funding of the remaining directors, being Andrew Gray, Matthew Dobson and Christopher Keane, and their private interests or other duties.

Funding shall at all times maintain at least one independent natural person as a director.

Funding corporate services agreement

Pursuant to the terms of the funding corporate services agreement, the funding corporate services provider and Barclays each provide certain directors to funding. The funding corporate services provider receives an annual fee of £8,000 each year plus disbursements exclusive of VAT for provision of these services.

Litigation

There are no, nor in the 12 months before the date of this base prospectus, have there been any governmental, legal or arbitration proceedings, including any proceedings that are pending or threatened of which funding is aware which may have, or have had in the recent past, a significant effect on funding's financial position or profitability.

Financial Information

Funding's audited balance sheets, related statements of income and reconciliation of movement in equity shareholders funds are set out in Appendix D to this base prospectus.

THE MORTGAGES TRUSTEE

Introduction

Gracechurch GMF Trustee Limited was incorporated under the laws of Jersey, Channel Islands on 26 April 2006 with registered number 93254 as a private company with limited liability under the Companies (Jersey) Law 1991. The registered office of the mortgages trustee is at 26 New Street, St. Helier, Jersey JE2 3RA, Channel Islands. The mortgages trustee's authorised and issued share capital comprises two ordinary shares of £1. The mortgages trustee's issued share capital comprises two limited liability shares of £1 (which are fully paid up). All of the mortgages trustee's issued share capital is beneficially held by (or by nominees for) the Gracechurch GMF MT share trustee.

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

Principal activities

The mortgages trustee is organised as a special purpose company. The mortgages trustee has no subsidiaries.

The current financial period of the mortgages trustee will end on 31 December 2009. The mortgages trustee will not prepare interim financial statements. The financial year of the mortgages trustee ends on 31 December each year.

Directors and secretary

The following sets out the directors of the mortgages trustee and their business addresses and principal activities. The mortgages trustee is organised as a special purpose vehicle and will be largely passive, engaging only in the types of transactions described in this base prospectus. The mortgages trustee is managed and controlled by its directors in Jersey, however, it is expected that whilst the company is conducting business, it will only require a small amount of active management due to its special purpose nature.

<u>Name</u>	<u>Nationality</u>	<u>Business address</u>	<u>Principal activities</u>
Rebecca Liesl Bates	British	26 New Street St. Helier, Jersey JE2 3RA	Trust Director
Shane Michael Hollywood	British	26 New Street St. Helier, Jersey JE2 3RA	Advocate
Alasdair James Hunter	British	26 New Street St. Helier, Jersey JE2 3RA	Advocate
Andrew Robert Gray	British	1 Churchill Place, London E14 5HP	Banker
Matthew Jon Dobson	British	1 Churchill Place, London E14 5HP	Banker
Christopher John Keane (alternate director to Andrew Gray)	British	1 Churchill Place, London E14 5HP	Banker

The directors of the mortgages trustee do not have a specific term of office but each may be removed by a resolution passed at a shareholders' meeting.

Noteholders should be aware that each of the directors of the mortgages trustee have a number of other directorships and private interests. Shane Michael Hollywood and Alasdair James Hunter are partners in the Bedell Group which ultimately wholly owns Bedell Trust UK Limited, Bedell (Corporate Services) UK Limited, Bedell Trust Company Limited, Bedell Trustees Limited and Bedell Secretaries Limited, partners in the law firm Bedell Cristin Jersey Partnership and also directors of PECO. Rebecca Bates is a trust director of Bedell Trust Company Limited and a director of PECO.

The company secretary of the mortgages trustee and its business address is:

<u>Name</u>	<u>Business address</u>
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Litigation

There are no, nor in the 12 months before the date of this base prospectus have there been any legal or arbitration proceedings which may have, or have had, a significant effect on the mortgages trustee's financial position. The mortgages trustee is not aware that any such proceedings are pending or threatened.

Mortgages trustee corporate services agreement

Pursuant to the terms of the mortgages trustee corporate services agreement, the mortgages trustee corporate services provider provides directors to the mortgages trustee and also provides other corporate services to the mortgages trustee in consideration for the payment by funding of an annual fee of £8,000 each year plus disbursements to the mortgages trustee corporate services provider.

THE PECO

Introduction

Gracechurch GMF Options Limited, was incorporated under the laws of Jersey, Channel Islands on 26 April 2006. The registered office of the PECO is at 26 New Street, St Helier, Jersey JE2 3RA, Channel Islands. The PECO's authorised and issued share capital comprises two ordinary shares of £1 which are fully paid up.

All of the PECO's issued share capital is held by (or by nominees for) the Gracechurch GMF IB share trustee pursuant to the terms of the Gracechurch GMF IB share trust.

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

Principal activities

The principal objects of the PECO are as set out in its memorandum of association and are, amongst other things, to hold any post-enforcement call options to be entered into by the issuer in relation to any series of notes.

The PECO is organised as a special purpose company. Since its incorporation, the PECO has not engaged in any material activities other than those activities incidental or relating to authorising the transaction documents referred to in this base prospectus and other matters which are incidental to those activities. The PECO has no subsidiaries or employees.

The current financial period of the PECO will end on 31 December 2009. The PECO will not prepare interim financial statements. The financial year of the PECO ends on 31 December each year.

Directors and secretary

The following sets out the directors of the PECO and their business addresses and principal activities. The PECO is organised as a special purpose vehicle and will be largely passive, engaging only in the types of transactions described in this base prospectus. The PECO will be managed and controlled by its directors in Jersey. However, it is expected that whilst the company is conducting business, it will only require a small amount of active management due to its special purpose nature.

<u>Name</u>	<u>Nationality</u>	<u>Business address</u>	<u>Principal activities</u>
Rebecca Liesl Bates	British	26 New Street St. Helier, Jersey JE2 3RA	Trust Director
Shane Michael Hollywood	British	26 New Street St. Helier, Jersey JE2 3RA	Advocate
Alasdair James Hunter	British	26 New Street St. Helier, Jersey JE2 3RA	Advocate
Andrew Robert Gray	British	1 Churchill Place, London E14 5HP	Banker
Matthew Jon Dobson	British	1 Churchill Place, London E14 5HP	Banker
Christopher John Keane (alternate director to Andrew Gray)	British	1 Churchill Place, London E14 5HP	Banker

The directors of the PECO do not have a specific term of office but each may be removed by an ordinary resolution passed at a shareholders' meeting.

Noteholders should be aware that each of the directors of the PECO has a number of other directorships and private interests. Shane Michael Hollywood and Alasdair James Hunter are partners in the Bedell Group which ultimately wholly owns Bedell Trust UK Limited, Bedell (Corporate Services) UK Limited, Bedell Trust Company Limited, Bedell Trustees Limited and Bedell Secretaries Limited, partners in the law firm Bedell Cristin Jersey Partnership and also directors of the mortgages trustee. Rebecca Bates is a trust director of Bedell Trust Company Limited and a director of the mortgages trustee.

The company secretary of the PECO and its business address is:

Name	Business address
Bedell Secretaries Limited	PO Box 75, 26 New Street St. Helier, Jersey JE4 8PP

Litigation

There are no, nor in the 12 months before the date of this base prospectus have there been any legal or arbitration proceedings which may have, or have had, a significant effect on the PECO's financial position. The PECO is not aware that any such proceedings are pending or threatened.

The PECO corporate services agreement

Pursuant to the terms of the PECO corporate services agreement, the PECO corporate services provider provides certain directors to the PECO and also provides other corporate services to the PECO in consideration for the payment by funding of an annual fee of £4,000 each year plus disbursements to the PECO corporate services provider.

BARCLAYS BANK PLC

Barclays Bank PLC performs the following roles in connection with the issuance of the notes:

- (a) the seller;
- (b) the issuer of the MRCLN;
- (c) the provider of MRCLN collateral (if required);
- (d) the basis rate swap provider;
- (e) the issuer swap provider;
- (f) the lender under the senior expenses loan facility agreement;
- (g) the lender under the junior expenses loan facility agreement;
- (h) the lender under the yield supplement loan facility agreement;
- (i) the administrator;
- (j) the mortgages trustee cash manager;
- (k) the funding cash manager;
- (l) the issuer cash manager;
- (m) the arranger; and
- (n) a dealer.

Business

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

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

The short-term unsecured obligations of Barclays Bank PLC are rated A-1+ by Standard & Poor's, P-1 by Moody's and F1+ by Fitch Ratings Limited and the long-term obligations of Barclays Bank PLC are rated AA- by Standard & Poor's, Aa3 by Moody's and AA- by Fitch Ratings Limited.

Based on the Group's audited financial information for the year ended 31 December 2008, the Group had total assets of £2,053,029 million (2007: £1,227,583 million), total net loans and advances¹ of £509,522 million (2007: £385,518 million), total deposits² of £450,443 million (2007: £386,395 million), and total shareholders' equity of £43,574 million (2007: £31,821 million) (including minority interests of £2,372 million (2007: £1,949 million)). The profit before tax of the Group for the year ended 31 December 2008 was £6,035 million (2007: £7,107 million) after impairment charges on loans and advances and other

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

² Total deposits include deposits from bank and customer accounts.

credit provisions of £5,419 million (2007: £2,795 million). The financial information in this paragraph is extracted from the audited consolidated financial statements of the Group contained in the Barclays Bank PLC Annual Report for the year ended 31 December 2008.

Based on the Group's unaudited financial information for the six months ended 30 June 2009, the Group had total assets of £1,545,528 million total net loans and advances³ of £464,748 million, total deposits⁴ of £424,908 million and total shareholders' equity of £48,846 million (including minority interests of £2,533 million). The profit before tax of the Group for the six months ended 30 June 2009 was £2,965 million after impairment charges and other credit provisions of £4,556 million. The financial information in this paragraph is extracted from the unaudited Interim Results Announcement of the Group for the six months ended 30 June 2009.

The annual report on Form 20-F for the year ended 31 December 2008 of Barclays PLC and Barclays Bank PLC is on file with the Securities and Exchange Commission and Barclays will provide, without charge to each person to whom this base prospectus is delivered, on the request of that person, a copy of such Form 20-F. Written requests should be directed to: Barclays Bank PLC, 1 Churchill Place, London E14 5HP, England, Attention: Barclays Group Corporate Secretariat.

None of the class A notes, the class B notes, the class C Notes, the class D notes, the class E Notes, the class F Notes or the class RF notes will be obligations of Barclays or any of its affiliates.

³ Total net loans and advances include balances relating to both bank and customer accounts.

⁴ Total deposits include deposits from bank and customer accounts.

THE MORTGAGE ASSETS

Introduction

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

Certain characteristics of the mortgage assets

The following is a description of some of the characteristics of the mortgage assets currently or previously originated by the seller and includes details of mortgage loan types, the underwriting process and the lending criteria. Selected statistical information on the relevant cut-off date mortgage account portfolio in respect of each issue date will be included in the relevant final terms.

Each mortgage loan in the mortgage loan portfolio and any associated reference mortgage reserve may incorporate one or more of the features referred to in this section.

The seller will not sell to the mortgages trustee any mortgage loan which, as at the date of sale, was in arrears in an amount more than the then current monthly payment due on such mortgage loan and will not sell to the mortgages trustee any mortgage loan or make any associated mortgage reserve a reference mortgage reserve if such mortgage asset is at such time a non-performing mortgage asset. If the seller elects to sell a particular mortgage loan to the mortgages trustee it must, pursuant to the terms of the mortgage sale agreement and the MRCLN, also treat the associated mortgage reserve as a reference mortgage reserve for the purposes of the MRCLN (as to the consequences of which, see "*The MRCLN*").

Each borrower may have more than one mortgage loan, together with a mortgage reserve. All mortgage loans and mortgage reserves secured on the same mortgaged property will be treated as a single mortgage with the seller (a "**mortgage account**").

Each mortgage loan and any associated reference mortgage reserve is secured by a charge by way of a first ranking legal mortgage over a residential property in England or Wales (an "**English mortgage**") or a first ranking standard security over a residential property in Scotland (a "**Scottish mortgage**") or a first ranking mortgage (in the case of unregistered land) or a first ranking charge (in the case of registered land) over a residential property in Northern Ireland (each a "**Northern Irish mortgage**"). A "**mortgage**" means an English mortgage, a Scottish mortgage or, as applicable, a Northern Irish mortgage. Each mortgage loan and associated mortgage reserve secured over a property located in England or Wales (an "**English loan**") is subject to English law, each mortgage loan and associated mortgage reserve secured over a property located in Scotland (a "**Scottish loan**") is subject to Scots law and each mortgage loan and associated mortgage reserve secured over a property located in Northern Ireland (a "**Northern Irish loan**") is subject to Northern Irish law. The final terms will set out the geographical concentration of the mortgage accounts contained in the relevant cut-off date mortgage account portfolio in respect of the issue of a series.

The seller will select randomly which mortgage assets from the then potential mortgage account portfolio (and any subsequent mortgage account portfolio) will be: (i) in respect of the mortgage loans in such mortgage accounts, sold to the mortgages trustee on an issue date; and (ii) in respect of any associated mortgage reserves in such mortgage accounts, elected to be reference mortgage reserves for the purposes of the MRCLN. In making its selection, the seller will exclude from the potential mortgage account portfolio those mortgage accounts that have been repaid in full or that do not comply with the terms of the mortgage sale agreement and the MRCLN note purchase facility agreement on an issue date (or in the case of mortgage accounts whose mortgage loans are sold subsequently, on any other date of the sale of such mortgage loans (any such date of sale (including the mortgages trust establishment date and, potentially, any issue date) being, an "**assignment date**") to the mortgages trustee and the reclassification of any associated mortgage reserves as reference mortgage reserves). Once such mortgage accounts are removed, the seller will then randomly select from the mortgage accounts remaining in the then potential mortgage account portfolio those mortgage accounts to be included in the relevant issue date mortgage account portfolio once a determination has been made as to the principal balances of the then series of notes to be issued and the corresponding size of the new trust property (comprising the then issue date

mortgage loan portfolio and the increased principal amount outstanding on the MRCLN) that is required ultimately to support payments on the series of notes to be issued on the relevant issue date.

The seller does not expect the characteristics of the mortgage account portfolio as of an issue date to differ materially from the characteristics as of the relevant cut-off date. Unless otherwise indicated, the following description relates to types of mortgage assets that could be included in the mortgage account portfolio as of any issue date or on any subsequent date.

The seller may sell further mortgage loans (the "**new mortgage loans**") and their related security and the benefit of certain insurance policies to the mortgages trustee after an issue date (with their associated mortgage reserves at such time being elected to be reference mortgage reserves (the "**new mortgage reserves**" and, together with the new mortgage loans, the "**new mortgage assets**") leading to a subsequent increase in the principal amount outstanding on the MRCLN).

Changes to the lending criteria and the terms and conditions governing the mortgage assets

The mortgage loans in the mortgage loan portfolio will have been originated according to the lending criteria of the seller (the "**lending criteria**") which were applicable at the time each such mortgage loan was offered.

The seller is entitled to change its lending criteria from time to time, so that new mortgage loans and mortgage reserves originated after the date of that change will be subject to such new lending criteria. Notwithstanding any such change to such lending criteria, such new mortgage loans may still be sold to the mortgages trust and such mortgage reserves may become reference mortgage reserves **provided that** the mortgage loans and mortgage reserves are able to continue to comply with the seller's representations and warranties set out in the mortgage sale agreement, including a representation that those new mortgage loans and mortgage reserves were originated in accordance with the seller's lending criteria applicable at the time of such origination.

The seller is also entitled to change its mortgage loan terms and conditions and/or the mortgage reserve terms and conditions, from time to time. It may be the case that such change in the seller's terms and conditions will affect the terms and conditions of new mortgage loans and mortgage reserves originated after the date of such change. However, notwithstanding any such change, such new mortgage loans may still be sold to the mortgages trust and such mortgage reserves may become reference mortgage reserves **provided that** the mortgage loans and mortgage reserves are able to continue to comply with the seller's representations and warranties set out in the mortgage sale agreement. It may also be the case that such change in the seller's terms and conditions will also amend the terms and conditions of the existing mortgage loans already within the mortgage loan portfolio and/or the terms and conditions of mortgage reserves which are already reference mortgage reserves. However, notwithstanding any such change, such mortgage loans may still remain within the mortgage loan portfolio and such mortgage reserves may still remain as reference mortgage reserves **provided that** no such changes constitute a product switch. If such change constitutes a product switch, the seller will be required to repurchase the relevant mortgage loans and the associated mortgage reserves will cease to be reference mortgage reserves for the purposes of the MRCLN (resulting in a repayment of the relevant portion of the MRCLN in accordance with its terms). In addition, the seller will be required, pursuant to the terms of the mortgage sale agreement and prior to being able to adopt any new set of mortgage loan conditions and/or mortgage reserve conditions in respect of any mortgage loans to be sold to the mortgages trustee or in respect of any mortgage loans already in the mortgage portfolio or any mortgage reserves that are already reference mortgage reserves, to provide a legal opinion addressing, *inter alia*, the regulatory enforceability of any new set of mortgage loan conditions and/or mortgage reserve conditions to each of funding, funding (no. 2), the funding security trustee and the funding (no. 2) security trustee (if any) and in a form satisfactory to such addressees.

(See "*The Assignment of the Mortgage Loans and Related Security*").

Mortgage products offered by the seller

The seller offers a variety of fixed rate, variable rate, tracker rate, discounted rate and hybrid mortgage products (each, a "**product type**") to borrowers and which are marketed to borrowers under the "Woolwich", "Openplan" and/or "Barclays" trade names of Barclays. The seller may sell to the

mortgages trustee any of the following of its mortgage products, which in each case may comprise one, or a combination of, the following:

- (a) "**tracker rate mortgage loans**": these track and are subject to a rate linked to the Barclays base rate or, alternatively, the Bank of England's base rate for the life of the mortgage loan;
- (b) "**standard variable rate mortgage loans**": these track and are subject to the Barclays standard variable rate for the life of the mortgage loan;
- (c) "**fixed rate mortgage loans**": are subject to a fixed interest rate for a specified period of time (usually a period of 2, 3, 5 or 10 years) and at the expiration of that period are generally subject to a rate linked to the Barclays standard variable rate or a tracker rate;
- (d) "discounted variable rate mortgage loans": are tracker rate mortgage loans or standard variable rate mortgage loans which are subject to a discount for a specified period of time (usually a period between 12 and 24 months) and at the expiration of that period are generally subject to a rate linked to the Barclays base rate, the Bank of England's base rate or the Barclays standard variable rate (as applicable). The tracker rate mortgage loans, the standard variable rate mortgage loans and the discounted variable rate mortgage loans are together referred to in this base prospectus as the "**variable rate mortgage loans**".

It should however be noted that all mortgage reserves associated with a mortgage loan will be subject either to the Barclays standard variable rate or to a rate linked to the Barclays base rate or the Bank of England's base rate.

In addition certain mortgage loans ("**offset mortgage loans**") may have an additional feature of being economically linked to a borrower's current and/or savings accounts with Barclays where a borrower may offset any credit balances in their current and/or savings account against money owed on their mortgage loan. Under an offset mortgage loan, the seller will not charge the borrower interest in relation to amounts outstanding under that mortgage loan to the extent such amounts equal the credit balances of the borrower's current and/or savings account, and the borrower shall not earn any equivalent amount of interest on those credit balances of their current and/or savings account. Offset mortgage loans are currently only available on tracker rate mortgage loans. It should be noted that unless stated in the relevant final terms, no mortgage loans sold to the mortgages trustee on any issue date or assignment date will be offset mortgage loans.

In addition, the mortgage assets have the following key features:

- (a) a mortgage loan may be for the purposes of purchase and remortgage (including release of equity) and home improvement;
- (b) a mortgage reserve may be utilised for any purpose by the borrower (including the payment of any amounts then due on the mortgage loan);
- (c) they are available to owner-occupiers only. No mortgage asset in the mortgage account portfolio will be secured over a property used solely as a commercial property, guarantor, right to buy, or secured only by a second charge or will have been originated as a "buy to let" mortgage product;
- (d) interest rates on the mortgage loan can be a combination of fixed and variable rate (which may be discounted or capped for an initial period), with the interest rate on the associated mortgage reserve being at either a rate linked to the Barclays standard variable rate or Barclays base rate or the Bank of England's base rate;
- (e) when any fixed rate or discounted rate finishes, the rate on the mortgage loan will generally revert to the then standard variable rate or a rate linked to the Barclays base rate or the Bank of England's base rate;
- (f) the minimum advance to a borrower in respect of a mortgage account is £5,000, and higher value advances are tiered by loan to value ratio, or LTV, (for example for amounts up to and including £500,000 at 95 per cent. LTV, for amounts in excess of £500,000 but less than £1,000,000 at 90 per cent. and for amounts in excess of £1,000,000 at 85 per cent. LTV), save that all loans in excess of £500,000 are also subject to individual underwriting requirements and approval;

- (g) they have the ability, in certain mortgage products, to enable a borrower to take out a further advance up to the then permitted loan to value ratio (as currently set out in paragraph (f) above) (when aggregated with the then mortgage account balance for such mortgage account), subject to customer status, lending and product criteria;
- (h) borrowers are not permitted to withdraw amounts from the mortgage reserve of a mortgage account which:
 - (i) takes the mortgage reserve account balance of such mortgage reserve beyond the then agreed mortgage reserve credit limit; nor
 - (ii) allows the aggregate debt represented by the then current balance on the mortgage loan and the then mortgage reserve account balance on the associated mortgage reserve to exceed beyond the then agreed mortgage reserve credit and aggregate debt limit,

such amounts being set at the time of origination of the mortgage loan by reference to an agreed LTV. The seller has the right to increase or reduce the mortgage reserve credit limit and the mortgage reserve credit and aggregate debit limit on any mortgage account at any time and at its sole discretion (subject to providing, in the case of a reduction, the borrower with 14 days written notice). It should however be noted that: (i) borrowers (despite not being authorised to do so) may from time to time draw further amounts from the mortgage reserve in excess of such agreed limits; and (ii) the charge of mortgage reserve interest on such mortgage reserve may also take the mortgage reserve account balance above such agreed limits. Ultimately, if such amounts are not repaid promptly by the borrower to rectify such breach of the lending terms, this will cause the related security in respect of the mortgage account to become enforceable;

- (i) the minimum term for a mortgage loan is 5 years. All mortgage loans must normally be repaid before the borrower is 70 years old or normal statutory retirement age whichever is earlier;
- (j) no mortgage guarantee premium (higher lending charge) is required to be paid by a borrower on loans originated after March 2005;
- (k) a borrower may move a mortgage product to a new property (each such move is known as a "**port**"). In porting, the borrower will retain any product features and the terms that remain outstanding on this product;
- (l) if either:
 - (i) a discounted variable rate mortgage loan is partially or fully redeemed within the early repayment charge period (which may in certain circumstances be longer than the discounted rate term); or
 - (ii) a fixed rate mortgage loan is partially or fully redeemed within the early repayment charge period (which may in certain circumstances be longer than the fixed rate term); or
 - (iii) a tracker rate mortgage loan is partially or fully redeemed within the early repayment charge period (which may in certain circumstances be longer than the tracker rate period); or
 - (iv) a standard variable rate mortgage loan is partially or fully redeemed during the early repayment charge period (which may in certain circumstances be longer than the standard variable rate period),

an additional charge (an "**early repayment charge**") will be payable by the borrower (for the avoidance of doubt, there is no early repayment charge on any repayment of any amount debited to the mortgage reserve);

- (m) most products contain an option under which the borrower may repay up to 10 per cent. of the outstanding balance of the mortgage loan in any year without incurring an early repayment charge (however, the exact terms may vary by product);

- (n) either regularly or as a lump sum, overpayments ("**overpayments**") may be made on any portion of a mortgage loan (subject to paragraphs (k), (l) and (m) above);
- (o) some mortgage loans allow for lump sum payments to be made which may be capped to a specific annual amount or multiple amounts according to each product type;
- (p) interest shall only be charged on drawings made under the mortgage reserves and not the mortgage reserve credit limit; and
- (q) interest on a mortgage loan and a mortgage reserve is accrued daily.

The seller reserves the right to amend the mortgage loan conditions and/or the mortgage reserve conditions from time to time, after the relevant mortgage loans are sold to the mortgages trust or the relevant mortgage reserves have become reference mortgage reserves. See "*Changes to the lending criteria and the terms and conditions governing the mortgage assets*".

Repayment terms of the mortgage loans

Borrowers typically make payments of interest and repay principal on their mortgage loans using one of the following two methods or a combination of both (known as "**part and part**"):

- (a) "**repayment mortgage loans**": the borrower makes monthly payments of both interest and principal so that, when the mortgage loan is scheduled to mature, the borrower will have repaid the full amount of the principal of the mortgage loan; and
- (b) "**interest-only mortgage loans**": the borrower makes monthly payments of interest but not of principal. When the mortgage loan matures, the entire principal amount of the mortgage loan is still outstanding and the borrower must repay that amount in one lump sum.

(See "*Risk factors – Interest-only mortgage loans and combination mortgage loans*").

Borrowers have the flexibility to switch from an interest-only mortgage loan to a repayment mortgage loan and vice versa. However, prior to a borrower switching from a repayment mortgage loan to an interest-only mortgage loan the borrower is required to confirm that such borrower has put in place appropriate investment plans or other repayment mechanisms so as to provide it with sufficient sums to repay the relevant principal amount due at the end of the term of the mortgage loan.

The required monthly payment due on each monthly payment date (the "**monthly payment**") in connection with repayment mortgage loans or interest-only mortgage loans may vary from month to month for various reasons, including changes in interest rates.

All borrowers in respect of the mortgage loans in the mortgage loan portfolio may make monthly payments to the seller by direct debit, standing order, cheque or in cash.

Repayment and operation of the mortgage reserves

Openplan flexible mortgages

Those borrowers with an Openplan flexible mortgage are at the time of the origination of such mortgage loan, required to open a bank account with the seller (such an account being a "**current account**") or link an existing and qualifying current account. The seller may, in accordance with the terms of the mortgage reserve conditions, grant the borrower a secured overdraft facility (the "**mortgage reserve**") operated from such current account.

Operation of the current accounts and reserve accounts

The current accounts are intended to be flexible and provide the borrowers with the ability to use the current account for day-to-day activities (given the various manners in which the borrowers may draw from such account as provided below) such as borrowing money, utilising the money to take payment holidays on the associated mortgage loan and making overpayments and partial redemptions on the relevant mortgage loan. Although the reserve account is structured like a current account, it is not subject to the day-to-day activity of a typical current account and accordingly, borrowers have tended historically

to draw on the reserve account for large expenses (for example, redecorating their property, buying a car), although no assurance is given that the borrowers will not use such reserve accounts in other ways.

When a borrower goes into arrears for the equivalent of two months payments on its mortgage payments, the mortgage reserve credit limit is capped at the lesser of: (i) whatever is outstanding, and (ii) £100.

It should be noted that a mortgage reserve operates as a standard overdraft facility for the borrower in that:

- (a) the borrower is permitted, in normal circumstances, to withdraw amounts from the mortgage reserve at any time (but only up to the then mortgage reserve credit limit) and the borrower has the ability to do so by way of cheque, debit card, direct debits and/or telephone or internet banking, ATM machines and bank branches;
- (b) the borrower may also credit amounts from time to time to the bank account (and thus to the mortgage reserve) so as to reduce the mortgage reserve account balance, however there is no requirement for the borrower to do so at any time (other than when the mortgage reserve account balance is in excess of the then mortgage reserve credit limit, when the mortgage loan matures or otherwise terminates and is required to be repaid in full or if the seller demands the mortgage reserve to become immediately repayable);
- (c) the seller will charge interest on any mortgage reserve account balance outstanding from time to time and as calculated on a daily basis and charged monthly, or, as applicable, quarterly, however there is no obligation on the borrower to make a physical payment with respect to such interest charge (other than when the mortgage reserve account balance is in excess of the then mortgage reserve credit limit, when the mortgage loan matures or otherwise terminates and is required to be repaid in full or if the seller demands the mortgage reserve to become immediately repayable); and therefore any interest charge will normally add to and increase the then mortgage reserve account balance.

At the time of origination the seller will determine, by reference to an agreed LTV, the maximum permitted mortgage reserve account balance that can be outstanding on the mortgage reserve at any one time (the "**mortgage reserve credit limit**") and also the aggregate amount of debt that can be outstanding on the mortgage loan and the associated mortgage reserve at any one time (the "**mortgage reserve credit and aggregate debt limit**").

Payments of principal (whether scheduled or in respect of overpayments) may increase a borrower's mortgage reserve credit limit on the applicable mortgage reserve. This may occur if there is a payment of principal that makes the aggregate payment of principal on a mortgage loan since the later of: (i) the initial date on which mortgage reserve was established; or (ii) the immediately preceding date on which the mortgage reserve credit limit is reset as a result of a payment of principal or arrears of payments of principal on the mortgage loan (any such date being a "**mortgage reserve credit limit increase rebalance date**"), greater than a certain preset amount (a "**rebalance limit**") in which case the mortgage reserve credit limit on the mortgage reserve will increase by an amount equal to the aggregate payment of principal since the immediately preceding mortgage reserve credit limit increase rebalance date. However, it should be noted that such payment does not itself increase the mortgage reserve credit and aggregate debt limit on the mortgage account. Any increase in the mortgage reserve credit limit is referred to herein as a "**mortgage reserve credit limit increase**" and any increase in the mortgage reserve credit and aggregate debt limit is referred to herein as a "**mortgage reserve credit and aggregate debt limit increase**". The rebalance limit as at the date of this base prospectus is £2,000, but may change from time to time as typical monthly mortgage repayments change in size.

In addition, the mortgage reserve credit limit of a borrower's mortgage reserve may decrease if the associated mortgage loan is in arrears in relation to amounts of principal, interest, fees and/or other amounts due and payable. This may occur if the aggregate amount of such arrears since the later of: (i) the initial date on which the mortgage reserve was established; or (ii) the immediately preceding date on which the mortgage reserve credit limit is reset as a result of a mortgage loan being in arrears (any such date being a "**mortgage reserve credit limit decrease rebalance date**"), is greater than the rebalance limit, in which case the mortgage reserve credit limit of the mortgage reserve will decrease by an amount approximately equal to (due to taking into account certain rounding of amounts) the aggregate amount of such arrears since the immediately preceding mortgage reserve credit limit decrease rebalance date. Any

such decrease in the mortgage reserve credit limit is referred to herein as a "**mortgage reserve credit limit decrease**".

The seller has the right to reduce the mortgage reserve credit limit and the mortgage reserve credit and aggregate debit limit on any mortgage account at any time and at its sole discretion (subject to providing the borrower with 14 days' written notice).

It should be further noted that no mortgage reserve and none of the rights and/or obligations under the mortgage reserve conditions of such mortgage reserve will be transferred by the seller to the mortgages trustee at any time. As such, the repayment by the borrower of any amount of the mortgage reserve account balance on a mortgage reserve will not, directly, result in any payments to the mortgages trustee. However any such payment will, pursuant to the terms of the MRCLN, trigger a payment on the MRCLN in an amount equal to such payment on the reference mortgage reserve (which may be of a principal or, in certain instances, an interest nature).

Changes to the operation of Woolwich current and savings accounts

In 2006 Barclays announced a programme of changes to its Woolwich branches including converting Woolwich branches into Barclays branches (or merging Woolwich and Barclays branches together where appropriate). This programme also includes the policy of transferring existing Woolwich current and savings accounts across to a similar current and savings account operated under the Barclays brand. The changes were completed by October 2007. Accordingly, borrowers with existing Openplan flexible mortgages had their mortgage reserve accounts migrated to a Barclays mortgage current account. These customers continue to access their mortgage reserve through their mortgage current account. The transfer of accounts is an automatic process and borrowers were notified of the changes at the relevant time. The administrator continues to administer all mortgage reserves and all relevant reference mortgage reserves continue to be classified as reference mortgage reserves for the purposes of the MRCLN. The "Woolwich" name will continue within Barclays as the brand name under which Barclays operates its mortgage service.

Early repayment charges

A borrower will be subject to an early repayment charge (an "**early repayment charge**") on its mortgage loan if its mortgage loan is:

- (a) a discounted variable rate mortgage loan which is partially or fully redeemed within the early repayment charge period;
- (b) a fixed rate mortgage loan which is partially or fully redeemed within the early repayment charge period;
- (c) a tracker rate mortgage loan which is partially or fully redeemed within the early repayment charge period; or
- (d) a standard variable rate mortgage loan which is partially or fully redeemed within the early repayment charge period.

Any early repayment charge will be determined in accordance with the mortgage loan conditions of the relevant product type and are reflected in the relevant tariff document for each mortgage loan (and if the mortgage loan is regulated, shall also be reflected in the relevant offering document for such mortgage loan) or any update thereto.

All of the seller's current mortgage products allow for the borrower to avoid early repayment charges and, if applicable, avoid repaying to the seller any of the cash payment described above, by "porting" the existing mortgage product to a new mortgaged property, **provided that**: (1) the aggregate balance of any new mortgage loans is equal to or greater than the balance on the original mortgage loan; and (2) the borrower receives from the seller substantially the same mortgage product. The new mortgage loan preserves the borrower's status in that mortgage product. A mortgage loan may still be ported where the aggregate balance of any new mortgage loans is less than the balance on the original mortgage loan. However, an early repayment charge may be incurred on the difference.

A prepayment of the entire outstanding current balance of a mortgage loan and the entire outstanding mortgage reserve account balance on any associated mortgage reserve discharges the related mortgage.

Any prepayment in full must be made together with all accrued interest, arrears of interest, any unpaid charges and any early repayment charges.

"**arrears of interest**" as at any date and for a mortgage loan means herein interest (other than capitalised interest or accrued interest) on that mortgage loan which is currently due and payable on that date.

"**capitalised interest**" as at any date and for any mortgage loan is interest which is overdue in respect of that mortgage loan and which has at that date been added to the current balance of that mortgage loan in accordance with the mortgage conditions or interest that is capitalised by agreement from time to time between the borrower and the seller.

Interest payments and setting of interest rates

Interest on each mortgage loan accrues on the current balance of that mortgage loan from time to time. Interest is payable by the borrower on each monthly payment date. Interest on each mortgage loan in the mortgage loan portfolio is computed on a daily basis. Each mortgage loan in the mortgage loan portfolio accrues interest at any time at either a variable rate or a fixed rate.

The rate of interest set by the seller for tracker rate mortgage loans currently tracks Barclays Bank PLC's base rate (the "**Barclays base rate**") or the Bank of England's base rate. Interest accrues on these mortgage loans at a rate equal to the then Barclays base rate or, as applicable, the then Bank of England's base rate plus or minus a margin which itself may be, for example in relation to discounted variable rate mortgage loans, reset on certain dates.

The rate of interest set by the seller for standard variable rate mortgage loans tracks the Barclays standard variable rate. Interest accrues on these mortgage loans at a rate equal to the then Barclays standard variable rate plus or minus a margin which itself may be, for example in relation to discounted variable rate mortgage loans, reset on certain dates.

Neither the Barclays base rate nor the standard variable rate is directly linked to interest rates in the financial markets although, in general, both the Barclays base rate and the Barclays standard variable rate follow movements in the financial markets. As at the date of this base prospectus, the Barclays base rate is 0.5 per cent. per annum, the Bank of England's base rate is 0.5 per cent. per annum and the Barclays standard variable rate is 4.99 per cent. per annum.

Fixed rate mortgage loans provide that the borrower pays interest on such mortgage loan at a fixed rate of interest for the period specified in the offer of advance. At the end of that period, the interest rate will usually revert to a rate linked to the Barclays base rate, the Bank of England's base rate or the Barclays standard variable rate (as applicable).

Mortgage loans may combine one or more of the features listed in this section. For mortgage loans with an interest rate that lasts for a limited period of time specified in the offer of advance, after the expiration of that period the interest rate adjusts to some other interest rate type or else it reverts to, or remains at, the Barclays base rate, the Bank of England's base rate or the Barclays standard variable rate (as applicable). The features that may apply to a particular mortgage loan are specified in the offer of advance (and as the seller may vary from time to time).

The administrator on behalf of the mortgages trustee, funding, funding (no. 2), the seller, the funding security trustee and any funding (no. 2) security trustee (if appointed) is responsible (except in the limited circumstances set out in "*The administrator and the administration agreement – The administration agreement – Undertakings by the administrator*") for setting the variable rate on the mortgage loans in the mortgage loan portfolio as well as on any new mortgage loans that are sold to the mortgages trustee and on any new mortgage reserves. The mortgage loan conditions applicable to all of the variable rate mortgage loans provide that the seller and its successors may vary the variable rate only for valid reasons. The seller currently considers that such valid reasons may include:

- (a) where there is a change in Bank of England Base Rate; or
- (b) where there is a change in the cost of the funds used in mortgage lending or it is reasonably expected that a change in funding costs is about to occur; or

- (c) where there is a chance in Regulatory Requirements, or it is reasonably expected that a change in Regulatory Requirements is about to occur.

The term "**lender**" in sub-paragraphs (a) to (e) means the seller and its successors.

In maintaining, determining or setting the variable rate for mortgage loans within the mortgages trust, the administrator will apply the factors set out herein and has undertaken to maintain, determine or set (a) any standard variable rate at a rate which is no higher than the Barclays standard variable rate and (b) any tracker rate at a rate which is no higher than a rate equal to the Barclays base rate or, as applicable, the Bank of England's base rate plus any applicable margin on such tracker rate, in each case unless otherwise directed by: (i) the mortgages trustee; (ii) funding and the funding security trustee; or (iii) funding (no. 2) and any funding (no. 2) security trustee (if appointed) in the circumstances described in "*The Administrator and the Administration Agreement – The administration agreement – Undertakings by the administrator*".

Interest shall also be charged by the seller to a borrower in relation to amounts outstanding on a mortgage reserve account (such interest being "**mortgage reserve interest**"), any such amounts charged to a mortgage reserve account will automatically increase the mortgage reserve account balance. The rate of interest charged by the seller to a borrower on a mortgage reserve account is the Barclays standard variable rate and is maintained, determined or set in the same way as variable rates for mortgage loans within the mortgages trust as set out in the above paragraph. See also "*The MRCLN – Interest on the MRCLN*".

Overpayments, unauthorised underpayment and further advances on mortgage loans

The mortgage assets are subject to a range of options that can be selected by the borrower that give the borrower greater flexibility in the timing and amount of payments made under the mortgage loan as well as access to further advances for various purposes and the use of the mortgage reserve.

In addition to the flexibility offered in the mortgage conditions that the seller currently adopts (as described below), the seller in the future may offer mortgage assets that the seller may also from time to time sell to the mortgages trustee that have different features than those described below.

For the purposes of this base prospectus, the "**current balance**" of a mortgage loan means, as at any given date, the principal balance of that mortgage loan to which the seller applies the relevant interest rate at and which interest on that mortgage loan accrues interest at, and is the aggregate (but avoiding double counting) of:

- (a) the original principal amount advanced to the relevant borrower in respect of the mortgage loan and any further amount advanced on or before the given date to the relevant borrower in respect of the mortgage loan (but not for the avoidance of doubt in respect of the mortgage reserve) secured or intended to be secured by the related mortgage;
- (b) the amount of any further advance secured or intended to be secured by the related mortgage;
- (c) any interest, disbursement, legal expense, fee, charge, rent, service charge, premium or payment which has been properly capitalised with the relevant borrower's consent and added to the amounts secured or intended to be secured by that mortgage loan (including interest capitalised on any further advance under a mortgage loan); and
- (d) any other amount (other than unpaid interest and other than in respect of the mortgage reserve) which is due or accrued (whether or not due) and which has not been paid by the relevant borrower and has not been capitalised with the relevant borrower's consent but which is secured or intended to be secured by the related mortgage, as at the end of the London business day immediately preceding that given date,

less any repayment or payment of any of the foregoing (but not for the avoidance of doubt the related reference mortgage reserve) made on or before the end of the London business day immediately preceding that given date and excluding any retentions made but not released and any further advances committed to be made but not made by the end of the London business day immediately preceding that given date.

The following options are currently available to a borrower following the issue of a mortgage loan:

(a) ***Overpayments***

A borrower may make overpayments of principal ("**overpayments**") under such borrower's mortgage loan at any time without, save as described in "*Early repayment charges*" above, incurring any early repayment charge. Overpayments can be made either regularly or as a lump sum on any variable rate portion of a mortgage loan. Any overpayment immediately reduces the current balance of the mortgage loan from the day the seller receives such payment. Any overpayment on a mortgage loan will result in the immediate reduction in the amount of interest payable by the relevant borrower. Any overpayment of principal will also increase the borrower's mortgage reserve credit limit on the applicable mortgage reserve if such overpayment made the aggregate payment of principal on the relevant mortgage loan since the immediately preceding mortgage reserve credit limit rebalance date greater than the rebalance limit, in which case the mortgage reserve credit limit will increase by the amount of such aggregate payment of principal.

(b) ***Unauthorised underpayments***

Any underpayment made by a borrower (an "**unauthorised underpayment**") will be treated by the seller as arrears.

(c) ***Further advances***

An existing borrower may apply to the seller to borrow a further amount in excess of the amount which was approved by the seller at the time of origination of the mortgage loan and such amount (a "**further advance**"), if agreed to be advanced by the seller, will, with the consent of the borrower, be secured by the same mortgaged property as the mortgage loan and any related reference mortgage reserve. Any such application may result from a solicitation made by the seller, as the seller may periodically contact borrowers in respect of the seller's total portfolio of mortgage loans in order to offer to a borrower the opportunity to apply for a further advance. Any further advance approved by the seller and made to an existing borrower will be made under a separate mortgage account number and added to the current balance of that borrower's mortgage loan at the time of the advance and will be subject to the mortgage conditions of the mortgage loans then being offered by the seller. The current balance of the mortgage loan following a further advance may be greater than the original amount that the seller originally offered to lend but must not be in excess of the maximum LTV for the product type.

In determining whether to make a further advance, the seller will use its lending criteria applicable to further advances at that time in deciding, in its sole discretion, whether to approve the application. Whether a new valuation of the mortgaged property is required depends on the loan to value ratio. Where the total lending exceeds 80 per cent. of the estimated valuation of the mortgaged property an updated valuation is required by physical inspection. Where the total lending does not exceed 80 per cent. of the estimated valuation of the property, an automated valuation model may be used, subject to certain criteria, unless the automated valuation model returns a result to the effect that the total lending exceeds 80 per cent. of such property valuation, in which case an updated valuation must be carried out. In addition, the seller, as the lender of the mortgage loans, has the discretion (but not the obligation) to request a valuation at any time (for example, if there has been significant downturn in the economy generally resulting in negative equity prevailing in the housing market).

None of the mortgage loans in the mortgage loan portfolio obliges the seller to make further advances. However, the seller may have made further advances on some mortgage loans in the mortgage loan portfolio prior to their sale to the mortgages trustee.

Under the Openplan mortgage loans, when a further advance is requested by a borrower and agreed to by the seller, such further advance is provided under the existing mortgage loan with the existing mortgage loan remaining in place.

Further advances are not available for certain products such as those products with an offset feature. A borrower in these circumstances is only able to increase their borrowing by either

increasing the relevant mortgage reserve credit limit and, as applicable, the mortgage reserve credit and aggregate debt limit on the existing reference mortgage reserve, drawing under such related reference mortgage reserve or setting up a new mortgage loan on the mortgaged property facilitated by the redemption of the existing mortgage loan (i.e. a remortgage).

The seller (in its capacity as originator of the mortgage loans) is solely responsible for funding any further advance relating to a mortgage loan in the mortgage loan portfolio to a borrower. In accordance with and pursuant to the terms of the mortgage sale agreement, any further advance relating to a mortgage loan in the mortgage loan portfolio will be sold to the mortgages trust at the time that such further advance is made to the relevant borrower and will from such time also form part of the trust property. The mortgages trust deed provides that the seller will be required to make a purchase contribution to the mortgage trust at the time of such further advance in order to enable the mortgages trustee to fund the purchase of such a further advance from the seller, the size of the seller share of the trust property will increase by an amount equal to the amount of such purchase contribution made on such date by the seller (but there shall be no change to the size of the funding share or the funding (no. 2) share).

However, following the sale of such further advance to the mortgages trust, the seller will be required, pursuant to the terms of the mortgage sale agreement, to repurchase the mortgage loan (together with its related security) associated with such further advance by the next trust calculation date for an amount not less than the current balance of such mortgage loan as of the immediately preceding trust determination date (together with all unpaid interest (including all accrued interest and arrears of interest) and other sums) and in addition at such time the associated reference mortgage reserve will become a non-reference mortgage reserve and the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such non-reference mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserve. See "*Risk factors – Considerations relating to yield and prepayments*" and "*Assignment of the mortgage loans and related security*".

Mortgage reserve credit and aggregate debt limit increases

Upon application by a borrower, subject to certain conditions, the seller may, from time to time, allow the mortgage reserve credit and aggregate debt limit to increase thereby also resulting in an increase in the mortgage reserve credit limit for the relevant mortgage reserve.

If, in the seller's sole discretion, a mortgage reserve credit and aggregate debt limit increase is agreed with a borrower, the associated reference mortgage reserve will, on the next trust determination date, become a non-reference mortgage reserve. Similarly, the seller will be required to repurchase the associated mortgage loan (together with its related security) by the next trust calculation date for an amount not less than the current balance of such mortgage loan as of the immediately preceding trust determination date (together with all unpaid interest (including all accrued interest and arrears of interest) and other sums) and in addition, the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such non-reference mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserve. See "*Risk Factors – Considerations relating to yield and prepayments*" and "*Assignment of the Mortgage Loans and Related Security*".

Arrears capitalisation

From time to time, based upon specific individual circumstances, the seller may capitalise any outstanding amounts in arrears. In those circumstances, the seller will set the arrears tracking balance to zero and the related mortgage loan will no longer be considered to be in arrears. The outstanding balance on the mortgage loan will be required to be repaid over the remaining term of such mortgage loan. See "*The Administrator and the Administration Agreement – Arrears and default procedures*".

Product switches

From time to time borrowers may request or the seller may offer, in limited circumstances, a variation in the mortgage conditions applicable to the borrower's mortgage account. In addition, in order to promote the retention of borrowers, the seller may periodically contact certain borrowers in respect of the seller's total portfolio of outstanding mortgage accounts in order to encourage a borrower to review the seller's other mortgage products and to discuss shifting that borrower to an alternative mortgage product. Such a variation may constitute a product switch (in relation to which see "*The Assignment of Mortgage Loans and Related Security – Product switches, further advances, mortgage reserve credit limit increases and new mortgage loans*").

If a product switch is agreed to by the seller, in its sole discretion, the associated reference mortgage reserve will, on the next trust determination date, become a non-reference mortgage reserve and the seller will be required to repurchase the associated mortgage loan (together with its related security) by the next trust calculation date for an amount not less than the current balance of such mortgage loan as of the immediately preceding trust determination date (together with all unpaid interest (including all accrued interest and arrears of interest) and other sums) and, in addition, the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such non-reference mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserve. See "*Risk Factors – Considerations relating to yield and prepayments*" and "*Assignment of the Mortgage Loans and Related Security*".

Origination of the mortgage loans

The seller currently derives its mortgage-lending business from the following sources:

- (a) mortgage intermediaries, all of which must be FSA registered; and
- (b) directly from the borrower.

In each case, the seller performs all the evaluations of the borrower and determines whether a mortgage loan will be offered.

Underwriting

The seller uses an automated mortgage scoring system to assist in deciding whether or not to offer a mortgage loan to a potential borrower. Mortgage applications are also assessed manually by the seller's underwriters which is particularly important for larger loans. The seller has established various levels of authority for its manual underwriters who approve mortgage loan applications depending on each underwriter's grade and experience. The seller's credit committee ensures that any such referral or appeal decisions are investigated by the manual underwriters who, in line with the seller's credit policy guidelines, assess all aspects of the case before making a final reject or accept decision.

Mortgage applications may also be assessed by certain underwriters who have participated in a formal training program, and who have been given a mandate to approve a mortgage loan for which a potential borrower who has held a Barclays current account for more than six months has attained a pre-approved mortgage limit ("**PAML**") on the initial credit review.

The seller continually reviews the way in which it conducts its mortgage origination business in order to ensure that it remains up-to-date and cost effective in a highly competitive market. The seller may therefore change its origination processes from time to time. However, the seller will retain exclusive control over the underwriting policies and lending criteria to be applied to the origination of each mortgage loan. The seller's underwriting and processing of mortgage loans are independent from the process by which the seller's mortgage loans are originated.

Lending criteria

Each mortgage loan was, or as the case may be will be, originated according to the seller's lending criteria applicable at the time the mortgage loan was/is offered, with the lending criteria in the case of each mortgage loan to be included in the mortgage loan portfolio as of an issue date being the same as, or substantially similar to, the criteria described in this section. New mortgage loans may only be included

in the mortgage loan portfolio if, *inter alia*, they are originated in accordance with the lending criteria applicable at the time the mortgage loan is offered and if the conditions as set out in "*Assignment of the Mortgage Loans and Related Security – Sale of new mortgage loans and their related security*" have been satisfied. However, the seller retains the right to revise its lending criteria from time to time, so the criteria applicable to new mortgage loans may not be the same as those currently used. The changes to or adoption of any new lending criteria that have occurred before any particular issue date will be set out in the applicable final terms.

To obtain a mortgage loan, the borrower is required to provide certain information to the seller including information about the applicant's income, current employment details, bank account information, current mortgage information, if any, and certain other personal information. The seller completes a credit reference agency search (currently, as at the date of this base prospectus, provided by Experian Ltd) in all cases against each applicant for all addresses in the past 3 years, which gives details of public information including any county court judgments and details of any bankruptcy and a credit score is returned for each applicant.

Some of the factors currently used in making a lending decision are as follows:

Income details

Details are obtained of the income for all mortgage applicants and unless the loan is approved by PAML (please see below) or the loan to value ratio is less than 80 per cent., proof of income is obtained (e.g. pay slips, form P60, bank statements etc. or 2 years trading accounts for self employed applicants, as appropriate).

Valuation

A valuation of the property is required from the seller's in house valuation department or from an independent firm of professional valuers selected from a panel of approved valuers. Details of professional indemnity insurance held by panel valuers are retained. The person underwriting/ processing the mortgage application reviews the valuation report to ensure that the property will be suitable security for the proposed mortgage loan. A revaluation of the property generally does not occur after origination and there will be no revaluation of any property for the purpose of the issue of any series of notes. For non-purchase transactions up to 80 per cent. LTV an automated valuation model may be used to provide this valuation figure against which any lending can be assessed.

Property types

The criteria set out below are applied in determining the eligibility of properties to serve as security for mortgage loans. Under these criteria, eligible property types include freehold, leasehold, and commonhold properties. In the case of leasehold properties, the unexpired term of the lease must generally be for at least 25 years after the end of the agreed mortgage term. In the case of "mixed use properties", where part of the property is used for business purposes, such as a doctor's surgery, at least 40 per cent. of the property must be for residential purposes.

Loan amount

The seller does not impose a maximum loan amount on its mortgage loans.

Term

Each loan must have an initial term between 5 and 35 years.

Age of applicant

All borrowers must be 18 years old or over. Where the term of the loan extends into retirement, the applicant has to demonstrate at application stage that they will be able to afford the mortgage payments for the full term of the loan.

Status of applicant(s)

The maximum loan amount is determined by a number of factors, including the applicant's income and the loan to value ratio of the mortgaged property.

In determining income, basic salary along with performance or profit-related pay, allowances, mortgages subsidies, pensions, annuities, overtime, bonuses and commission may be included. Positive proof of the applicant's identity and address is obtained in all cases.

When assessing a mortgage application, the seller's key requirement is to establish that the applicant can afford to repay the proposed mortgage loan. The seller ensures that the proposed monthly payments are affordable from the applicant's income, or other resources, and takes account of their other financial commitments.

Credit history

A full credit reference search is carried out in respect of all applicants. Applications may be declined where an adverse credit history (for example, county court judgment, default or bankruptcy notice) is revealed.

Pre-approved mortgage limit (PAML)

Borrowers who have held a Barclays current account for more than six months may be entitled to a PAML in certain circumstances (see also "*Underwriting*" above).

Geography

Mortgage loans will not be offered on properties situated in any area not subject to the jurisdiction of the law of England & Wales, Scotland or Northern Ireland. Accordingly properties located in the Isle of Man or the Channel Islands are not acceptable.

Seller's discretion to lend outside its lending criteria

On a case-by-case basis, and within approved limits as detailed in the seller's lending criteria, the seller may have determined that, based upon compensating factors, a prospective borrower that did not strictly qualify under its lending criteria at that time warranted an underwriting exception. The seller may take into account compensating factors including, but not limited to, a low LTV ratio, stable employment and time in residence at the applicant's current residence. New mortgage loans and further advances that the seller has originated under lending criteria that are different than the lending criteria set out here may be sold to the mortgages trustee.

Buildings insurance policies

A borrower is required to arrange for insurance on the mortgaged property for an amount equal to the full rebuilding cost of the mortgaged property. The borrower may either purchase the insurance through an insurer arranged by the seller (a "**seller arranged insurer**"), or the borrower or landlord (for a leasehold property) may arrange for the insurance independently. In respect of each mortgaged property the insurance policy typically has an excess requirement which may vary for certain borrowers.

The solicitor acting for the seller is required to ensure that buildings insurance cover is taken out by the relevant borrower prior to the completion of each mortgage loan. If a borrower asks the seller to arrange insurance on its behalf, a policy will be issued by Gresham Insurance Company Limited (a "**seller arranged insurance policy**").

In the administration agreement, the seller, acting in its capacity as administrator, agrees to deal with claims under the seller arranged insurance policies to which the mortgages trustee is a party or in which either the seller or the mortgages trustee has an interest in accordance with its normal procedures and also agrees to make claims and to hold the proceeds of claims on trust for the mortgages trustee or as the mortgages trustee may direct.

Borrower or landlord-arranged buildings insurance policies

If a borrower elects not to take up a seller arranged insurance policy, the solicitor acting for the seller is required to ensure that buildings insurance cover is taken out by the relevant borrower prior to the completion of each mortgage loan in accordance with the mortgage conditions. Although it is not a requirement of the seller, some solicitors note the seller's interest on the buildings insurance policy of the borrower.

In the case of leasehold properties where the lease requires the landlord to insure the property, provision is made to deal with the insurance in the mortgage conditions or in the seller's general instructions to solicitors or other comparable or successor instructions or guidelines.

The seller's interest may not be noted on an insurance policy which is not arranged by the seller, and the seller may therefore not have the benefit of any security over such policies. The mortgages trustee therefore may not have an interest in policies that were not arranged through the seller. (See "*Risk factors – Buildings insurance*").

Properties in possession policy

If the seller takes possession of a mortgaged property from a borrower in default, the seller has coverage through a properties in possession policy from Gresham Insurance Company Limited (the "**properties in possession policy**"). The policy provides the seller with rebuilding insurance up to an amount equal to the actual rebuilding cost. The seller will sell its rights under this policy to the mortgages trustee for any mortgage loan which is in the mortgage loan portfolio and is a property in possession. Amounts paid under the properties in possession policy are generally utilised to fund the reinstatement of the mortgaged property or are otherwise paid to the seller to reduce the amount of the mortgage loan. This policy is subject to an excess of £500 (£1,000 for subsidence claims) in respect of any one mortgaged property.

Scottish loans and Northern Irish loans

A proportion of the mortgage loans in the mortgage loan portfolio are or will be secured over properties in Scotland. Under Scots law, the only means of creating a fixed charge or a fixed security interest over heritable property is the statutorily prescribed standard security. In relation to the Scottish loans, references in this base prospectus to a "**mortgage**" are to be read as references to such standard security and references to a "**mortgagee**" are to be read as references to the security holder (under Scots law, termed the "heritable creditor").

A proportion of the mortgage loans in the mortgage loan portfolio are or will be secured over properties in Northern Ireland. Under Northern Irish law, a security interest over land is created by way of a mortgage (in the case of unregistered land) or a charge (in the case of registered land). In relation to the Northern Irish loans, references in this base prospectus to a "mortgage" are to be read as references to such mortgage or charge and references to a "mortgagee" are to be read as references to the security holder.

In practice, the seller has advanced and intends to advance mortgage loans on a similar basis in England and Wales, Northern Ireland and Scotland. While there are certain differences in law and procedure in connection with the enforcement and realisation of Scottish mortgages and Northern Irish mortgages the seller does not consider that these differences make Scottish or Northern Irish mortgages significantly different or less effective than the English mortgages. It should be noted that not all mortgage loan portfolios that are assigned to the mortgages trustee will include Scottish loans or Northern Irish loans. A break down of the mortgage loans assigned to the mortgages trustee on each assignment date shall be set out in the table of "*Geographical distribution of mortgaged properties*" in each set of final terms. For more information on Scottish mortgages, see "*Material Legal Aspects of the Mortgage Loans and the Related Security – Scottish mortgages*" and for more information on Northern Irish mortgages, see "*Material Legal Aspects of the Mortgage Loans and the Related Security – Northern Irish mortgages*".

Selected statistical information on each cut-off date mortgage loan portfolio

For each series, the following statistical information concerning the relevant cut-off date mortgage account portfolio will be set out in the applicable final terms:

- (a) the original term of the mortgage loans;

- (b) the type of property;
- (c) the seasoning of mortgage accounts;
- (d) the years to maturity;
- (e) the geographical distribution of mortgaged properties;
- (f) the current loan to value ratios;
- (g) the drawable loan to value ratios;
- (h) the original loan to value ratios;
- (i) the current indexed loan to value ratios;
- (j) the outstanding balances;
- (k) the initial advance
- (l) the mortgage loan products;
- (m) the employment status;
- (n) the distribution of fixed rate mortgage loans (by interest rate);
- (o) the quarter in which the fixed rate period ends;
- (p) the repayment terms; and
- (q) the arrears experience.

CHARACTERISTICS OF THE UNITED KINGDOM RESIDENTIAL MORTGAGE MARKET

The housing market in the UK is primarily one of owner-occupied housing. The remaining occupants are in some form of public/social ownership.

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

Where indicated, the information reproduced in this section has been sourced from The Council of Mortgage Lenders (the "CML"). This information has been accurately reproduced and as far as the issuer is aware and is able to ascertain from information published by CML, no facts have been omitted which would render the reproduced information inaccurate or misleading.

CPR rates

The quarterly constant payment rate ("CPR") data presented below 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 UK. These quarterly scheduled and unscheduled repayment rates were then annualised using standard methodology. Prospective noteholders should note that the CPR data presented below for the UK residential mortgage market understates the seller's historical CPR data for mortgage loans originated by the seller (and therefore the expected CPR for mortgage loans included in the mortgages trust) as the data presented below is based upon a percentage of the total UK residential mortgage market which has been increasing over time, and as the seller's CPR data (which calculates the amount of scheduled and unscheduled repayments on a monthly basis) includes the effect of product switches, which results in a higher CPR.

CPR (%)	Aggregate quarters over 40 years	CPR (%)	Aggregate quarters over 40 years	CPR (%)	Aggregate quarters over 40 years	CPR (%)	Aggregate quarters over 40 years
0.00% <7.0%	0	11.00% <11.5%	13	15.50% <16.0%	5	20.00% <20.5%	3
7.00% <7.5%	0	11.50% <12.0%	16	16.00% <16.5%	2	20.50% <21.0%	0
7.50% <8.0%	4	12.00% <12.5%	14	16.50% <17.0%	2	21.00% <21.5%	6
8.00% <8.5%	1	12.50% <13.0%	8	17.00% <17.5%	1	21.50% <22.0%	1
8.50% <9.0%	6	13.00% <13.5%	4	17.50% <18.0%	3	22.00% <22.5%	2
9.00% <9.5%	7	13.50% <14.0%	6	18.00% <18.5%	1	22.50% <23.0%	0
9.50% <10.0%	10	14.00% <14.5%	2	18.50% <19.0%	3	23.00% <23.5%	0
10.00% <10.5%	13	14.50% <15.0%	4	19.00% <19.5%	4	23.50% <24.0%	0
10.50% <11.0%	12	15.00% <15.5%	2	19.50% <20.0%	5	24.00% >24.0%	0

*Source: CML.

Date	CPR rate for the quarter (%)	4 quarter Rolling Average (%)
March 1969	9.15%	10.22%
June 1969	10.23%	10.13%
September 1969	10.65%	10.07%
December 1969	10.01%	10.01%
March 1970	8.92%	9.95%
June 1970	10.68%	10.06%
September 1970	11.60%	10.30%
December 1970	11.46%	10.66%
March 1971	9.33%	10.76%
June 1971	11.44%	10.96%
September 1971	12.17%	11.10%
December 1971	12.30%	11.31%
March 1972	10.72%	11.66%
June 1972	11.81%	11.75%
September 1972	12.24%	11.77%
December 1972	11.74%	11.63%
March 1973	10.11%	11.48%
June 1973	10.54%	11.16%
September 1973	11.06%	10.86%
December 1973	10.55%	10.56%
March 1974	7.94%	10.02%
June 1974	7.94%	9.37%
September 1974	9.58%	9.01%
December 1974	10.83%	9.07%
March 1975	9.96%	9.58%
June 1975	12.23%	10.65%
September 1975	12.76%	11.44%
December 1975	12.21%	11.79%
March 1976	10.10%	11.82%
June 1976	11.48%	11.64%
September 1976	11.86%	11.41%
December 1976	11.70%	11.28%
March 1977	8.00%	10.76%
June 1977	9.84%	10.35%
September 1977	12.13%	10.42%
December 1977	12.66%	10.66%
March 1978	11.30%	11.48%
June 1978	12.19%	12.07%
September 1978	11.71%	11.97%
December 1978	11.19%	11.60%
March 1979	9.33%	11.11%
June 1979	10.12%	10.59%
September 1979	11.36%	10.50%
December 1979	11.07%	10.47%
March 1980	8.03%	10.15%
June 1980	8.66%	9.78%
September 1980	9.87%	9.41%
December 1980	10.48%	9.26%
March 1981	9.97%	9.74%
June 1981	11.78%	10.52%
September 1981	12.53%	11.19%
December 1981	11.82%	11.53%
March 1982	9.63%	11.44%
June 1982	12.91%	11.72%
September 1982	13.96%	12.08%
December 1982	14.20%	12.68%
March 1983	12.55%	13.41%
June 1983	12.76%	13.37%
September 1983	12.48%	13.00%
December 1983	11.86%	12.41%
March 1984	10.40%	11.88%
June 1984	12.13%	11.72%
September 1984	12.40%	11.70%
December 1984	11.87%	11.70%
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%

Date	CPR rate for the quarter (%)	4 quarter Rolling Average (%)
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	9.97%	9.05%
September 1993	10.65%	9.28%
December 1993	10.01%	9.79%
March 1994	8.97%	9.90%
June 1994	10.48%	10.03%
September 1994	11.05%	10.13%
December 1994	10.68%	10.29%
March 1995	9.15%	10.34%
June 1995	10.51%	10.35%
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%
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%	18.62%
December 2005	20.36%	19.03%

Date	CPR rate for the quarter (%)	4 quarter Rolling Average (%)
March 2006	19.65%	19.50%
June 2006	19.37%	19.90%
September 2006	21.25%	20.16%
December 2006	21.07%	20.34%
March 2007	19.57%	20.32%
June 2007	19.25%	20.29%
September 2007	21.22%	20.28%
December 2007	18.63%	19.67%
March 2008	14.99%	18.52%
June 2008	16.79%	17.91%
September 2008	15.63%	16.51%
December 2008	12.26%	14.92%
March 2009	11.66%	14.08%
June 2009	12.29%	12.96%

Sources: Bank of England, CML Research

Prospective noteholders should also note that the prior two CPR tables present the historical CPR experience only of building societies in the UK. During the late 1990's, a number of former building societies converted stock to form UK banks, and the CPR experience of these banks is therefore not included in the foregoing building society CPR data. According to the CML, the 12 month rolling average CPR experience of banks during 1999 was 16.08 per cent., during 2000 was 15.34 per cent., during 2001 was 18.69 per cent., during 2002 was 21.81 per cent., during 2003 was 23.81 per cent., during 2004 was 22.88 per cent., during 2005 was 22.93 per cent., during 2006 was 24.94 per cent., during 2007 was 25.88 per cent. And during 2008 was 20.14 per cent.

Repossession rate

Year	Repossessions (%)
1970.....	0.09
1971.....	0.06
1972.....	0.04
1973.....	0.03
1974.....	0.07
1975.....	0.10
1976.....	0.09
1977.....	0.08
1978.....	0.07
1979.....	0.05
1980.....	0.06
1981.....	0.08
1982.....	0.11
1983.....	0.12
1984.....	0.17
1985.....	0.25
1986.....	0.30
1987.....	0.32
1988.....	0.22
1989.....	0.17
1990.....	0.47
1991.....	0.77
1992.....	0.69
1993.....	0.58
1994.....	0.47
1995.....	0.47
1996.....	0.40
1997.....	0.31
1998.....	0.31
1999.....	0.27
2000.....	0.20
2001.....	0.16
2002.....	0.11
2003.....	0.07
2004.....	0.07
2005.....	0.12
2006.....	0.18
2007.....	0.22
2008.....	0.34

Source: CML Research

Arrears information

Year	Arrears 6-12 months (%)	Arrears 12 months+ (%)
2000.....	0.43	0.19
2001.....	0.38	0.18
2002.....	0.30	0.15
2003.....	0.27	0.11
2004.....	0.26	0.10
2005.....	0.33	0.13
2006.....	0.30	0.13
2007.....	0.34	0.13
2008.....	0.62	0.25

Source: CML Research

The arrears table above shows the number of mortgage loans in arrears at the end of the period as a percentage of the total number of mortgage loans outstanding at the end of the period.

House price to earnings ratio

The following table shows the ratio for any one year of the average annual value of houses (sourced prior to and including 1993 from the DETR/BSA 5 per cent. Sample Survey of Building Society Mortgage Completions and sourced from and including 1994 from the DETR/CML Survey of Mortgage Lenders) compared to the average annual salary in the UK as calculated from the weekly earnings in April of the same year of male employees whose earnings were not affected by their absence from work (as recorded by the Department for Education and Employment). While this is a good indication of house affordability, it does not take in to account the fact that the majority of households have more than one income to support a mortgage loan.

Year	House price/earnings ratio
1971	4.08
1972	4.86
1973	5.82
1974	5.34
1975	4.47
1976	4.19
1977	4.14
1978	4.24
1979	4.75
1980	4.77
1981	4.46
1982	4.18
1983	4.32
1984	4.44
1985	4.47
1986	4.72
1987	5.10
1988	5.89
1989	6.53
1990	5.87
1991	5.37
1992	4.88
1993	4.61
1994	4.56
1995	4.48
1996	4.53
1997	4.82
1998	5.13
1999	5.43
2000	5.91
2001	6.00
2002	6.78
2003	7.26
2004	7.72
2005	7.89
2006	7.95
2007	8.59
2008	8.26

Source: CML

House price index

UK residential property prices, as measured by the Nationwide House Price Index and Halifax House Price Index (collectively the "**housing indices**"), have generally followed the UK Retail Price Index over an extended period. Nationwide Building Society is a UK building society and Halifax Bank plc is a UK bank.

The housing market has been through several economic cycles since 1976. High year to year increases in the housing indices occurred in the late 1970s, late 1980s and from the late 1990s to 2007, with greatest decrease in the early 1990s. There has also been a downturn in the housing market since 2008.

Time in Quarters	Halifax HPI		Nationwide HPI		UK Retail Price Index	
	Index	Annual change ¹	Index	Annual change ¹	Index	Annual change ¹
		%		%		%
Q1 2007	613.90	10.52	350.21	9.08	204.40	4.71
Q2 2007	644.10	10.12	362.69	9.68	207.30	4.34
Q3 2007	649.30	10.14	367.32	8.89	208.00	3.87
Q4 2007	634.40	5.11	366.98	6.68	210.90	3.97
Q1 2008	620.90	1.13	357.81	2.15	212.10	3.70
Q2 2008	605.10	-6.25	348.14	-4.10	216.80	4.48
Q3 2008	568.90	-13.22	329.53	-10.86	218.40	4.88
Q4 2008	531.50	-17.70	312.85	-15.96	212.90	0.94
Q1 2009	512.50	-19.19	298.65	-18.07	211.30	-0.38
Q2 2009	514.30	-16.26	307.34	-12.46	213.40	-1.58

¹ The percentage annual change is calculated in accordance with the following formula: $(x/y)-1$ where "x" is equal to the current quarter's index value and "y" is equal to the Index value of the previous year's corresponding quarter

Sources: HBOS plc, Nationwide Building Society, National Statistics

All loans for house purchase: lending and affordability

UK

		<u>Number of loans</u>	<u>Value of loans</u>	<u>Age of borrower</u>	<u>Average advance</u>	<u>Average income</u>	<u>Average per cent advance</u>	<u>Average income multiple</u>	<u>Average interest payments as % of income</u>
			£m		£	£			
Year									
1974.....		444,600	2,920	30	6,300	2,858	68	2.08	15.5
1975.....		671,100	4,948	30	7,024	3,640	69	1.95	14.1
1976.....		731,600	6,097	30	8,000	4,200	75	1.88	13.6
1977.....		772,800	6,873	31	8,500	4,713	75	1.79	12.8
1978.....		-	-	-	-	-	-	-	-
1979.....		777,300	9,081	30	11,750	6,240	68	1.82	15.1
1980.....		720,100	9,590	30	13,075	7,666	66	1.67	18.0
1981.....		729,900	10,862	30	14,995	8,100	74	1.78	17.5
1982.....		838,900	13,547	31	15,600	8,569	83	1.82	16.7
1983.....		952,500	17,197	31	17,469	9,000	84	1.91	14.7
1984.....		1,071,300	21,537	31	19,500	9,852	85	1.98	16.7
1985.....		1,073,300	23,275	31	20,660	10,500	87	1.98	19.1
1986.....		1,248,000	31,678	31	24,000	11,509	87	2.08	17.7
1987.....		1,107,500	30,527	31	25,000	12,272	86	2.10	17.9
1988.....		1,249,500	41,872	31	30,000	13,877	86	2.22	18.7
1989.....		885,600	32,598	31	32,000	15,000	86	2.22	23.7
1990.....		783,500	32,119	31	37,000	17,000	85	2.22	26.5
1991.....		723,300	31,448	31	39,200	17,978	85	2.26	21.6
1992.....		872,900	38,424	31	39,425	18,000	88	2.26	17.7
1993.....		951,200	42,624	32	39,900	18,000	88	2.29	13.4
1994.....		959,100	45,068	32	40,568	18,600	89	2.30	12.1
1995.....		798,600	38,605	32	41,550	19,040	90	2.29	12.3
1996.....		957,300	48,784	33	44,000	20,289	90	2.27	10.9
1997.....		1,103,600	60,648	33	47,025	21,500	89	2.29	13.9
1998.....		1,088,300	63,364	33	50,000	22,650	87	2.31	14.7
1999.....		1,253,900	81,651	34	54,100	24,492	85	2.35	12.7
2000.....		1,123,000	79,368	35	58,200	25,618	84	2.40	14.3
2001.....		1,313,700	100,256	35	62,790	27,190	82	2.42	12.9
2002.....		1,396,700	119,170	35	70,000	29,236	80	2.57	11.6
2003.....		1,251,900	123,974	36	82,000	30,700	75	2.74	11.3
2004.....		1,244,800	137,555	36	93,460	32,913	72	2.88	13.9
2005.....		1,019,600	128,691	34	107,474	36,887	78	2.95	15.3
2006.....		1,122,900	157,800	35	119,250	39,402	80	3.06	15.6
2007.....		1,015,100	154,700	35	127,000	41,184	80	3.16	17.8
2008.....		516,000	75,800	35	120,845	41,000	76	3.06	17.8
Quarter									
1973.....	Q4	-	-	-	-	-	-	-	-
1974.....	Q1	95,700	620	30	6,000	2,670	69	2.17	16.8
	Q2	84,500	545	30	6,000	2,751	68	2.11	15.6
	Q3	121,800	796	30	6,300	2,908	67	2.03	15.1
	Q4	142,600	959	30	6,500	3,000	68	2.02	15.1
1975.....	Q1	140,300	961	30	6,500	3,271	67	2.00	14.9
	Q2	167,400	1,203	30	7,000	3,500	69	1.98	14.3
	Q3	181,000	1,370	30	7,396	3,820	69	1.93	13.9

	Q4	182,400	1,414	30	7,500	3,909	72	1.91	13.8
1976.....	Q1	164,400	1,315	30	7,650	4,030	75	1.89	13.7
	Q2	192,100	1,589	30	8,000	4,060	77	1.92	13.5
	Q3	197,600	1,675	31	8,000	4,291	74	1.88	13.0
	Q4	177,500	1,518	31	8,039	4,368	74	1.85	14.2
1977.....	Q1	147,400	1,258	30	8,025	4,506	75	1.78	14.3
	Q2	174,500	1,499	30	8,265	4,680	75	1.74	13.3
	Q3	221,200	1,982	31	8,522	4,780	75	1.78	12.5
	Q4	229,700	2,134	31	9,000	4,877	77	1.83	11.8
1978.....	Q1	-	-	-	-	-	-	-	-
	Q2	-	-	-	-	-	-	-	-
	Q3	-	-	-	-	-	-	-	-
	Q4	-	-	-	-	-	-	-	-
1979.....	Q1	187,200	2,059	30	.	5,868	73	1.83	14.6
	Q2	195,600	2,250	30	11,500	6,129	70	1.81	15.1
	Q3	206,600	2,469	31	12,000	6,396	66	1.82	15.2
	Q4	187,900	2,303	31	12,375	6,587	65	1.80	15.8
1980.....	Q1	162,600	2,028	30	12,500	7,000	65	1.71	18.2
	Q2	167,100	2,137	30	12,825	7,500	64	1.65	17.7
	Q3	189,800	2,557	30	13,500	7,828	65	1.66	17.8
	Q4	200,600	2,868	30	14,250	8,164	68	1.68	18.2
1981.....	Q1	171,600	2,514	30	14,810	8,125	71	1.75	17.9
	Q2	198,100	2,989	30	15,000	8,235	73	1.77	16.9
	Q3	191,200	2,860	31	15,000	8,038	72	1.81	17.2
	Q4	169,000	2,499	31	14,936	8,030	78	1.80	18.5
1982.....	Q1	148,200	2,221	30	15,000	8,320	82	1.77	18.5
	Q2	213,600	3,360	31	15,055	8,476	82	1.81	17.4
	Q3	224,400	3,694	31	16,000	8,700	83	1.83	16.8
	Q4	252,700	4,272	31	16,385	8,750	84	1.87	14.8
1983.....	Q1	241,000	4,226	31	17,000	8,782	86	1.92	14.0
	Q2	241,700	4,359	31	17,200	8,911	86	1.94	14.2
	Q3	232,500	4,241	32	17,500	9,200	82	1.89	15.3
	Q4	237,300	4,371	31	18,000	9,350	82	1.90	15.6
1984.....	Q1	231,300	4,412	31	18,050	9,500	86	1.94	15.8
	Q2	286,100	5,687	31	19,000	9,762	85	1.97	15.1
	Q3	292,100	6,074	31	20,000	10,000	84	2.00	18.0
	Q4	261,800	5,364	31	20,000	10,000	85	2.00	18.1
1985.....	Q1	233,000	4,772	31	20,000	10,018	87	1.96	18.4
	Q2	265,100	5,735	31	20,750	10,500	86	1.99	20.1
	Q3	278,200	6,040	31	20,900	10,504	86	1.97	19.2
	Q4	297,000	6,728	31	21,500	10,800	87	1.99	18.6
1986.....	Q1	249,800	5,891	31	22,000	11,026	88	2.02	18.6
	Q2	328,100	8,127	31	23,500	11,440	89	2.05	17.0
	Q3	359,000	9,458	31	25,000	11,760	86	2.11	17.0
	Q4	311,100	8,202	32	25,000	11,939	87	2.12	18.4
1987.....	Q1	228,700	5,904	31	24,000	11,710	89	2.07	18.4
	Q2	280,400	7,598	31	25,000	12,149	86	2.10	18.0
	Q3	299,200	8,357	31	25,350	12,500	86	2.11	17.8
	Q4	299,200	8,668	32	26,000	12,670	86	2.11	17.4
1988.....	Q1	284,500	8,566	31	27,000	12,940	87	2.16	17.0
	Q2	337,600	11,123	31	30,000	13,832	86	2.23	17.4
	Q3	366,200	13,244	31	31,000	14,800	85	2.27	20.2
	Q4	261,200	8,939	31	30,000	14,080	86	2.21	21.6
1989.....	Q1	204,500	6,990	32	30,000	14,205	87	2.17	22.4

	Q2	245,000	8,734	31	30,000	14,900	85	2.18	23.1
	Q3	213,600	8,178	31	33,250	15,491	85	2.24	24.0
	Q4	222,500	8,696	31	35,000	15,978	86	2.28	25.6
1990.....	Q1	193,900	7,564	31	35,000	16,070	88	2.22	25.9
	Q2	205,100	8,303	31	36,500	16,850	85	2.22	27.1
	Q3	194,400	8,206	31	38,000	17,461	84	2.23	27.0
	Q4	190,100	8,046	31	38,000	17,638	84	2.22	25.8
1991.....	Q1	156,900	6,574	31	38,000	17,681	85	2.23	24.9
	Q2	185,200	7,946	31	38,950	17,600	86	2.27	22.8
	Q3	198,700	8,736	31	39,900	18,000	84	2.25	20.7
	Q4	182,500	8,192	31	40,000	18,135	86	2.29	19.8
1992.....	Q1	145,800	6,355	31	39,000	18,000	89	2.28	18.9
	Q2	255,200	11,241	31	39,900	18,000	88	2.27	18.5
	Q3	284,100	12,856	31	40,000	18,305	87	2.27	18.1
	Q4	187,800	7,972	32	37,950	18,000	90	2.20	15.1
1993.....	Q1	187,100	8,106	32	38,237	17,800	88	2.25	13.6
	Q2	245,800	10,977	31	39,473	17,910	89	2.30	13.5
	Q3	271,500	12,401	32	40,000	18,200	88	2.29	13.6
	Q4	246,800	11,140	32	40,000	18,000	88	2.29	12.9
1994.....	Q1	213,200	9,607	32	40,000	18,000	89	2.30	12.1
	Q2	245,000	11,581	32	41,080	18,778	89	2.31	12.8
	Q3	269,700	12,881	32	41,245	18,922	89	2.29	12.0
	Q4	231,200	10,998	32	40,800	18,647	90	2.29	11.3
1995.....	Q1	187,500	8,711	32	40,000	18,303	90	2.29	12.0
	Q2	201,300	9,797	31	42,000	19,070	90	2.30	12.8
	Q3	205,400	10,180	32	42,000	19,251	89	2.30	12.5
	Q4	204,400	9,916	32	41,800	19,661	90	2.27	11.7
1996.....	Q1	182,500	8,905	32	42,000	19,307	90	2.28	10.8
	Q2	239,100	12,094	32	44,000	20,145	90	2.29	10.5
	Q3	276,300	14,516	33	45,120	21,000	89	2.26	10.9
	Q4	259,400	13,268	33	44,413	20,473	90	2.27	11.6
1997.....	Q1	204,200	10,790	34	45,000	20,774	89	2.26	12.5
	Q2	288,300	15,811	33	47,000	21,431	89	2.29	13.3
	Q3	321,200	18,081	33	48,000	21,880	89	2.29	14.4
	Q4	289,900	15,967	33	47,500	21,620	89	2.30	14.8
1998.....	Q1	225,600	12,539	33	48,000	21,925	88	2.30	14.7
	Q2	281,300	16,405	33	50,000	22,500	88	2.33	15.1
	Q3	311,800	18,523	33	50,250	23,375	86	2.29	14.5
	Q4	269,600	15,898	33	50,000	22,805	87	2.31	14.5
1999.....	Q1	238,700	14,301	34	50,000	22,983	87	2.32	13.4
	Q2	313,300	19,969	33	53,250	24,100	86	2.34	12.3
	Q3	360,800	24,444	34	56,000	25,140	85	2.36	12.4
	Q4	341,100	22,938	34	56,000	25,000	85	2.37	12.9
2000.....	Q1	258,700	17,612	35	56,000	24,877	85	2.38	13.5
	Q2	288,000	20,611	34	59,299	25,900	84	2.43	14.8
	Q3	301,300	21,293	35	58,500	25,810	83	2.39	14.3
	Q4	275,000	19,853	35	58,758	26,000	84	2.39	14.5
2001.....	Q1	247,500	18,261	35	60,300	25,932	84	2.41	14.3
	Q2	329,600	25,599	35	62,500	27,050	83	2.42	13.4
	Q3	378,700	29,448	35	64,600	27,979	80	2.41	12.9
	Q4	357,900	26,948	35	62,913	27,500	82	2.43	11.7
2002.....	Q1	280,800	22,128	35	65,000	27,087	84	2.51	11.6
	Q2	365,700	30,678	35	70,000	29,000	80	2.57	11.6
	Q3	394,800	34,969	35	73,000	30,000	77	2.57	11.6

	Q4	355,400	31,395	35	74,000	30,000	79	2.60	11.7
2003.....	Q1	262,900	23,434	36	73,075	29,700	76	2.60	11.3
	Q2	286,200	26,861	35	78,000	30,421	75	2.67	11.1
	Q3	349,700	35,906	36	84,604	30,160	75	2.81	11.2
	Q4	353,100	37,772	36	90,000	32,000	75	2.83	11.5
2004.....	Q1	296,100	31,117	36	87,000	32,127	74	2.74	12.0
	Q2	351,700	38,631	35	93,000	33,533	72	2.83	13.2
	Q3	338,700	38,577	36	97,000	33,140	71	2.96	15.0
	Q4	258,300	29,230	36	97,000	31,022	73	3.07	17.3
2005.....	Q1	195,500	22,391	35	99,000	33,875	74	2.96	15.0
	Q2	270,400	33,900	34	106,425	37,000	78	2.91	15.6
	Q3	283,100	36,800	34	110,000	37,800	78	2.94	15.4
	Q4	270,600	35,600	34	112,000	38,000	80	2.98	15.0
2006.....	Q1	227,200	30,100	34	112,000	37,960	80	3.00	15.0
	Q2	286,200	39,500	34	117,000	39,000	80	3.04	15.3
	Q3	307,800	44,400	35	120,599	40,000	79	3.08	15.7
	Q4	301,700	43,800	35	123,077	40,000	80	3.13	16.3
2007.....	Q1	238,100	35,300	35	123,699	40,000	80	3.13	16.7
	Q2	273,500	41,200	34	126,350	41,000	80	3.16	17.6
	Q3	280,900	44,300	35	130,000	42,000	80	3.17	18.3
	Q4	222,600	33,900	35	128,029	41,523	80	3.16	18.9
2008.....	Q1	139,900	21,200	35	125,000	41,000	79	3.14	18.5
	Q2	149,500	22,300	35	125,000	41,335	79	3.12	18.1
	Q3	123,200	18,100	36	120,000	41,200	75	3.01	18.0
	Q4	103,400	14,200	36	112,599	40,033	75	2.92	16.1
2009.....	Q1	77,700	10,100	36	105,995	39,100	74	2.82	13.2
	Q2	116,700	15,100	35	109,660	39,625	74	2.87	12.8
Month									
2002.....	Jan	87,300	6,564	35	62,565	26,488	84	2.49	11.6
	Feb	85,400	6,641	35	72,950	26,523	85	2.55	11.8
	Mar	108,100	8,923	35	72,000	28,200	83	2.51	11.6
	Apr	109,300	8,906	35	76,059	28,458	80	2.54	11.5
	May	141,700	11,880	35	65,000	28,900	80	2.58	11.6
	Jun	114,700	9,893	35	68,000	29,728	78	2.57	11.6
	Jul	142,400	12,443	35	67,850	30,000	78	2.58	11.6
	Aug	136,600	12,218	34	70,000	30,343	76	2.56	11.5
	Sep	115,800	10,308	35	71,340	30,000	78	2.58	11.7
	Oct	120,100	10,537	35	72,000	30,000	80	2.60	11.7
	Nov	120,200	10,416	35	74,220	29,900	79	2.59	11.6
	Dec	115,100	10,442	35	72,500	30,500	77	2.62	11.7
2003.....	Jan	90,300	7,972	36	72,500	29,703	76	2.59	11.5
	Feb	81,000	7,322	35	88,200	29,186	75	2.63	11.4
	Mar	91,600	8,140	36	90,000	30,000	78	2.59	11.1
	Apr	91,300	8,232	36	92,000	30,000	77	2.63	11.0
	May	94,100	8,747	36	74,000	31,000	75	2.63	10.9
	Jun	100,800	9,882	36	73,475	30,650	75	2.71	11.3
	Jul	119,400	11,926	35	75,000	30,234	75	2.77	11.2
	Aug	115,800	11,857	35	77,500	30,108	74	2.82	11.1
	Sep	114,500	12,123	36	80,000	30,160	75	2.84	11.2
	Oct	125,500	13,151	36	83,250	31,710	75	2.82	11.2
	Nov	112,700	12,037	36	84,950	32,000	75	2.82	11.5
	Dec	114,900	12,585	35	85,000	32,935	75	2.85	11.9
2004.....	Jan	97,100	10,241	36	87,000	31,240	74	2.77	11.6

	Feb	87,600	9,344	36	95,000	33,042	73	2.74	12.1
	Mar	111,400	11,532	36	94,000	32,234	74	2.74	12.2
	Apr	117,700	12,736	35	100,000	33,329	73	2.82	12.7
	May	109,600	11,985	36	88,200	33,408	72	2.81	13.1
	Jun	124,400	13,910	36	86,000	33,953	71	2.86	13.9
	Jul	129,800	14,624	35	90,325	33,176	71	2.91	14.4
	Aug	110,300	12,769	35	93,100	34,000	71	2.96	15.1
	Sep	98,600	11,183	36	95,000	32,500	71	3.03	15.7
	Oct	90,500	10,299	35	95,000	32,000	73	3.04	16.0
	Nov	82,800	9,072	35	98,000	32,400	72	2.94	15.3
	Dec	85,000	9,859	36	98,500	34,000	74	2.97	15.5
2005	Jan	60,800	6,924	36	97,000	33,472	73	2.91	14.9
	Feb	61,500	7,007	35	97,000	34,000	74	2.96	15.0
	Mar	73,200	8,460	35	100,000	34,000	74	3.00	15.1
	Apr	82,600	10,200	34	103,550	36,284	78	2.88	15.4
	May	86,600	10,800	34	106,000	36,835	78	2.91	15.7
	Jun	101,200	12,900	34	109,725	37,533	79	2.93	15.8
	Jul	94,700	12,300	34	109,950	37,514	78	2.93	15.7
	Aug	96,500	12,600	34	110,000	38,000	78	2.94	15.4
	Sep	91,900	11,900	34	110,000	37,825	79	2.94	15.1
	Oct	86,500	11,300	34	110,395	37,661	79	2.98	15.1
	Nov	91,200	11,900	34	110,399	37,718	80	2.98	15.0
	Dec	92,900	12,400	34	114,300	38,694	80	3.00	15.0
2006	Jan	67,900	9,000	35	111,000	37,990	79	2.98	15.0
	Feb	69,300	9,100	35	111,695	37,851	79	2.99	15.0
	Mar	90,000	12,000	34	112,500	37,996	80	3.00	15.0
	Apr	82,900	11,300	34	115,000	38,520	80	3.03	15.1
	May	94,600	13,000	34	116,000	38,850	80	3.03	15.2
	Jun	108,700	15,200	34	119,653	39,525	80	3.05	15.4
	Jul	101,500	14,500	35	120,000	40,000	79	3.06	15.4
	Aug	109,300	15,900	35	121,145	40,000	79	3.09	15.8
	Sep	97,000	14,000	35	121,000	40,000	80	3.10	16.0
	Oct	99,600	14,400	35	121,500	40,000	80	3.11	16.1
	Nov	106,200	15,300	35	122,000	40,000	80	3.12	16.3
	Dec	95,900	14,100	35	125,000	40,467	80	3.15	16.5
2007	Jan	76,000	11,300	35	123,250	40,000	80	3.12	16.5
	Feb	73,200	10,800	35	124,200	40,107	80	3.14	16.6
	Mar	88,900	13,200	34	123,820	40,000	81	3.14	17.0
	Apr	80,600	12,000	34	125,000	40,400	81	3.15	17.3
	May	94,800	14,200	34	126,000	40,947	80	3.16	17.6
	Jun	98,100	15,000	35	129,000	41,508	80	3.17	17.7
	Jul	96,500	15,200	35	130,000	42,071	80	3.16	18.0
	Aug	103,000	16,300	35	130,000	42,000	79	3.17	18.3
	Sep	81,400	12,800	35	130,000	42,000	80	3.17	18.6
	Oct	80,900	12,500	35	128,418	41,800	80	3.16	18.8
	Nov	78,900	11,900	35	127,000	41,091	80	3.15	18.9
	Dec	62,800	9,500	35	129,130	41,797	80	3.17	18.9
2008	Jan	47,400	7,300	35	125,000	41,000	78	3.12	18.6
	Feb	45,900	6,900	35	124,600	40,852	79	3.14	18.5
	Mar	46,600	7,000	35	125,000	41,000	80	3.15	18.4
	Apr	49,700	7,500	35	125,000	41,130	79	3.13	18.0
	May	51,900	7,700	35	125,000	41,009	80	3.13	18.0
	Jun	47,900	7,100	35	125,000	41,842	78	3.10	18.1
	Jul	47,000	7,100	36	121,500	41,500	75	3.05	18.1

	Aug	40,900	5,900	36	119,201	41,359	75	2.99	18.0
	Sep	35,300	5,100	36	116,800	40,827	75	2.97	18.0
	Oct	38,500	5,400	36	114,500	40,229	75	2.94	17.5
	Nov	32,000	4,400	36	112,495	40,000	75	2.91	15.8
	Dec	32,900	4,400	36	112,000	40,000	75	2.90	14.6
2009.....	Jan	23,000	3,100	36	108,146	39,900	73	2.83	13.3
	Feb	23,800	3,100	36	105,939	39,189	74	2.82	13.2
	Mar	30,900	3,900	35	104,962	38,636	75	2.82	13.0
	Apr	35,200	4,500	35	108,000	39,391	75	2.84	12.9
	May	36,500	4,700	35	108,750	39,526	74	2.86	12.8
	Jun	45,000	5,900	35	110,995	39,966	74	2.90	12.8

Source: CML/BankSearch Regulated Mortgage Survey

1. Totals shown are estimates grossed up from the sample of lenders reporting to reflect total market size.
2. All figures from April 2005 onwards are based on Product Sales Data reported to CML. Figures pre-April 2005 are taken from the Survey of Mortgage Lenders. Prior to 1992Q2 (and annually prior to 1993) figures are taken from the Building Societies 5 per cent. sample of mortgage completions. There are material differences in both the reporting methodologies and the sample of contributing lenders for the different surveys. Figures after April 2005 are not strictly comparable with those up to that point.
3. Before Q2 1992 figures on loans for house purchase are for all building societies only.
4. Average figures shown are medians, as this tends to better represent the position of the typical borrower.
5. Interest payment calculations are net of MIRAS (and previous to this MITR) up until MIRAS was discontinued in April 2000.
6. Affordability calculations are based on averages of calculations for individual transactions.
7. Prior to April 2005, estimates of the proportion of first time buyers and movers exclude cases where the previous tenure of buyers is not known.

THE ASSIGNMENT OF THE MORTGAGE LOANS AND RELATED SECURITY

The mortgage sale agreement

Pursuant to the terms of a mortgage sale agreement dated on the mortgages trust establishment date (as amended from time to time) the "**mortgage sale agreement**") between, *inter alios*, the seller, the mortgages trustee, the funding security trustee and funding, the seller may, if applicable, sell a new mortgage loan portfolio to the mortgages trustee on an issue date. In addition to providing for the sale of mortgage loans to the mortgages trustee, the mortgage sale agreement also sets out and provides for, *inter alia*, the following:

- (a) the representations and warranties to be given by the seller in relation to the sale of any such mortgage loans to the mortgage trustee;
- (b) the sale of further advances to the mortgages trust;
- (c) the repurchase by the seller of mortgage loans in the mortgage loan portfolio together with their related security where the seller has breached any of its representations and warranties in respect of such mortgage loans or their related security (including as a consequence of such mortgage loan being the subject of a product switch or a further advance); and
- (d) the circumstances for the transfer of legal title to the mortgage loans to the mortgages trustee.

Any "**sale**" of loans referred to in this base prospectus will, in relation to the Scottish loans, be given effect by a declaration of trust.

New mortgage loan portfolios

The seller may sell to the mortgages trustee on any assignment date a new mortgage loan portfolio. The sale of the English loans and the Northern Irish loans and their related security in any such new mortgage loan portfolio will (until transfer of legal title) take effect in equity only. The seller will (until transfer of legal title) transfer the seller's interest in the Scottish loans and their related security in any such new mortgage loan portfolio, by way of a declaration of trust executed on such issue date (see "*Transfer of legal title to the mortgages trustee*" below). The transfer of legal title to such mortgage loans and their related security may not occur and, if it does occur, will not occur until a later date. (see "*Transfer of legal title to the mortgages trustee*" below).

Each new mortgage loan portfolio will form part of the trust property to be held on trust by the mortgages trustee for funding (as to the funding share), funding (no. 2) (as to the funding (no. 2) share) and the seller (as to the seller share) in accordance with the terms of the mortgages trust deed.

The consideration for the sale of each new mortgage loan portfolio will consist of:

- (a) an upfront payment payable by the mortgages trustee to the seller on the applicable issue date (the "**initial purchase price**"); and
- (b) the payment to the seller of the deferred purchase price (the "**deferred purchase price**") with respect to the mortgage loan portfolio,

together the "**new mortgage loan portfolio purchase price**" for such new mortgage loan portfolio. The details of the applicable new mortgage loan portfolio purchase price will be set out in each applicable final terms.

The new mortgage loan portfolio purchase price in respect of each new mortgage loan portfolio will be satisfied by the mortgages trustee out of: (i) funds received by the mortgages trustee from funding's initial contribution contributed by funding on the applicable issue date pursuant to the terms of the mortgages trust deed; and (ii) deferred contributions made by funding and/or funding (no. 2) pursuant to the terms of the mortgages trust deed.

The initial purchase price of a new mortgage loan portfolio shall be equal to the principal par value of the mortgage loans in such new mortgage loan portfolio. However, on any assignment date, certain fixed rate mortgage loans will have a market value that is less than the principal par value and accordingly, the

seller shall, pursuant to the terms of the mortgage sale agreement and in addition to assigning the relevant fixed rate mortgage loans, pay to the mortgages trustee an incentive fee for purchasing such fixed rate mortgage loans at their then principal par value (such fee being the "**mortgage purchase inducement fee**"). The mortgage purchase inducement fee shall be allocated between the beneficiaries according to their respective shares of the trust property as of the applicable assignment date but after also taking into consideration the then addition of such mortgage loans to the trust property and, to the extent to which the mortgages trustee is aware at such time, any then or future contributions to be made by the beneficiaries during such trust calculation period, and paid by the seller to the mortgages trustee on such assignment date or any other date agreed to by the mortgages trustee and the beneficiaries **provided that** in any event such mortgage purchase inducement fee will be paid by the seller by the end of the then trust calculation period (see "*The Mortgages Trust – Cash management of trust property – mortgages trust revenue receipts – Mortgages trust revenue priority of payments*"). Funding will utilise any distributions received from the mortgages trust in respect of the mortgage purchase inducement fee in paying any required premium then due and payable on the basis rate swap (each such amount, a "**funding basis rate swap premium amount**").

Existing mortgage loan portfolios

As of the latest trust determination date the aggregate current balance of all mortgage loans in the trust property was approximately £11,898,151,555.30.

Representations and warranties

The mortgage sale agreement contains representations and warranties to be given by the seller to each of the mortgages trustee, funding, funding (no. 2), the funding security trustee and the funding (no. 2) security trustee (if appointed) in relation to each mortgage loan sold from time to time to the mortgages trustee pursuant to the terms of the mortgage sale agreement. None of the mortgages trustee, funding, funding (no. 2), the funding security trustee, any funding (no. 2) security trustee (if appointed), the issuer security trustee, or the issuer have carried out or will carry out any searches, inquiries or independent investigations of the type which a prudent purchaser or mortgagee would normally be expected to carry out. Each is relying entirely on the representations and warranties to be given by the seller in accordance with and pursuant to the terms of the mortgage sale agreement. The seller's material representations and warranties under the mortgage sale agreement include, *inter alia*, substantially the following:

- (a) subject to completion of any registration which may be pending at H.M. Land Registry or the Registers of Scotland, or the Land Registry of Northern Ireland, or the Registry of Deeds of Northern Ireland, the seller is the absolute legal and beneficial owner of the mortgage loans, the related security and all property to be sold and assigned by the seller to the mortgages trustee pursuant to the mortgage sale agreement;
- (b) each related mortgage secures the repayment of all advances, interest, costs and expenses payable by the relevant borrower under the relevant mortgage loan in priority to any other charges registered against the relevant property;
- (c) subject to completion of any registration or recording which may be pending at H.M. Land Registry or the Registers of Scotland, or the Land Registry of Northern Ireland, or the Registry of Deeds of Northern Ireland, each mortgage either constitutes, or will constitute, following registration or recording at H.M. Land Registry or the Registers of Scotland, or the Land Registry of Northern Ireland, or the Registry of Deeds of Northern Ireland (in England and Wales) a first ranking charge by way of legal mortgage or (in Scotland) a first ranking standard security over the relevant mortgaged property or (in Northern Ireland) a first ranking mortgage or charge in respect of the relevant mortgaged property. In respect of standalone reserves, a second legal charge (second ranking standard security in Scotland) will be obtained over the mortgaged property to secure this facility. This charge (standard security in Scotland) will be taken in addition to the first charge (first standard security in Scotland) securing the relevant mortgage loan account;
- (d) each mortgage loan, mortgage reserve and the related security constitutes a valid and binding obligation of the borrower enforceable in accordance with its terms, provided however that this representation and warranty will not be deemed to have been breached if the reason for the invalidity, non binding nature or enforceability is a failure to comply with the Unfair Terms in

Consumer Contracts Regulations 1994 or 1999, the Consumer Credit Act 1974 (where such legislation applies to a particular Mortgage Loan) or the Financial Services and Markets Act 2000 (where such legislation applies to a particular Mortgage Loan);

- (e) no agreement for any mortgage account gives rise (whether on its own or taken together with any related agreement) to an unfair relationship under sections 140A to 140D of the Consumer Credit Act;
- (f) each relevant mortgaged property is located in England, Wales, Northern Ireland or Scotland;
- (g) prior to making a mortgage loan, the seller instructed or required to be instructed on its behalf solicitors or licensed conveyancers to carry out all investigations, searches and other actions in relation to the relevant mortgaged property that would have been undertaken by the seller acting in accordance with standards consistent with those of a reasonable and 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, when advancing money in an amount equal to such advance to an individual to be secured on a mortgaged property of the kind permitted under the lending criteria and a report on title was received by or on behalf of the seller from such solicitors which, either internally or after further investigation revealed no material matter which would cause the seller, acting reasonably, to decline the mortgage loan having regard to the lending criteria;
- (h) the seller's lending criteria are consistent with the lending criteria that would be used by a reasonable and prudent mortgage lender;
- (i) in relation to each mortgage loan, the borrower has a good and marketable title to the relevant mortgaged property;
- (j) prior to making a mortgage loan, an independent valuation may be instructed by one of the then seller's current panel managers (which is currently only Ekins, a part of the Barclays Group) on the relevant mortgaged property, and the results of any such obtained valuation would be acceptable to a reasonable and prudent mortgage lender;
- (k) prior to making a mortgage loan, the nature and amount of such mortgage loan, the circumstances of the relevant borrower and nature of the relevant mortgaged property satisfied the seller's lending criteria in force at that time in all material respects;
- (l) no payment of interest (or in the case of repayment mortgage loans, principal and interest) equivalent to an amount in excess of one month's instalment at the applicable rate in respect of a mortgage loan was at any time during the 12 months before the relevant assignment date in arrears;
- (m) the mortgage reserve account balance of each mortgage reserve associated to the applicable mortgage loan is less than or equal to the mortgage credit reserve limit for the respective mortgage reserves;
- (n) so far as the seller is aware, no borrower is in material breach of the mortgage conditions of its mortgage loan;
- (o) the first payment due has been paid by the relevant borrower in respect of each mortgage loan and each mortgage loan is fully performing;
- (p) so far as the seller is aware, each insurance contract arranged by the seller in respect of any mortgaged property is in full force and effect and all premiums which have become due and payable have been paid in full and the seller is not aware of any circumstances giving the insurer under any such insurance contract the right to avoid or terminate such policy in so far as it relates to the mortgaged properties or the mortgage loans;
- (q) the seller has procured that full and proper accounts, books and records have been kept showing clearly all material transactions, payments, receipts and any enforcement proceedings or any other correspondence relating to each mortgage loan and its mortgage;

- (r) each borrower is a natural legal person;
- (s) all formal approvals, consents and other steps necessary to permit an equitable or beneficial transfer of, and a transfer of servicing away from the seller of, the mortgage loans and their related mortgages to be sold under the mortgage sale agreement whenever required under the transaction documents have been obtained or taken and there is no requirement in order for such transfer to be effective to notify the borrower before, on, or after any such equitable or beneficial transfer;
- (t) the maximum amount that can be drawn under each mortgage loan does not exceed £1,000,000;
- (u) each mortgage loan was originated by Barclays Bank PLC or one of its subsidiaries;
- (v) no mortgage loan in the mortgage loan portfolio has a final maturity date falling on or after the then pre-set date (such date being the "**maximum permitted mortgage loan maturity date**") as detailed in the applicable final terms;
- (w) so far as the seller is aware, no mortgage loan in the mortgage loan portfolio was lent for the purpose of funding the acquisition of a property that was intended to be used by the occupier on a continuous basis for a combined commercial and residential purpose;
- (x) so far as the seller is aware, no mortgage loan in the mortgage loan portfolio was lent for the purpose of financing the construction of a property;
- (y) no mortgage loan in the mortgage loan portfolio is a buy-to-let loan;
- (z) no mortgage loan in the mortgage loan portfolio is a right-to-buy loan;and
- (aa) subject to the euro being adopted as the lawful currency of the United Kingdom of Great Britain and Northern Ireland, each mortgage loan was originated by the seller in pounds sterling and is denominated in pounds sterling (or was originated and is denominated in euro at any time when the euro has been adopted as the lawful currency of the UK) and is currently repayable in pounds sterling (or euro at any time when the euro has been adopted as the lawful currency of the UK).

Repurchase by the seller

The seller agrees in the mortgage sale agreement to repurchase any mortgage loan, together with its related security, in the circumstances described below.

Save with respect to further advances and product switches (as to which see below), if a mortgage loan or its related security does not materially comply on the date of its sale with the representations and warranties given by the seller under the mortgage sale agreement and the seller does not remedy such breach within 28 days of receiving written notice of such breach from any of the mortgages trustee, funding, funding (no. 2), the funding security trustee or any funding (no. 2) security trustee (if appointed) then, at the direction of (as applicable) funding (with the prior written consent of the funding security trustee) or funding (no. 2) (with the prior written consent of any funding (no. 2) security trustee) (if appointed), the seller must repurchase the relevant mortgage loan and its related security from the mortgages trustee as of the immediately following trust determination date and, further, must make any associated reference mortgage reserve, linked to such mortgage loans, a non-reference mortgage reserve by repaying the MRCLN in an amount equal to the then mortgage reserve account balance of such mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserve.

For so long as the seller is the administrator it must notify the mortgages trustee, funding, funding (no. 2), the funding security trustee and any funding (no. 2) security trustee (if appointed) in writing of any material breach of a warranty as soon as reasonably practicable after the administrator becomes aware of such breach.

The repurchase price payable upon the repurchase of any mortgage loan and its related security is an amount (not less than zero) equal to: (i) if the date of completion of such repurchase is a trust determination date, the balance on such mortgage loan as of the date of such completion of such

repurchase; and (ii) if the date of completion of such repurchase is not a trust determination date, the current balance on such mortgage loan on the trust determination date falling immediately prior to the date of the completion of such repurchase, plus in each case all unpaid interest (including all accrued interest and arrears of interest) and expenses payable thereon to the date of repurchase. The amount payable by the seller under the MRCLN will equal the aggregate of the mortgage reserve account balances of the associated reference mortgage reserves as at such applicable trust determination date (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserves) plus in addition the seller will be required to pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserves. If the seller fails to pay the consideration due for any repurchase of the applicable mortgage loans or payment on the MRCLN or otherwise fails to complete such repurchase of the applicable mortgage loans or payment of the MRCLN in accordance with the terms of the mortgage sale agreement and/or MRCLN note purchase facility agreement, then the size of the seller share of the trust property shall be deemed to be reduced by an amount equal to that consideration. If on any date on which the seller is obliged to repurchase any mortgage loan pursuant to the mortgage sale agreement and in turn (where applicable) repay the MRCLN pursuant to the terms of MRCLN note purchase facility agreement, the seller sells any new mortgage loans together with their related security to the mortgages trustee in accordance with and pursuant to the terms of the mortgage sale agreement (as described below) and in turn (where applicable) the mortgages trustee is obliged to make any additional MRCLN advances to the MRCLN note purchase facility agreement as a result of an increase in the mortgage reserve account balance for the mortgage reserves associated to such new mortgage loans, the seller shall be entitled to set-off against the repurchase price payable by it on such repurchase the amount of any initial purchase price payable for any such new mortgage loans and (where applicable) set-off against the amount payable on the MRCLN following the repurchase against the applicable additional MRCLN advances to be made by the seller following the sale of the new mortgage loans and shall pay or, as the case may be, be paid the net amounts.

Product switches, further advances, mortgage reserve credit limit increases and new mortgage loans

Product switches

In accordance with and pursuant to the terms of the mortgage sale agreement, a mortgage loan will be deemed to be subject to a "**product switch**" if there is any variation of the financial terms and conditions of the mortgage loan other than:

- (a) a change which was previously agreed with the borrower at the time of the origination of the original mortgage loan (for example, the seller and the borrower may agree at the time of origination of a mortgage loan that a fixed rate mortgage loan may become a standard variable rate mortgage loan at a specified time in the future);
- (b) a change from an interest-only mortgage loan to a repayment mortgage loan;
- (c) a transfer of equity;
- (d) a release of a party to a mortgage loan or a release of part of the land subject to the mortgage;
- (e) any variation agreed with a borrower to control or manage arrears on a mortgage loan;
- (f) any variation which extends the maturity date of the mortgage loan unless, while any notes are outstanding, it is extended beyond the then maximum permitted mortgage loan maturity date. This restriction is subject to further alteration from time to time, subject to any conditions imposed at such time as detailed in any applicable final terms; and
- (g) any variation imposed by statute.

The seller has the right to agree or refuse a borrower's request for a product switch. If the seller agrees to such request and if the mortgage loan which is the subject of the product switch is in the mortgage loan portfolio at such time, the seller will agree pursuant to the terms of the mortgage sale agreement as of the next following trust determination date, to repurchase such mortgage loan together with its related security from the mortgages trustee as of the trust determination date immediately following such product switch at a price (not less than zero) equal to the current balance on such mortgage loan as at that trust determination date, plus all accrued interest and arrears of interest and expenses payable on such

mortgage loan to such repurchase date and further to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to, *inter alia*, the then aggregate potential MRCLN interest in respect of such mortgage reserve.

The seller shall have discretion to make such payments to the mortgages trustee by (i) cash payment, in which case the seller shall be entitled to set-off, or (ii) by assigning new mortgage loans to the mortgages trustee, in which case the seller shall be entitled to set-off the initial purchase price of such new mortgage loans against the repurchase price of the mortgage loans that are to be repurchased by the seller and, further, shall be entitled to set-off the amounts which the mortgages trustee is required to pay as additional MRCLN advances resulting from an increase in the aggregate of the mortgage reserve account balances of the associated reference mortgage reserves linked to such new mortgage loans, against the amounts otherwise repayable to it by the seller under the MRCLN, as a result of the relevant product switch ("**product switch substitution**") and (if applicable) shall pay or, as the case may be, be paid the net amounts.

Further advances

The seller has the right to agree or refuse a borrower's request for a further advance. If the seller agrees to such request and if the mortgage loan which is the subject of the further advance is in the mortgage loan portfolio at such time, the seller will agree pursuant to the terms of the mortgage sale agreement that the seller must, as of the next following trust determination date, repurchase such mortgage loan from the mortgages trustee and repay the MRCLN in an amount equal to the then mortgage reserve account balance of such mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to, *inter alia*, the then aggregate potential MRCLN interest in respect of such mortgage reserve.

Neither the mortgages trustee, funding nor funding (no. 2) may themselves make any further advances or advance monies to the seller for such purposes in any circumstances.

Upon the making of a further advance by the seller to the relevant borrower, the further advance will be sold to the mortgages trustee and upon such sale (to be effected in relation to any further advance secured over a property in Scotland by means of a grant of an additional declaration of trust) form part of the mortgage loan portfolio and thereby (as consideration for such sale) increase the seller share of the trust property.

If the administrator and the mortgages trustee are notified or are otherwise aware that a borrower has requested a further advance or a product switch and the mortgages trustee has received confirmation that the seller is required, as set out above, to repurchase the relevant mortgage loan and its related security and repay the MRCLN in an amount equal to the then mortgage reserve account balance of such mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserve, the mortgages trustee shall at the relevant trust determination date sell to the seller and the seller shall repurchase such mortgage loan together with its related security in accordance with and pursuant to the terms of the mortgage sale agreement at a price (not less than zero) equal to the current balance on such mortgage loan (and which, for the avoidance of doubt, include the amount of the further advance) as of the date of completion of such repurchase plus all accrued interest and arrears of interest and expenses payable on such mortgage loan (and which, for the avoidance of doubt, includes any interest that has accrued but is unpaid in respect of the relevant further advance) at the date of repurchase and the seller shall repay the MRCLN in an amount equal to the then mortgage reserve account balance of such mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to the then aggregate potential MRCLN interest in respect of such mortgage reserve. Any interest that has accrued in respect of the amount of the further advance and has been paid prior to the date of repurchase shall not be reassigned to the seller and shall remain as trust property as a mortgage loan revenue receipt. The seller shall have discretion to pay the mortgages trustee in relation to the repurchase of the mortgage loans and in relation to the relevant payment of the MRCLN by (i) cash payment, or (ii) by assigning new mortgage loans to the mortgages trustee, in which case the seller shall be entitled to set-off the initial purchase price of such new mortgage loans against the repurchase price of the mortgage loans that are to be repurchased by the seller and further shall be entitled to set-off the

amounts which the mortgages trustee is required to pay as additional MRCLN advances resulting from increases in the aggregate of the mortgage reserve account balances of the associated reference mortgage reserves linked to such new mortgage loans, against the amounts otherwise payable by the seller under the MRCLN, as a result of the relevant further advance ("**further advance substitution**").

Mortgage reserve credit and aggregate debt limit increases

Upon application by a borrower, subject to certain conditions, the seller may, from time to time, allow the mortgage reserve credit and aggregate debt limit to increase.

If the seller in its sole discretion agrees to a mortgage reserve credit and aggregate debt limit increase, the associated reference mortgage reserve will, on the next trust determination date, become a non-reference mortgage reserve. Accordingly, the seller will be required to repurchase the associated mortgage loan (together with its related security) by the next calculation date for an amount not less than the current balance of such mortgage loan as of the immediately preceding trust determination date (together with all unpaid interest (including all accrued interest and arrears of interest) and other expenses payable on such mortgage loan) and, in addition, the seller will be required to repay the MRCLN in an amount equal to the then mortgage reserve account balance of such mortgage reserve (less an amount equal to any aggregate potential MRCLN interest in respect of such mortgage reserve) plus pay interest on the MRCLN in an amount equal to, *inter alia*, the then aggregate potential MRCLN interest in respect of such mortgage reserve. See "*Risk factors – Considerations relating to Yield and Prepayments*" and "*Assignment of the Mortgage Loans and Related Security*".

The seller shall have discretion to pay the mortgages trustee in relation to the repurchase of the mortgage loans and in relation to the relevant payment of the MRCLN by (i) cash payment, or (ii) by assigning new mortgage loans to the mortgages trustee, in which case the seller shall be entitled to set-off the initial purchase price of such new mortgage loans against the repurchase price of the mortgage loans that are to be repurchased by the seller and, further shall be entitled to set-off the amounts which the mortgages trustee is required to pay as additional MRCLN advances resulting from increase in the aggregate of the mortgage reserve account balances of the associated reference mortgage reserves linked to such new mortgage loans, against the amounts otherwise payable by the seller under the MRCLN as a result of the relevant mortgage reserve credit limit increase ("**mortgage reserve credit limit increase substitution**") and, if applicable, shall pay or, as the case may be, be paid the net amounts.

Sale of new mortgage loans and the related security

After the mortgages trust establishment date, and in accordance with and pursuant to the terms of the mortgage sale agreement, new mortgage loans, their related security, any accrued interest and/ or any such other amounts derived from such new mortgage loans (together, a "**future mortgage loan portfolio**") may be sold to the mortgages trustee. New mortgage loans that are sold to the mortgages trustee may be sold at such time by either the seller or a third party; however all new mortgage loans will have been originated and administered by the seller.

Any new mortgage loans and related security sold to the mortgages trustee will be held by the mortgages trustee on trust for funding, funding (no. 2) and the seller in accordance with and pursuant to the terms of the mortgages trust deed.

No sale of new mortgage loans may occur after an interest rate step up date in respect of any series of notes if the option to redeem such series of notes on such interest rate step up date pursuant to the conditions of such series of notes is not exercised before the succeeding interest payment date (and, for the avoidance of doubt, while such series of notes remain outstanding).

As the related security is assigned to the mortgages trustee, the mortgages trustee may in certain circumstances enforce the related security and apply the proceeds it recovers from such enforcement to pay any shortfalls in the amounts owing under the mortgage loans that have been assigned to it (subject to the mortgage account conditions), and, as described below, also in distributing such enforcement proceeds to the seller so as to discharge the borrower's obligations in respect of any mortgage reserve account balance then outstanding on the associated reference mortgage reserve.

Reference mortgage reserves and the related security

However, the related security that is assigned to the mortgages trustee under the mortgage sale agreement is also security over amounts owing to the seller under the associated reference mortgage reserves. The mortgages trustee shall hold the related security, to the extent the related security secures amounts owing to the seller under the associated reference mortgage reserves, on trust for the seller. Given that the mortgages trustee shall not be able to directly apply such security enforcement proceeds to the amounts owing under the associated mortgage reserves (as such amounts are owed by the related Borrower directly to the seller), in the event the mortgages trustee exercises its rights to enforce the related security, the mortgages trustee shall be required to pay on the immediately following distribution date such security enforcement proceeds it receives (such amounts being "**mortgage reserve security enforcement proceed amounts**") directly to the seller for the seller to apply the same in reducing the mortgage reserve account balance of the associated reference mortgage reserves. Any such reduction in the mortgage reserve account balance shall, pursuant to the terms of the MRCLN and the MRCLN note purchase facility agreement, require the seller to repay a corresponding amount under the MRCLN to the mortgages trustee. In addition, pursuant to the terms of the mortgage sale agreement and the MRCLN note purchase facility agreement, the mortgages trustee shall be entitled to set-off the amounts payable to the seller in relation to any such mortgage reserve security enforcement proceed amounts against the corresponding amounts then payable by the seller under the MRCLN.

Pursuant to the terms of the mortgage sale agreement and the MRCLN note purchase facility agreement, any security enforcement proceeds from any related security of a mortgage account will first be applied by the mortgages trustee in discharging the relevant borrower's obligations under its associated reference mortgage reserve and thereafter in discharging the relevant borrower's obligations under the associated mortgage loan.

Conditions for new mortgage loans

In order for any new mortgage loan to be sold to the mortgages trustee, *inter alia*, the following conditions (which may be varied or waived by the mortgages trustee (subject to the prior satisfaction of the ratings test in respect of any notes)) must be complied with as at the relevant assignment date:

- (a) the aggregate arrears of interest in respect of all of the mortgage accounts in the mortgages trust for which the corresponding mortgage loans, as a percentage of the aggregate gross interest due on all mortgage loans during the immediately preceding 12 months, does not exceed 2 per cent. or such other percentage as is acceptable to the then current rating agencies at such time in order to maintain the then current ratings of each series of notes ("**arrears of interest**" for the purpose of this paragraph, in respect of a mortgage loan on any date, shall mean the aggregate amount overdue on that date, but only where such aggregate amount overdue equals or exceeds an amount equal to the monthly payment then due on the mortgage loan);
- (b) the short term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated no lower than F1 by Fitch;
- (c) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller:
 - (i) are rated no lower than BBB- by S&P; or
 - (ii) in the event that the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are rated below BBB- by S&P, the seller has, on such assignment date, delivered a solvency certificate to, *inter alios*, the mortgages trustee and the funding security trustee;
- (d) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller are either:
 - (i) rated no lower than A3 by Moody's; or
 - (ii) in the event that the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller fall below A3 by Moody's:

- (A) the seller has, on such assignment date, delivered a solvency certificate to, inter alios, the mortgages trustee and the funding security trustee in form and substance satisfactory to the funding security trustee; and
- (B) if:
 - (i) the aggregate current balance of new mortgage loans sold to the mortgages trust following:
 - (1) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling below A3 by Moody's; or
 - (2) any previous accountant's report concerning new mortgage loans pursuant to this paragraph,

exceeds 20 per cent. of the current balance of all mortgage loans in the mortgages trust at such time; or
 - (ii) 12 months has passed since:
 - (1) the long term, unsecured, unsubordinated and unguaranteed debt obligations of the seller falling below A3 by Moody's; or
 - (2) any previous accountant's report concerning new mortgage loans pursuant to this paragraph,

a report has been obtained from independent accountants concerning both any new mortgage loans to be sold to the mortgages trust on such assignment date and new mortgage loans which have been sold to the mortgages trust subsequent to any such previous accountant's report, in a form acceptable to Moody's;
- (e) on the relevant assignment date, the aggregate current balance of the mortgage accounts for which the associated mortgage loans in the mortgages trust which are then in excess of three monthly payments in arrears is less than 4 per cent. of the aggregate current balance of all mortgage accounts in the mortgages trust on such date, unless the rating agencies have confirmed that the then current ratings of the then existing series of notes and any debt issued by funding (no. 2) ("**funding (no. 2) associated debt**") will not be adversely affected;
- (f) the seller originated the new mortgage loans in accordance with its lending criteria in force at the time of origination of the relevant new mortgage loan or with material variations from such lending criteria **provided that** the then current rating agencies have been notified of any such material variation and in accordance with the relevant mortgage conditions;
- (g) the rating agencies have not provided written confirmation addressed to any of the mortgages trustee, the funding security trustee, any funding (no. 2) security trustee (if appointed), funding, funding (no. 2), the issuer and the issuer security trustee, any new issuer and related security trustee (if appointed) or the funding (no. 2) issuers and their related security trustee that the sale to the mortgages trustee of new mortgage loans on the relevant assignment date will adversely affect the then current ratings of the then existing series of notes or any funding (no. 2) associated debt (**provided that** at a time when the issuer (or, if applicable, any new issuer) issues any new series of notes the ratings test has been satisfied at such time in respect of all existing series of notes and funding (no. 2) associated debt have not been downgraded or otherwise adversely affected);
- (h) the aggregate current balance of new mortgage accounts transferred in any one interest period does not exceed 15 per cent. of the aggregate current balance of the mortgage accounts the subject of the mortgages trust as at the determination date immediately following the start of such interest period (but for these purposes the aggregate current balance of any mortgage accounts sold to the mortgages trustee during such interest period pursuant to a specific permitted assignment regime (and the corresponding aggregate current balance of the related mortgage

accounts) shall not be taken into consideration when ascertaining if such limit would be (or has been) breached);

- (i) the common funding reserve fund and any relevant segregated funding reserve fund is fully funded on the relevant assignment date or, as applicable, trust determination date, up to the relevant required amount (or, if the common funding reserve fund and any relevant segregated funding reserve fund is not so fully funded on such relevant assignment date, or, as applicable, trust determination date, no payments have been made from the common funding reserve fund and any relevant segregated funding reserve fund);
- (j) the reserve fund of funding (no. 2) (if any such reserve fund of funding (no. 2) is required to be established) is fully funded on the relevant assignment date or, as applicable, trust determination date, up to the relevant required amount (or, if the funding (no. 2) reserve fund is not so fully funded on such relevant assignment date, or, as applicable, trust determination date, no payments have been made from the funding (no. 2) reserve fund);
- (k) no loan note tranche enforcement notice has been served in respect of any loan note tranche and no enforcement notice has been served in respect of a funding (no. 2) debt;
- (l) the sale of new mortgage loans does not result in the product of the weighted average foreclosure frequency ("**WAFF**") and the weighted average loss severity ("**WALS**") for the mortgage accounts the subject of the mortgages trust after such purchase, calculated on such relevant assignment date in the same way as for the most recent issue date mortgage loan portfolio (or as agreed by the administrator and S&P from time to time), exceeding by more than 0.25 per cent. the product of the WAFF and WALS for the mortgage accounts the subject of the mortgages trust calculated on the most recent issue date;
- (m) the sale of new mortgage loans on the relevant Assignment Date does not result in:
 - (i) the weighted average original LTV ratio of the mortgage accounts in the mortgages trust, following the inclusion of such new mortgage accounts on such assignment date, exceeding by more than 3 per cent. the weighted average original LTV ratio, as determined in relation to the mortgage accounts in the mortgages trust calculated on the most recent issue date (where the original LTV ratio is calculated in accordance with the terms of the mortgage sale agreement);
 - (ii) the result of (a) the aggregate principal balance of the mortgage accounts in the mortgages trust, following the inclusion of new mortgage accounts on the relevant assignment date, whose original LTV ratio is greater than 80 per cent., divided by (b) the aggregate principal balance of the mortgage accounts in the mortgages trust following the inclusion of new mortgage accounts on the relevant assignment date, exceeding by more than 0.5% the result of (a) the aggregate principal balance of the mortgage accounts in the mortgages trust, as calculated on the most recent issue date, whose original LTV ratio is greater than 80 per cent., divided by (b) the aggregate principal balance of the mortgage accounts in the mortgages trust, as calculated on the most recent issue date (where the original LTV ratio is calculated in accordance with the terms of the mortgage sale agreement);
 - (iii) the weighted average drawable LTV ratio of the mortgage accounts in the mortgages trust, following the inclusion of such new mortgage accounts on such assignment date, exceeding by more than 2 per cent. the weighted average drawable LTV ratio, as determined in relation to the mortgage accounts in the mortgages trust calculated on the most recent issue date (where the LTV ratio is calculated in accordance with the terms of the mortgage sale agreement); and
 - (iv) the weighted average income multiple of the mortgage accounts in the mortgages trust following the inclusion of new mortgage accounts on the relevant assignment date exceeding by more than 0.5 the weighted average income multiple, as determined in relation to the mortgage accounts in the mortgages trust as calculated on the most recent issue date, where the income multiple is calculated in accordance with the terms of the mortgage sale agreement;

- (n) the assignment of new mortgage loans does not result in the Moody's portfolio variation test value of the mortgage loans in the mortgages portfolio after such assignment, (calculated by applying the Moody's portfolio variation test to such mortgage loans on such assignment date), exceeding the most recently determined Moody's portfolio variation test value as calculated in relation to the mortgage loans in the mortgage portfolio as at the most recent date on which Moody's performed a full pool analysis on the mortgages portfolio (not to be less frequent than annually) plus 0.30 per cent., where "**Moody's portfolio variation test**" means the calculation methodology provided by Moody's to the administrator from time to time for the purpose of calculating the Moody's portfolio variation test value and "**Moody's portfolio variation test value**" means a certain percentage resulting from the application of the Moody's portfolio variation test;
- (o) new mortgages loans may only be permitted in the mortgages trust if (to the extent necessary) funding and funding no. 2 have entered into appropriate hedging arrangements in respect of such mortgage loans;
- (p) no event of default under the transaction documents shall have occurred which is continuing at the relevant assignment date or, as applicable, trust determination date;
- (q) the weighted average yield on the mortgage accounts (including further advances and taking into account product switches) in the mortgages trust together with the new mortgage accounts to be sold to the mortgages trustee on the relevant assignment date or such weighted average yield as at the trust determination date is not less than LIBOR for three-month sterling deposits plus 0.40 per cent., taking into account the weighted average yield on the mortgage loans and the margins on the basis rate swaps and any relevant required yield supplement utilisation amounts as at the relevant trust determination date or, as applicable, assignment date;
- (r) that prior to the sale of any new mortgage loans which have characteristics and/or features that differ materially from the characteristics and/or features of the mortgage loans in the mortgage loan portfolio as at the mortgages trust establishment date the ratings test is satisfied;
- (s) each new mortgage loan and its related security complies at the relevant assignment date with the representations and warranties set out in the mortgage sale agreement, which are described earlier in this section under "*Representations and warranties*"; and
- (t) no new mortgage loans can be assigned to the mortgages trust on the occurrence of an asset trigger event or non-asset trigger event,

PROVIDED THAT, in the case of new mortgage loans, (i) if a new mortgage loan portfolio purchase price for the new mortgage loans is payable to the seller by the mortgages trustee on the relevant assignment date the conditions for increasing the funding share of the trust property or the funding (no. 2) (as the case may be) share of the trust property have been satisfied (as further described in "*The Mortgages Trust – Increasing the funding share of the trust property and the funding (no. 2) share of the trust property by way of further contributions and additional initial contributions*"); or (ii) each rating agency has confirmed that even if such conditions are not met, the sale of any such new mortgage loans on any such assignment date would not have an adverse effect on the then ratings of any notes (with any new mortgage loan that has been sold to the mortgages trustee by way of the regime described in paragraphs (i) and/or (ii) above being referred to herein as being transferred pursuant to a "**specific permitted assignment regime**").

Transfer of legal title to the mortgages trustee

The sale of the English loans and the Northern Irish loans and related security in the existing mortgage loan portfolio, the issue date mortgage loan portfolio and any new English loans and the Northern Irish loans and related security, to the mortgages trustee (until transfer of legal title) takes effect in equity only. The sale of the Scottish loans and related security in the existing mortgage loan portfolio to the mortgages trustee was given effect by declarations of trust by the seller, and the sale of the issue date mortgage loan portfolio and any new Scottish loans and related security will be given effect by further declarations of trust. In each case, this means that legal title to the mortgage loans and their related security will remain with the seller until such time as certain additional steps have been taken including the giving of notices of the sale to the borrowers. In addition, it may not be possible for there to be a legal assignment of those

insurance policies in relation to which the mortgages trustee has acquired only an equitable interest or interest as beneficiary under a Scottish declaration of trust.

In relation to mortgages of registered land in England, Wales and Northern Ireland and any land in Scotland, until such time as transfers or in respect of Scottish mortgages, assignment of such mortgages in favour of the mortgages trustee have been completed and registered at the Land Registry, the Land Registry of Northern Ireland and the Registers of Scotland (as applicable), the sale of the mortgages to the mortgages trustee will take effect in equity or in relation to any mortgages of land in Scotland the sale will be effected by means of grant of declaration of trust, under which the mortgages trustee is sole beneficiary. In the case of mortgages of unregistered land in England, Wales and Northern Ireland, in order for legal title to pass to the mortgages trustee, conveyances of the relevant mortgages would have to be completed in favour of the mortgages trustee.

In accordance with the terms of the mortgage sale agreement none of the seller, the mortgages trustee, funding, funding (no. 2), the funding security trustee or any funding (no. 2) security trustee (if appointed) will require notification of such sales to the borrowers or the execution and completion of such transfers and conveyances in favour of the mortgages trustee or the registration of such transfers in order to effect the transfer of legal title to the mortgage loans and their related security (including, where appropriate, their registration), except in the limited circumstances described below.

The seller will be required to perfect the transfer of legal title to the mortgage loans and their related security to the mortgages trustee and to notify the borrowers of the sale of the mortgage loans within 20 London business days of receipt of written notice from the mortgages trustee, funding and/or the funding security trustee or funding (no. 2) and/or any funding (no. 2) security trustee (if appointed) requesting that the seller take such actions. Each of the mortgages trustee, funding, funding (no. 2), the funding security trustee and any funding (no. 2) security trustee (if appointed) has undertaken that it will not make such a request unless any of the following events occur:

- (a) the valid service of a loan note tranche enforcement notice in respect of funding or an enforcement notice in respect of any funding (no. 2) debt or (unless the sole reason for service of such enforcement notice or enforcement notice in respect of funding (no. 2) associated debt is default by a swap provider of issuer or funding (no. 2) issuer) (if any) an enforcement notice or enforcement notice in respect of funding (no. 2) associated debt;
- (b) unless the ratings test is satisfied in respect of the existing series of notes or funding (no. 2) associated debt, the termination of Barclays' role as administrator under the administration agreement and failure of any substitute administrator or replacement administrator to assume the duties of the administrator;
- (c) the seller and/or the mortgages trustee being required, by an order of a court of competent jurisdiction, or by a change in law occurring after the mortgages trust establishment date, or by a regulatory authority or organisation whose members include mortgage lenders of which the seller is a member or with whose instructions it is customary for the seller to comply, to perfect the transfer of legal title to the mortgage loans and related security in favour of the mortgages trustee;
- (d) the funding security under the funding security trust deed and any supplement to global loan note no. 1 or any material part of such funding security being in jeopardy and it being necessary in the sole opinion of the funding security trustee to perfect the transfer of legal title to the mortgage loans in favour of the mortgages trustee in order to reduce materially such jeopardy;
- (e) the security granted by funding (no. 2) pursuant to any security document which it may enter into (the "**funding (no. 2) security document**") or any material part of such security being in jeopardy and it being necessary in the sole opinion of any funding (no. 2) security trustee (if appointed) to perfect the transfer of legal title to the mortgage loans in favour of the mortgages trustee in order to reduce materially such jeopardy;
- (f) the occurrence of an insolvency event in relation to the seller;
- (g) the seller giving written notice to the mortgages trustee, funding (with a copy to the funding security trustee) and funding (no. 2) (with a copy to any funding (no. 2) security trustee (if appointed)) requesting such transfer; or

(h) 50 years having elapsed from the mortgages trust establishment date.

If the seller ceases to have a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB- and by Moody's of at least Baa3 (unless each of the rating agencies confirm in writing and addressed to funding, funding (no. 2), the funding security trustee, any funding (no. 2) security trustee (if appointed), the issuer and the issuer security trustee, any new issuer and its related issuer security trustee (if appointed) and each funding (no. 2) issuer and its related security trustee that the then current ratings of any existing series of notes and any funding (no. 2) notes will not be adversely affected) the seller will be obliged to give notice only of the transfer of the equitable and beneficial interest in the mortgage loans to the borrowers but will not be required to complete any other steps necessary to perfect legal title to the mortgage loans in favour of the mortgages trustee.

Title deeds

The title deeds and mortgage loan files relating to the mortgage loans are currently held either in electronic form or by the seller in its storage facilities or by solicitors acting for the seller in connection with the creation of the mortgage loans and their related security in accordance with local legal requirements. Pursuant to the terms of the administration agreement, the administrator has undertaken that all the title deeds and mortgage loan files at any time in its possession or under its control or held to its order relating to the mortgage loans which are at any time sold to the mortgages trustee are to be held to the order of the mortgages trustee. The administrator will keep, or cause to be kept, the title deeds and mortgage loan files relating to each mortgage loan and each mortgaged property in safe custody (in original or certified copy form) and shall not part with possession, custody or control of them except in the limited circumstances specified in the administration agreement. It is possible that the administrator may move to holding such documents in electronic form only due to practical issues such as storage costs.

Governing law

The mortgage sale agreement is governed by English law **provided that** any terms of the mortgage sale agreement which are particular to (a) the laws of Scotland shall be construed in accordance with Scots law; and (b) the laws of Northern Ireland shall be construed in accordance with Northern Irish law.

THE MORTGAGES TRUST

General legal structure

Pursuant to the terms of a trust deed dated on the mortgages trust establishment date (as amended from time to time) (the "**mortgages trust deed**") between, *inter alios*, the mortgages trustee, the seller and funding, the mortgages trustee established a mortgages trust (the "**mortgages trust**"). The mortgages trust is a trust formed under English law with the mortgages trustee as trustee for the benefit of the seller, funding and funding (no. 2) as beneficiaries (together, the "**beneficiaries**").

The trust property

In accordance with and pursuant to the terms of the mortgages trust deed, the mortgages trustee has agreed to hold all of the trust property as to both capital and income on trust absolutely for funding (as to the funding share), funding (no. 2) (as to the funding (no. 2) share) and for the seller (as to the seller share). The "**trust property**" consists of:

- (a) the sum of £100 which was settled by funding on trust on the mortgages trust establishment date;
- (b) the sum of £100 which was be settled by funding (no. 2) on trust on the mortgages trust establishment date;
- (c) the mortgages trustee's interest in the then mortgage loan portfolio;
- (d) the mortgages trustee's interest in the MRCLN (including in respect of any additional MRCLN advances from time to time);
- (e) the mortgages trustee's interest in the MRCLN Collateral Agreement;
- (f) any mortgage purchase inducement fees, received by the mortgages trustee from the seller;
- (g) any payment in respect of principal received from time to time in respect of any mortgage loan in the mortgage loan portfolio, including, without limitation, whether as all or part of a monthly payment by a borrower on the relevant mortgage loan, on redemption (in whole or part), on enforcement or on disposal of the mortgage loan or otherwise (including pursuant to any insurance policy) (a "**mortgage loan principal receipt**");
- (h) any repayment of principal received from time to time in respect of the MRCLN (a "**MRCLN principal receipt**" and together with any mortgage loan principal receipts and any retained principal amounts (as defined below), the "**mortgages trust principal receipts**");
- (i) any retained principal amounts then held by the mortgages trustee as a result of any previous allocation of mortgages trust principal receipts in accordance with the mortgages trust pre-trigger event principal priority of payments;
- (j) any payment received from time to time in respect of any mortgage loan which is not a mortgage loan principal receipt (including any early repayment charges of any mortgage loan in the mortgage loan portfolio and whether as all or part of a monthly payment by a borrower on the relevant mortgage loan, on redemption (in whole or part), on enforcement or on disposal of the mortgage loan or otherwise (including pursuant to any insurance policy) but excluding for the avoidance of doubt any mortgage purchase inducement fee (a "**mortgage loan revenue receipt**");
- (k) any payment of interest received from time to time in respect of the MRCLN (a "**MRCLN revenue receipt**" and together with any mortgage loan revenue receipts, the "**mortgages trust revenue receipts**");
- (l) any further advances made by the seller to existing borrowers whose mortgage loan is in the mortgage loan portfolio and which the seller sells to the mortgages trust in accordance with and pursuant to the terms of the mortgage sale agreement (and, for the avoidance of doubt, is subject to a repurchase obligation by the seller pursuant to the mortgage sale agreement);

- (m) any consideration in the form of cash provided to the mortgages trustee by funding, funding (no. 2) or, as the case may be, the seller in respect of the funding share, the funding (no. 2) share or, as applicable, the seller share in the trust property in accordance with and pursuant to the terms of the mortgages trust deed for application in accordance with and pursuant to the terms of the mortgages trust deed but only up to the time of such application;
- (n) amounts on deposit (and interest earned on such amounts) in the mortgages trustee transaction account and the mortgages trustee GIC account; and
- (o) the proceeds of sale of any mortgage loan and its related security in accordance with and pursuant to the terms of the mortgage sale agreement and any other proceeds of sale of any other trust property,

as reduced by

- (i) any actual losses in relation to the mortgage loans and any actual reductions occurring in respect of the mortgage loans (as described in paragraph (a) in "*Adjustments to trust property*" below);
- (ii) any mortgage reserve principal loss reductions on the MRCLN; and
- (iii) distributions of principal made from time to time to the beneficiaries of the mortgages trust.

Contributions to the mortgages trust

Pursuant to the terms of the mortgages trust deed, funding, funding (no. 2) and/or the seller may (and in certain circumstances are required to): 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 further contribution, a deferred contribution, a MRCLN contribution or a purchase contribution.

An "**initial contribution**" is a contribution by way of cash payable, pursuant to the terms of the mortgages trust deed, by funding or funding (no. 2) to the mortgages trustee for the purposes of enabling the mortgages trustee to:

- (a) fund the payment of the initial purchase price for the relevant issue date mortgage loan portfolio owed by the mortgages trustee, pursuant to the terms of the mortgage sale agreement, to the seller in respect of any issue date mortgage loan portfolio or any new mortgage loan portfolio; and/or
- (b) in respect of the MRCLN, make an additional MRCLN advance in cash to the seller pursuant to the terms of the MRCLN.

A "**further contribution**" is a contribution (excluding any initial contribution or deferred contribution) by way of cash payable pursuant to the terms of the mortgages trust deed by funding, funding (no. 2) or the seller to the mortgages trustee to increase the funding share of the trust property, the funding (no. 2) share of the trust property or the seller share of the trust property (as applicable). Upon receipt of a further contribution the mortgages trustee will pay an amount equal to such further contribution to, as directed: (a) the seller (if the further contribution was made by funding or funding (no. 2)); (b) funding (if the further contribution was made by the seller or funding (no. 2)); and/or (c) funding (no. 2) (if the further contribution was made by the seller or funding), on the date of such contribution, any such payment being a "**special distribution**" from the mortgages trust. The payment of any such special distribution will decrease the recipient beneficiary's share of the trust property by a respective amount.

A "**deferred contribution**" is a contribution by way of cash payable pursuant to the terms of the mortgages trust deed, by funding or funding (no. 2) and in respect of the funding share of the trust property or the funding (no. 2) share of the trust property (as applicable) for the purposes of enabling the mortgages trustee to fund the payment of:

- (a) any deferred purchase price then owed by the mortgages trustee pursuant to the terms of the mortgages trust deed; and

- (b) any MRCLN deferred subscription price then owed by the mortgages trustee pursuant to the terms of the MRCLN.

A "**MRCLN contribution**" is a contribution by way of cash payable by the seller to the mortgages trustee, pursuant to the terms of the mortgages trust deed for the purposes of enabling the mortgages trustee to pay the MRCLN initial subscription price to the seller for the MRCLN or, as applicable, fund additional MRCLN advances to the seller as may be required from time to time on any distribution date pursuant to the MRCLN note purchase facility agreement. Pursuant to the terms of the mortgages trust deed and the MRCLN note purchase facility agreement, the seller shall be entitled to set-off such cash payments against the equivalent initial advance on the MRCLN or, as applicable, the amount of additional MRCLN advances owed by the mortgages trustee to the seller on such date.

A "**purchase contribution**" is a contribution by way of cash payable by the seller to the mortgages trustee, pursuant to the terms of the mortgages trust deed for the purposes of enabling the mortgages trustee to purchase any new mortgage loan not funded by way of an initial contribution or any further advance. Pursuant to the terms of the mortgages trust deed and the mortgage sale agreement, the seller shall be entitled to set-off such cash payment against the equivalent amount of the initial purchase price payable by the mortgages trustee to the seller in respect of such new mortgage loan or further advance.

The funding share, the funding (no. 2) share and the seller share of the trust property

Funding will not be entitled to any particular mortgage loans and their related security or any particular part of the MRCLN or any other trust property separately from the seller and funding (no. 2). Instead, each of the beneficiaries will have an undivided interest in all of the mortgage loans and their related security, the MRCLN and all other assets constituting from time to time the trust property.

Funding's beneficial interest in the trust property is referred to herein as the "**funding share**". Funding (no. 2)'s beneficial interest in the trust property is referred to herein as the "funding (no. 2) share". The seller's beneficial interest in the trust property is referred to herein as the "**seller share**".

See the applicable final terms for the relevant sizes of the funding share, the funding (no. 2) share and the seller share as at the last trust determination date before the relevant issue date and for the anticipated respective sizes following such issue date.

Fluctuation of the funding share, the funding (no. 2) share and the seller share of the trust property

The funding share, the funding (no. 2) share and the seller share of the trust property fluctuate depending on a number of factors, including, *inter alia*:

- (a) the allocation of mortgages trust principal receipts from the mortgage loans in the mortgage loan portfolio and from the MRCLN to funding, funding (no. 2) and/or the seller on each distribution date;
- (b) losses arising on the mortgage loans in the mortgage loan portfolio;
- (c) mortgage reserve principal loss reductions on the MRCLN;
- (d) the sale of new mortgage loans and their related security to the mortgages trustee;
- (e) the required repurchase of a mortgage loan by the seller pursuant to the terms of the mortgage sale agreement;
- (f) the sale of further advances to the mortgages trustee;
- (g) the making of any additional MRCLN advances to the seller pursuant to the terms of the MRCLN;
- (h) funding increasing its beneficial interest in, and hence the funding share of, the trust property by making contributions to the mortgages trustee in accordance with and pursuant to the terms of the mortgages trust deed;

- (i) funding (no. 2) increasing its beneficial interest in, and hence the funding (no. 2) share of, the trust property by making contributions to the mortgages trustee in accordance with and pursuant to the terms of the mortgages trust deed;
- (j) the seller increasing its beneficial interest in, and hence the seller share of, the trust property by making contributions to the mortgages trustee in accordance with the mortgages trust deed;
- (k) any special distributions being made by the mortgages trustee to the seller, funding and/or funding (no. 2), respectively, on each distribution date; and
- (l) the capitalisation of arrears in respect of any mortgage loan in the mortgage loan portfolio.

Neither the funding share nor the funding (no. 2) share of the trust property may be reduced below zero.

The seller will not be entitled to receive mortgages trust principal receipts which would reduce the seller share of the trust property to an amount less than the minimum seller share unless and until the earlier to occur of:

- (a) the funding share of the trust property and the funding (no. 2) share of the trust property each being reduced to zero; and
- (b) an asset trigger event occurring.

Calculation of the funding share, the funding (no. 2) share and the seller share of the trust property

The mortgages trustee cash manager will calculate the then current funding share, funding (no. 2) share and seller share of the trust property as of:

- (a) the first day of each calendar month (each such date, a "**trust determination date**", save that the first trust determination date was 1 January 2007), and in respect of the period between (and including) the first day of each calendar month to (but excluding) the first day of the next calendar month (each such period a "**trust calculation period**", save that the first trust calculation period began on (and includes) 7 November 2006 and ends on (but excludes) 1 January 2007);
- (b) the date of sale of any new mortgage loan portfolio to the mortgages trustee (each such date, an "**assignment date**");
- (c) the date of the seller, funding or funding (no. 2) making a further contribution to the mortgages trust (each such date, a "**further contribution date**" and together with any assignment date together each being referred to for these purposes as a "**trust redetermination date**"); and
- (d) the day on which the mortgages trust is terminated.

The calculations in relation to a trust determination date, a trust calculation period ending on (but excluding) that trust determination date and the day on which the mortgage trust is terminated, shall occur on the earlier of (i) the tenth business day of each calendar month, which commences on that trust determination date (or if such a day is not a business day in London, the next succeeding London business day) and (ii) the day on which the mortgage trust is terminated (each such date a "**trust calculation date**"). The calculations in relation to any trust redetermination date during a given trust calculation period and a interim calculation period ending on (but excluding) such trust redetermination date, shall occur on the earlier of (i) the trust calculation date in the immediately succeeding trust calculation period, and (ii) the day on which the mortgage trust is terminated).

The funding share, the funding (no. 2) share and the seller share in respect of a trust redetermination date is recalculated so as to determine the percentage shares of funding, funding (no. 2) and the seller in the trust property which will reflect the addition of any new mortgage loans or further contribution (as the case may be) to the trust property. When the mortgages trustee cash manager recalculates the funding share, the funding share percentage, the funding (no. 2) share, the funding (no. 2) share percentage, the seller share and the seller share percentage in respect of a trust determination date, that recalculation will apply for the immediately preceding trust calculation period. However, if during such trust calculation period there is a trust redetermination date, the recalculation made by the mortgages trustee cash manager

in respect of any such trust redetermination date will only apply from (and including) that trust redetermination date to (but excluding) the earlier to occur of the end of that then current trust calculation period or the next trust redetermination date during such trust calculation period (if any). The portion of a trust calculation period that is less than a full trust calculation period during which any single calculation of the funding share, the funding share percentage, funding (no. 2) share, the funding (no. 2) share percentage, the seller share and the seller share percentage applies is called an "**interim calculation period**".

The percentage shares that each of funding, funding (no. 2) and the seller (the "**funding share percentage**", the "**funding (no. 2) share percentage**" and the "**seller share percentage**", respectively) has in the trust property will determine funding's, funding (no. 2)'s and the seller's entitlement to mortgages trust revenue receipts and to mortgages trust principal receipts from the mortgage loans and the MRCLN in the trust property and also the allocation of losses arising on the mortgage loans and any mortgage reserve principal loss reductions on the MRCLN for each trust calculation period or interim calculation period, as applicable. The method for determining those percentage shares is as set out below.

Funding share of trust property (trust determination date recalculation)

On each trust calculation date, the funding share in the trust property will be recalculated in respect of the immediately preceding trust determination date, current trust calculation period and (if any) any related interim calculation periods in accordance with the following formula:

- (a) the then current funding share of the trust property will be an amount equal to

$$A - B - C - D + E + F + G$$

- (b) the then current funding share percentage of the trust property will be an amount equal to:

$$\frac{A - B - C - D + E + F + G}{H} \times 100$$

expressed as a percentage and rounded to five decimal places,

where:

A = the amount of the funding share of the trust property as determined as at:

- (i) in respect of the first trust determination date, the mortgages trust establishment date; and
- (ii) in respect of any other trust determination date, in respect of the trust determination date immediately preceding the relevant trust determination date;

B = the sum of:

- (i) the amount of any mortgages trust principal receipts to be distributed to funding on the London business day immediately prior to the 20th day of each calendar month (each such date, a "**distribution date**", other than in respect of the first distribution date which was the London business day immediately prior to 20 January 2007)
- (ii) any special distribution to be made to funding on such distribution date by the mortgages trustee,

as described under "*Mortgages trust allocation and distribution of mortgages trust principal receipts prior to the occurrence of a trigger event*" below and "*Mortgages trust allocation and distribution of principal receipts after the occurrence of a trigger event*";

C = the amount of losses sustained on the mortgage loans during the immediately preceding trust calculation period and the amount of any reductions occurring in respect of the mortgage loans as described in paragraphs (a) to (f) in "*Adjustments to trust property*" below, in each case allocated to funding during the immediately preceding trust calculation period;

- D = the amount of any mortgage reserve principal loss reductions on the MRCLN during the immediately preceding trust calculation period and the amount of any reductions to the principal amount outstanding on the MRCLN as described in paragraphs (a) to (f) in "*Adjustments to trust property*" below, in each case as allocated to funding during the immediately preceding trust calculation period;
- E = the amount of any initial contribution contributed by funding to the mortgages trustee during the immediately preceding trust calculation period in respect of:
- (i) the funding share of any new mortgage loan portfolio sold by the seller to the mortgages trustee during such trust calculation period; and
 - (ii) the funding share of any increase in the principal amount outstanding on the MRCLN as a result of the mortgages trustee making any additional MRCLN advances on the MRCLN to the seller during such trust calculation period;
- F = the amount of any further contribution contributed by funding to the mortgages trustee during the immediately preceding trust calculation period to increase the funding share of the trust property;
- G = the amount of any capitalised arrears on the mortgage loans in the mortgage loan portfolio which have been allocated to funding in the immediately preceding trust calculation period; and
- H = the sum of:
- (i) any retained principal amounts (if any) then held by the mortgages trustee as at the immediately preceding trust determination date;
 - (ii) the aggregate current balances of all of the mortgage loans in the trust property as at the last day of the immediately preceding trust calculation period; and
 - (iii) the then principal amount outstanding on the MRCLN as of the last day of the immediately preceding trust calculation period.

but after making, or provisioning for, the distributions, allocations and additions referred to in "B," "C," "D," "E", "F" and "G" above and after taking account of:

- (1) the sale, if any, by the seller of new mortgage loans to the mortgages trustee during the immediately preceding trust calculation period or as of such trust determination date;
- (2) the sale, if any, by the seller of further advances to the mortgages trustee during the immediately preceding trust calculation period;
- (3) any increase in the principal amount outstanding on the MRCLN as a result of the mortgages trustee making any additional MRCLN advances on the MRCLN to the seller on the immediately forthcoming distribution date;
- (4) any distribution of mortgages trust principal receipts to be made to the seller, funding and funding (no. 2) (including in respect of any special distribution) in respect of the immediately preceding trust calculation period;
- (5) the amount of any losses, mortgage reserve principal loss reductions or capitalised arrears to be allocated to the seller, funding and funding (no. 2) in respect of the immediately preceding trust calculation period;
- (6) the adjustments referred to in paragraphs (a) to (f) in "*Adjustments to trust property*" below in respect of the immediately preceding trust calculation period; and
- (7) the amount of any other additions to or removals from the trust property during the immediately preceding trust calculation period.

Funding (no. 2) share of trust property (trust determination date recalculation)

On each trust calculation date, the funding (no. 2) share in the trust property will be recalculated in respect of the immediately preceding trust determination date, current trust calculation period and (if any) any related interim calculation periods in accordance with the following formula:

- (a) the then current funding (no. 2) share of the trust property will be an amount equal to

$$A - B - C - D + E + F + G$$

- (b) the then current funding (no. 2) share percentage of the trust property will be an amount equal to:

$$\frac{A - B - C - D + E + F + G}{H} \times 100$$

expressed as a percentage and rounded to five decimal places,

where:

A = the amount of the funding (no. 2) share of the trust property as determined as at:

- (i) in respect of the first trust determination date, the mortgages trust establishment date; and
- (ii) in respect of any other trust determination date, on the trust determination date immediately preceding the relevant trust determination date;

B = the sum of:

- (i) the amount of any mortgages trust principal receipts to be distributed to funding (no. 2) on the immediately succeeding distribution date; and
- (ii) any special distribution to be made to funding (no. 2) on such distribution date by the mortgages trustee,

as described under "*Mortgages trust allocation and distribution of mortgages trust principal receipts prior to the occurrence of a trigger event*" (below) and "*Mortgages trust allocation and distribution of principal receipts after the occurrence of a trigger event*";

C = the amount of losses sustained on the mortgage loans during the immediately preceding trust calculation period and the amount of any reductions occurring in respect of the mortgage loans as described in paragraphs (a) to (f) in "*Adjustments to trust property*" below, in each case allocated to funding (no. 2) during the immediately preceding trust calculation period;

D = the amount of any mortgage reserve principal loss reductions on the MRCLN during the immediately preceding trust calculation period and the amount of any reductions to the principal amount outstanding on the MRCLN as described in paragraphs (a) to (f) in "*Adjustments to trust property*" below, in each case as allocated to funding (no. 2) during the immediately preceding trust calculation period;

E = the amount of any initial contribution contributed by funding (no. 2) to the mortgages trustee during the immediately preceding trust calculation period in respect of:

- (i) the funding (no. 2) share of any new mortgage loan portfolio sold by the seller to the mortgages trustee during such trust calculation period; and
- (ii) the funding (no. 2) share of any increase in the principal amount outstanding on the MRCLN as a result of the mortgages trustee making any additional MRCLN advances on the MRCLN to the seller during such trust calculation period;

F = the amount of any further contribution contributed by funding (no. 2) to the mortgages trustee during the immediately preceding trust calculation period to increase the funding (no. 2) share of

the trust property;

G = the amount of any capitalised arrears on the mortgage loans in the mortgage loan portfolio which have been allocated to funding (no. 2) in the immediately preceding trust calculation period; and

H = the sum of:

- (i) any retained principal amounts (if any) then held by the mortgages trustee as at the immediately preceding trust determination date;
- (ii) the aggregate current balances of all of the mortgage loans in the trust property as at the last day of the immediately preceding trust calculation period; and
- (iii) the then principal amount outstanding on the MRCLN as of the last day of the immediately preceding trust calculation period,

but after making, or provisioning for, the distributions, allocations and additions referred to in "B," "C," "D," "E", "F" and "G" above and after taking account of:

- (1) the sale, if any, by the seller of new mortgage loans to the mortgages trustee during the immediately preceding trust calculation period as of on such trust determination date;
- (2) the sale, if any, by the seller of further advances to the mortgages trustee during the immediately preceding trust calculation period;
- (3) any increase in the principal amount outstanding on the MRCLN as a result of the mortgages trustee making any additional MRCLN advances on the MRCLN to the seller on the immediately succeeding distribution date;
- (4) any distribution of mortgages trust principal receipts to be made to the seller, funding and funding (no. 2) (including in respect of any special distribution) in respect of the immediately preceding trust calculation period;
- (5) the amount of any losses, mortgage reserve principal loss reductions or capitalised arrears to be allocated to the seller, funding and funding (no. 2) in respect of the immediately preceding trust calculation period;
- (6) the adjustments referred to in paragraphs (a) to (f) in "Adjustments to trust property" below in respect of the immediately preceding trust calculation period; and
- (7) the amount of any other additions to or removals from the trust property during the immediately preceding trust calculation period.

Funding share of trust property (trust redetermination date recalculations)

On each trust calculation date, the funding share in the trust property will be recalculated in respect of (if any) each trust redetermination date and each related interim calculation period, during the immediately preceding 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 share of the trust property will be an amount equal to:

$$W + X - Y$$

- (b) the current funding share percentage of the trust property will be an amount equal to:

$$\frac{W + X - Y}{Z} \times 100$$

expressed as a percentage and rounded to five decimal places,

where:

W = the size of the funding share of the trust property as determined on the later of the trust determination date or, as applicable, the trust redetermination date immediately preceding the relevant trust redetermination date;

X = the sum of:

- (i) the amount (if any) of any initial contribution contributed by funding to the mortgages trustee on such trust redetermination date in respect of the funding share of any new mortgage loan portfolio sold by the seller to the mortgages trustee on such trust redetermination date and/or in respect of any additional MRCLN advance to be made on such trust determination date; and
- (ii) an amount (if any) equal to the further contribution contributed by funding to the mortgages trustee on such trust redetermination date;

Y = the amount (if any) of a special distribution made by the mortgages trustee to funding on such trust redetermination date; and

Z = the sum of:

- (i) the amount of any retained principal amounts then held by the mortgages trustee (if any);
- (ii) the aggregate current balance of all of the mortgage loans in the trust property as at the trust determination date at the beginning of the immediately preceding trust calculation period;
- (iii) the aggregate current balance of the new mortgage loans sold to the mortgages trustee after the trust determination date at the beginning of the immediately preceding trust calculation period including any new mortgage loans (if any) sold to the mortgages trustee on such trust redetermination date; and
- (iv) the then principal amount outstanding on the MRCLN as at such trust redetermination date.

Funding (no. 2) share of trust property (trust redetermination date recalculations)

On each trust calculation date, the funding (no. 2) share in the trust property will be recalculated in respect of (if any) each immediately preceding trust redetermination date and each related interim calculation period, during the immediately preceding 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 (no. 2) share of the trust property will be an amount equal to:

$$W + X - Y$$

(b) the current funding (no. 2) share percentage of the trust property will be an amount equal to:

$$(c) \quad \frac{W + X - Y}{Z} \times 100$$

expressed as a percentage and rounded to five decimal places,

where:

W = the size of the funding (no. 2) share of the trust property as determined on the later of the trust determination date or, as applicable, the trust redetermination date immediately preceding the relevant trust redetermination date;

- X = the sum of:
- (i) the amount (if any) of any initial contribution contributed by funding (no. 2) to the mortgages trustee on such trust redetermination date in respect of the funding (no. 2) share of any new mortgage loan portfolio sold by the seller to the mortgages trustee on such trust redetermination date and/or in respect of any additional MRCLN advance to be made on such trust determination date;
 - (ii) an amount (if any) equal to the further contribution contributed by funding (no. 2) to the mortgages trustee on such trust redetermination date; and
- Y = the amount (if any) special distribution made by the mortgages trustee to funding (no. 2) on such trust redetermination date; and
- Z = the sum of:
- (i) the amount of any retained principal amounts then held by the mortgages trustee (if any);
 - (ii) the aggregate current balance of all of the mortgage loans in the trust property as at the trust determination date at the beginning of the immediately preceding trust calculation period;
 - (iii) the aggregate current balance of the new mortgage loans sold to the mortgages trustee after the trust determination date at the beginning of the immediately preceding trust calculation period including any new mortgage loans (if any) sold to the mortgages trustee on such trust redetermination date; and
 - (iv) the then principal amount outstanding on the MRCLN as at such redetermination date.

Adjustments to trust property

If any of the following events occurs during a trust calculation period, the then aggregate current balance of the mortgage loans in the trust property and/or, as applicable, the then principal amount outstanding on the MRCLN will be reduced or deemed to be reduced for the purposes of the calculation in "H" above with respect to the relevant trust determination date recalculation:

- (a) any borrower exercises a right of set-off so that the amount of principal and/or interest owing under a mortgage loan in the mortgage loan portfolio is reduced but no corresponding payment is received from the borrower by the mortgages trustee. In this event, the then aggregate current balance of the mortgage loans in the trust property will be reduced or deemed to be reduced by an amount equal to the amount of such set-off;
- (b) a mortgage loan in the mortgage loan portfolio, a reference mortgage reserve or their related security is in breach (whether due to the occurrence of a product switch or otherwise) of the representations, warranties and conditions contained in the mortgage sale agreement or the MRCLN, and the seller fails to repurchase such mortgage loan and its related security (and in turn the reference mortgage reserve is not reclassified as a non-reference mortgage reserve) in accordance with and pursuant to the terms of the mortgage sale agreement and the MRCLN. In this event:
 - (i) the then aggregate current balance of the mortgage loans in the trust property will be reduced or deemed to be reduced for the purposes of the calculation in "H" by an amount equal to the current balance of the relevant mortgage loan (together with arrears of interest and accrued interest); and
 - (ii) the then principal amount outstanding on the MRCLN will be reduced or deemed to be reduced for the purposes of the calculation in "H" by an amount equal to the account balance of the relevant reference mortgage reserve;
- (c) the funding security trustee and any security trustee appointed with respect to funding (no. 2) is notified that a mortgage loan in the mortgage loan portfolio or a reference mortgage reserve or

any part thereof has been determined by a court judgment on the point or a determination by a relevant regulatory authority (whether or not in relation to an analogous mortgage loan or mortgage reserve product of another UK mortgage lender):

- (i) to be unenforceable; and/or
- (ii) not to fall within the first ranking charge by way of legal mortgage or standard security over the relevant mortgaged property,

in which event:

- (1) the then aggregate current balance of the mortgage loans in the trust property will be reduced or deemed to be reduced for the purposes of the calculation in "H" by an amount equal to that portion of the current balance of such mortgage loan which is so determined to be unenforceable or not to fall within the first ranking charge by way of legal mortgage, mortgage, charge or standard security (as appropriate) over the relevant mortgaged property; and
 - (2) the then principal amount outstanding on the MRCLN will be reduced or deemed to be reduced for the purposes of the calculation in "H" by an amount equal to that portion of the account balance of such reference mortgage reserve which is so determined to be unenforceable or not to fall within the first ranking charge by way of legal mortgage, mortgage, charge or standard security (as appropriate) over the relevant mortgaged property;
- (d) the seller being required to repurchase a mortgage loan in the mortgage loan portfolio and its related security as required by the terms of the mortgage sale agreement, but such mortgage loan and its related security is not capable of being repurchased. In this event:
- (i) the then aggregate current balance of the mortgage loans in the trust property will be reduced or deemed to be reduced for the purposes of the calculation in "H" by an amount equal to the current balance of the relevant mortgage loan (together with arrears of interest and accrued interest) which is not capable of being repurchased; and
 - (ii) the then principal amount outstanding on the MRCLN will be reduced or deemed to be reduced for the purposes of the calculation in "H" by an amount equal to the account balance of the relevant reference mortgage reserve associated with the mortgage loan which is not capable of being repurchased;
- (e) the seller fails to pay any amount then due and payable under the MRCLN pursuant to the terms of the MRCLN note purchase agreement. In this event, the then principal amount outstanding will be deemed to be reduced for the purposes of the calculation in "H" by an amount equal to the amount which the seller has failed to pay; and/or
- (f) the seller breaches any other material representation or warranty under the mortgage sale agreement and/or the MRCLN and/or for so long as the seller is the administrator, the administration agreement. In this event, the sum of the aggregate current balance of the mortgage loans in the trust property and the then principal amount outstanding on the MRCLN will be reduced or deemed to be reduced by an amount equal to the resulting loss incurred by funding, funding (no. 2) and the seller.

The reductions set out in paragraphs (a) to (f) above (as well as any resulting loss in respect thereof) will be made on the relevant trust calculation date (and will be deemed to be effective as from the start of the trust calculation period in which such trust calculation date falls within) first to the seller share of the trust property (including the minimum seller share of the trust property) only, and thereafter will be made to the funding share of the trust property and the funding (no. 2) share of the trust property *pro rata* according to the funding proportion and the funding (no. 2) proportion respectively. Any subsequent recoveries on mortgage loans and/or the relevant reference mortgage reserve which have been subject to a set-off or in respect of which the seller share of the trust property has otherwise been reduced or deemed reduced pursuant to paragraphs (a) to (f) above will constitute a mortgage loan revenue receipt under the relevant mortgage loan or, as applicable, a MRCLN revenue receipt in respect of the MRCLN. Such mortgages trust revenue receipt will be allocated to funding and funding (no. 2) *pro rata* according to the

funding proportion and the funding (no. 2) proportion, respectively (but only if and to the extent that the related reductions were applied against the funding share and the funding (no. 2) share of the trust property) and thereafter will be allocated to the seller (and to the extent received by the mortgages trustee will be returned to the seller).

"**funding proportion**" means, on a distribution date, trust redetermination date or funding payment date an amount equal to:

$$\frac{B}{A + B}$$

where,

A = the funding share on that date; and

B = the funding (no. 2) share on that date.

"**funding (no. 2) proportion**" means, on a distribution date, trust redetermination date or the relevant payment date for funding (no. 2), an amount equal to:

$$\frac{A}{A + B}$$

where,

A = the funding share on that date; and

B = the funding (no. 2) share on that date.

The weighted average funding share percentage

On each trust calculation date where a trust redetermination date arose during the immediately preceding trust calculation period, the mortgages trustee cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately forthcoming distribution date) the weighted average of the current funding share percentages in respect of each interim calculation period occurring in that immediately preceding trust calculation period.

The "**weighted average funding share percentage**" on any such trust calculation date will be equal to the sum of:

- (a) for each interim calculation period during such trust calculation period, the product of:
 - (i) the related current funding share percentage for that interim calculation period; and
 - (ii) the number of days in such interim calculation perioddivided by:
- (b) the total number of days in such trust calculation period.

The weighted average funding (no. 2) share percentage

On each trust calculation date, where a trust redetermination date arose during the immediately preceding trust calculation period, the mortgages trustee cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately forthcoming distribution date) the weighted average of the current funding (no. 2) share percentages in respect of each interim calculation period occurring in that immediately preceding trust calculation period.

The "**weighted average funding (no. 2) share percentage**" on any such trust calculation date will be equal to the sum of:

- (a) for each trust calculation period during such trust calculation period, the product of:
 - (i) the related current funding (no. 2) share percentage for that interim calculation period; and
 - (ii) the number of days in such interim calculation perioddivided by:
- (b) the total number of days in such trust calculation period.

The weighted average funding proportion

On each trust calculation date where a trust redetermination date arose during the immediately preceding trust calculation period, the mortgages trustee cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately forthcoming distribution date) the weighted average of the current funding proportions in respect of each interim calculation period occurring in that immediately preceding trust calculation period.

The "**weighted average funding proportion**" on any such trust calculation date will be equal to the sum of:

- (a) for each interim calculation period during such trust calculation period, the product of:
 - (i) the related current funding proportion for that interim calculation period; and
 - (ii) the number of days in such interim calculation perioddivided by:
- (b) the total number of days in such trust calculation period.

The weighted average funding (no. 2) proportion

On each trust calculation date, where a trust redetermination date arose during the immediately preceding trust calculation period, the mortgages trustee cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately forthcoming distribution date) the weighted average of the current funding (no. 2) proportions in respect of each interim calculation period occurring in that immediately preceding trust calculation period.

The "**weighted average funding (no. 2) proportion**" on any such trust calculation date will be equal to the sum of:

- (a) for each trust calculation period during such trust calculation period, the product of:
 - (i) the related current funding (no. 2) proportion for that interim calculation period; and
 - (ii) the number of days in such interim calculation period divided by:
- (b) the total number of days in such trust calculation period.

Seller share of trust property (trust determination date recalculation)

On each trust calculation date, the seller share of the trust property will be recalculated for the immediately preceding trust determination date, trust calculation period or (if any) interim calculation periods, in accordance with the following formula:

"H" (as calculated at such time in respect of ascertaining the then funding share and funding (no. 2) share of the trust property on *minus* (Then current funding share + then current funding (no. 2) share)

such trust determination date)

On each trust calculation date, the seller share percentage of the trust property will be recalculated for immediately preceding trust determination date, trust calculation period or (if any) interim calculation periods, in accordance with the following formula:

$$100\% \quad \text{minus} \quad (\text{Then current funding share percentage} + \text{then current funding (no. 2) share percentage})$$

Seller share of trust property (trust redetermination date recalculations)

On each trust calculation date, the seller share of the trust property will be recalculated in respect of (if any) each trust redetermination date and related interim calculation period, during the immediately preceding trust calculation period, in accordance with the following formula:

"Z" (as calculated at such time in respect of ascertaining the then funding share and funding (no. 2) share of the trust property on such trust determination date) minus (Then current funding share + then current funding (no. 2) share)

On each trust calculation date, the seller share percentage of the trust property will be recalculated in respect of (if any) each trust redetermination date and related interim calculation period, during the immediately preceding trust calculation period, in accordance with the following formula:

$$100\% \quad \text{minus} \quad (\text{Then current funding share percentage} + \text{then current funding (no. 2) share percentage})$$

The weighted average seller share percentage

On each trust calculation date where a trust redetermination date arose during the immediately preceding trust calculation period, the mortgages trustee cash manager will calculate (for the sole purpose of making the distributions to be made on the immediately forthcoming distribution date) the weighted average of the current seller share percentages in respect of each interim calculation period occurring in that immediately preceding trust calculation period.

The "**weighted average seller share percentage**" for any such trust calculation period will be equal to the sum of:

- (a) for each interim calculation period during such trust calculation period, the product of:
 - (i) the related current seller share percentage for that interim calculation period; and
 - (ii) the number of days in such interim calculation perioddivided by:
- (b) the total number of days in such trust calculation period.

Minimum seller share

The seller share of the trust property includes a minimum amount (the "**minimum seller share**"). The value of the minimum seller share will fluctuate depending on changes to the characteristics of the mortgage loans in the trust property. The seller will not 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:

- (a) each of the funding share and the funding (no. 2) share of the trust property each being reduced to zero; or
- (b) an asset trigger event has occurred.

The minimum seller share will be the amount determined in respect of each trust determination date in accordance with the following formula:

$$W + X + Y + Z$$

where:

W = 0.20 per cent. of the then mortgage account balance;

X = if:

- (i) the seller has a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB- and by Moody's of at least Baa3, 6.2 per cent. of the then aggregate current balance of the mortgage loans in the mortgages trust; or
- (ii) the seller does not have a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB- and by Moody's of at least Baa3, the greater of:
 - (1) 6.2 per cent. of the then aggregate current balance of the mortgage loans in the mortgages trust; and
 - (2) an amount equal to, as at the date of notification to the borrowers of the sale of the mortgage loans to the mortgages trust, the then aggregate amount of all deposits of borrowers held at Barclays whose mortgage loans are within the then mortgage loan portfolio;

Y = 115 per cent. of the then principal amount outstanding on the MRCLN;

Z = the aggregate amount of further advances that have been made under the mortgage loans included in the trust property where the amount of each such further advance was below or equal to £25,000, or such other amount as may satisfy the ratings test from time to time.

The purpose of:

"X" is to mitigate the risks relating to borrowers holding deposits in any bank accounts opened with Barclays (see "*Risk Factors – Seller initially to retain legal title to the mortgage loans*") and to mitigate certain risks relating to Scottish loans (See "*Risk factors – Risks in relation to mortgage loans*");

"W" is to mitigate the risk relating to certain set off risks relating to employees of Barclays being the borrowers of mortgage accounts the subject of the mortgages trust;

"Y" is to mitigate the risk of the seller becoming insolvent prior to it posting MRCLN collateral; and

"Z" is to mitigate enforceability and priority risks relating to all further advances of mortgage loans in the trust property.

In addition, pursuant to the controlling beneficiary deed, the beneficiaries have agreed that the percentages to which reference is made in items W and X above shall be reviewed on an annual basis or (should Barclays Bank PLC's short term, unsecured, unsubordinated and unguaranteed credit rating cease to be rated at least F1 by Fitch), on each funding payment date, in either case using the same methodology as that used at the most recent issue date to determine such percentages. If such review results in a greater percentage to that used in W above the beneficiaries shall notify Fitch and will discuss with Fitch whether any amendments to the transaction documents are required to maintain the then current ratings of the notes. If such review results in a greater percentage to that used in X above the beneficiaries shall notify Fitch and S&P and will discuss with Fitch and S&P whether any amendments to the transaction documents are required to maintain the then current ratings of the notes. (see "*The Mortgages Trust – The controlling beneficiary deed*")

Adjustments to distributions

In calculating in respect of each trust determination date and making the distributions to be made for each funding payment date, the mortgages trustee, or the mortgages trustee 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 share of the trust property as a result of the payment by funding to the mortgages trustee of any contribution during the trust calculation period immediately preceding such funding payment date (or during any interim calculation period during that trust calculation period) is deemed to have taken effect as an increase in the funding share of the trust property from the date on which such contribution was paid to the mortgages trustee;
- (b) any increase in the funding (no. 2) share of the trust property as a result of the payment by funding (no. 2) to the mortgages trustee of any contribution during the trust calculation period immediately preceding such funding payment date (or during any interim calculation period during that trust calculation period) is deemed to have taken effect as an increase in the funding (no. 2) share of the trust property from the date on which such contribution was paid to the mortgages trustee;
- (c) any decrease in the seller share, funding share or funding (no. 2) share of the trust property as a result of the payment by the mortgages trustee to the seller, funding or funding (no. 2) of any special distribution is deemed to have taken effect as a decrease in the seller share, the funding share or, as applicable, funding (no. 2) share from the date on which such special distribution was paid to the seller, funding or, as the case may be, funding (no. 2).

Cash management of trust property – mortgages trust revenue receipts

In accordance with and pursuant to the terms of the mortgages trustee cash management agreement, the mortgages trustee cash manager will be responsible for distributing mortgages trustee revenue receipts on behalf of the mortgages trustee on each distribution date. (See also "*Cash Management for the Mortgages Trustee*").

Mortgages trust revenue priority of payments

"**mortgages trustee available revenue receipts**" will be calculated by the mortgages trustee cash manager on each trust calculation date in respect of the immediately preceding trust calculation period date and will be an amount equal to the sum of:

- (a) mortgage loan revenue receipts;
- (b) MRCLN revenue receipts;
- (c) any MRCLN collateral release amount; and
- (d) interest payable to the mortgages trustee on the mortgages trustee transaction account and the mortgages trustee GIC account;

less, amounts due to third parties ("**third party amounts**") (which may be paid by the mortgages trustee on any date when due) including amongst others:

- (i) 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 mortgage loan which is not repurchased by the seller to reimburse the seller);
- (ii) amounts under an unpaid direct debit which are repaid by the administrator to the bank making such payment if such bank is unable to recoup that amount itself from its customer's account;
- (iii) charges which are due to the seller; and/or

- (iv) recoveries in respect of amounts deducted from mortgage loans as described in paragraphs (a) to (e) in "Adjustments to trust property" above, which will belong to and be paid to funding, funding (no. 2) and/or the seller as described therein.

Third party amounts may be paid daily from monies on deposit in the mortgages trustee transaction account or the mortgages trustee GIC account.

On each distribution date (or in respect of amounts due and payable to third parties under paragraph (b)(ii), when due) the mortgages trustee cash manager will apply any mortgages trustee available revenue receipts (subject as provided under "*Adjustments to distributions*" above) in the following order of priority (the "**mortgages trust revenue priority of payments**"):

- (a) *first*, to pay, *pro rata* and *pari passu*, amounts to the seller, in accordance with the terms of the MRCLN collateral agreement, an amount equal to the then MRCLN collateral release amount;
- (b) *second*, to pay, *pro rata* and *pari passu*, amounts:
 - (i) due and payable to the mortgages trustee or to become due and payable to the mortgages trustee prior to the following distribution date, in accordance with and pursuant to the terms of the mortgages trust deed;
 - (ii) due and payable to third parties or to become due and payable to third parties prior to the next following distribution date from the mortgages trustee in respect of the mortgages trust, but only if:
 - (A) payment is not due as a result of a breach by the mortgages trustee of the transaction documents to which it is a party; and/or
 - (B) payment has not already been provided for elsewhere;
- (c) *third*, *pro rata* and *pari passu* in payment of amounts:
 - (i) due and payable to the mortgages trustee cash manager or to become due to the mortgages trustee cash manager prior to the next following distribution date, in accordance with and pursuant to the terms of the mortgages trustee cash management agreement;
 - (ii) due and payable to the administrator or to become due to the administrator prior to the next following distribution date, in accordance with and pursuant to the terms of the administration agreement;
 - (iii) due and payable to the mortgages trustee corporate services provider or to become due to the mortgages trustee corporate services provider prior to the next following distribution date, in accordance with and pursuant to the terms of the mortgages trustee corporate services agreement; and
 - (iv) due and payable to the mortgages trustee account bank or to become due to the mortgages trustee account bank prior to the next following distribution date, in accordance with and pursuant to the terms of the mortgages trustee account bank agreement; and
- (d) *fourth*, *pari passu* but subject to the proviso below, to:
 - (i) the seller in an amount determined by multiplying the total amount of the remaining mortgages trustee available revenue receipts by the seller share percentage of the trust property (as determined in respect of the immediately preceding trust determination date);
 - (ii) funding in an amount determined by multiplying the total amount of the remaining mortgages trustee available revenue receipts by the funding share percentage of the trust property (as determined in respect of the immediately preceding trust determination date);

- (iii) funding (no. 2) in an amount determined by multiplying the total amount of the remaining mortgages trustee available revenue receipts by the funding (no. 2) share percentage of the trust property (as determined in respect of the immediately preceding trust determination date),

PROVIDED THAT, if a trust redetermination date has occurred during the trust calculation period immediately preceding that distribution date, then the mortgages trust cash manager will use:

- (i) the weighted average seller share percentage (instead of the seller share percentage) in determining the amount of mortgages trustee available revenue receipts to distribute to the seller on that distribution date;
- (ii) the weighted average funding share percentage (instead of the funding share percentage) in determining the amount of mortgages trustee available revenue receipts to distribute to funding on that distribution date; and
- (iii) the weighted average funding (no. 2) share percentage (instead of the funding (no. 2) share percentage) in determining the amount of mortgages trustee available revenue receipts to distribute to funding (no. 2) on that distribution date

In addition, on each assignment date or any other date agreed by the mortgages trustee and the beneficiaries (such date in any event to be no later than the end of the then trust collection period), the mortgages trustee and manager shall apply the mortgage purchase inducement fee (if any) received to the seller, funding and funding (no. 2) in an amount determined by:

- (a) in the case of the seller, the mortgage purchase inducement fee (if any) multiplied by the seller share percentage of the trust property (as determined as at the applicable assignment date but after also taking into consideration the then additions of such mortgage loans to the trust property and, to the extent that the mortgages trustee is aware at such time, any contributions to be made by the beneficiaries during such trust calculation period);
- (b) in the case of funding, the mortgage purchase inducement fee (if any) multiplied by the funding share percentage of the trust property (as determined as at the applicable assignment date but after also taking into consideration the then additions of such mortgage loans to the trust property and, to the extent that the mortgages trustee is aware at such time, any contributions to be made by the beneficiaries during such trust calculation period) (such amount being the "**funding basis rate swap premium amount**"); and
- (c) in the case of funding (no. 2), the mortgage purchase inducement fee (if any) multiplied by the funding (no. 2) share percentage of the trust property (as determined as at the applicable assignment date but after also taking into consideration the then additions of such mortgage loans to the trust property and, to the extent that the mortgages trustee is aware at such time, any contributions to be made by the beneficiaries during such trust calculation period).

Cash management of trust property – mortgages trust principal receipts

Pursuant to the terms of the mortgages trustee cash management agreement, the mortgages trustee cash manager is also responsible for distributing principal receipts on behalf of the mortgages trustee on each distribution date.

Relevant definitions

References in this base prospectus to:

"final maturity date" means for a particular series, the earlier to occur of (i) the final maturity date for that series as set out in the supplement to global loan note (no. 1) and the related final terms, and (ii) the programme final maturity date.

"programme final maturity date" means, in respect of all loan note tranches, the interest payment date falling in November 2056.

"trigger event" means an asset trigger event and/or a non-asset trigger event.

"**asset trigger event**" means, whilst any notes issued by the issuer are outstanding, an event that occurs when an amount is debited to a class A Funding principal deficiency sub-ledger. (See "*The Loan Note Tranches and Funding Cashflows – Funding principal deficiency ledger*").

A "**non-asset trigger event**" will occur if:

- (a) an insolvency event occurs in relation to the seller; and/or
- (b) a MRCLN event of default occurs (and which is continuing and not waived by the mortgages trustee); and/or
- (c) the seller's role as administrator is terminated and a new administrator is not appointed in accordance with the terms of the administration agreement within 60 days; and/or
- (d) the then current seller share is equal to or less than the minimum seller share for two consecutive distribution dates.

Mortgages trust allocation and distribution of mortgages trust principal receipts prior to the occurrence of a trigger event

On each distribution date and prior to the occurrence of a trigger event (and whether or not there has been any enforcement of the funding security, any security to be granted by funding (no. 2), the issuer security or any security to be granted by a new issuer or any holder of funding (no. 2) debt), the mortgages trustee cash manager will allocate and distribute mortgages trust principal receipts (and for the avoidance of doubt, excluding any MRCLN collateral amount unless permitted to be released pursuant to the terms of the MRCLN collateral agreement, for example due to a failure to repay any amounts outstanding under the MRCLN by the seller) and any amounts credited in the immediately preceding trust calculation period to the mortgages trustee GIC account as a result of a further contribution (subject as provided under "Adjustments to distributions" above) in the following order of priority (the "**mortgages trust pre-trigger event principal priority of payments**"):

- (a) *first*, to the seller and/or funding and/or funding (no. 2) the amount of any special distribution which is then allocable and payable to the seller and/or funding and/or funding (no. 2) in accordance with the mortgages trust deed; or
- (b) *second*, in advancing to the seller pursuant to the terms of the MRCLN note purchase facility agreement the then required MRCLN aggregate debt principal balancing amount;
- (c) *third, pari passu*, but subject to the provisos below, to allocate and pay:
 - (i) to funding an amount equal to the lesser of: (1) all remaining mortgages trust principal receipts multiplied by the funding proportion; and (2) the funding available revenue deficit amount (if any) on the funding payment date immediately succeeding such distribution date;
 - (ii) to funding (no. 2) an amount equal to the lesser of: (1) all remaining mortgages trust principal receipts multiplied by the funding (no. 2) proportion; and (2) the amount of any shortfall which funding (no. 2) has in meeting its obligations with regard to payments of revenue amounts on any debt which it holds on the relevant payment date for funding (no. 2) immediately succeeding such distribution date;
- (d) *fourth, pari passu*, but subject to the provisos below, to allocate and pay:
 - (i) to funding an amount equal to the lesser of: (1) all remaining mortgages trust principal receipts multiplied by the funding proportion; and (2) the aggregate principal amount due and payable by funding on the immediately succeeding funding payment date to the issuer or any new issuer pursuant to the terms of a global loan note; and
 - (ii) to funding (no. 2) an amount equal to the lesser of: (1) all remaining mortgages trust principal receipts multiplied by the funding (no. 2) proportion; and (2) the aggregate principal amount due and payable by funding (no. 2) on the immediately succeeding payment date for funding (no. 2) to each person holding any funding (no. 2) debt;

- (e) *fifth, pro rata and pari passu:*
 - (i) to funding an amount equal to the aggregate remaining principal amounts due and payable by funding on the immediately succeeding funding payment date to the issuer or any new issuer pursuant to the terms of a global loan note and after taking into account any amounts received by funding in accordance with paragraph (c)(i) and paragraph (d)(i) above; and
 - (ii) to funding (no. 2) an amount equal to the aggregate remaining principal amounts due and payable by funding (no. 2) on the immediately succeeding payment date for funding (no. 2) to each person holding any funding (no. 2) debt and after taking into account any amounts received by funding (no. 2) in accordance with paragraph (c)(ii) above and paragraph (d)(ii) above;
- (f) *sixth*, an amount equal to the lesser of (i) the amount by which the then current seller share exceeds the minimum seller share, and (ii) the remaining mortgages trustee principal receipts, shall be paid to the to the seller and shall be applied to reduce the seller share by such amount; and
- (g) *seventh*, all remaining mortgages trust principal receipts (if any) shall be retained by the mortgages trustee on such distribution date (any such amounts being retained being "**retained principal amounts**") and such retained principal amounts shall thereafter constitute mortgages trust principal receipts which may be distributed in accordance with the mortgages trust pre-trigger event principal priority of payments on the immediately following distribution date,

PROVIDED THAT in relation to paragraphs (a) through to (f) above the following rules shall apply:

- (1) the amount of mortgages trust principal receipts payable to funding on a distribution date will be reduced by an amount equal to the aggregate of the funding available revenue receipts which are to be applied on the immediately succeeding funding payment date in reduction of deficiencies recorded on the funding principal deficiency ledger, but only to the extent that (following any such reduction) amounts falling due under items (c), (d) and/or (e) are still able to be paid in full;
- (2) the amount of mortgages trust principal receipts payable to funding (no. 2) on a distribution date will be reduced by an amount equal to the aggregate of the available revenue receipts of funding (no. 2) which are to be applied on the immediately succeeding payment date for funding (no. 2) in reduction of deficiencies recorded on the principal deficiency ledger of funding (no. 2), but only to the extent that (following any such reduction) amounts falling due under items (c), (d) and/or (e) are still able to be paid in full;
- (3) the amount of mortgages trust principal receipts payable to funding on a distribution date will be reduced by an amount equal to the amount credited on the excess principal ledger on such distribution date but only to the extent that (following any such reduction) amounts falling due under items (c), (d) and/or (e) are still to be paid in full;
- (4) the amount of mortgages trust principal receipts payable to funding (no. 2) on a distribution date will be reduced by an amount equal to the amount credited on the excess principal ledger of funding (no. 2) on such distribution date but only to the extent that (following any such reduction) amounts falling due under items (c), (d) and/or (e) are still to be paid in full;
- (5) funding will not be entitled to receive and the mortgages trustee cash manager shall procure that funding does not receive in aggregate an amount of mortgages trust principal receipts from the mortgages trustee on a distribution date which is in excess of the funding share on such distribution date;
- (6) funding (no. 2) will not be entitled to receive and the mortgages trustee cash manager shall procure that funding (no. 2) does not receive in aggregate an amount of mortgages trust principal receipts from the mortgages trustee on a distribution date which is in excess of the funding (no. 2) share on such distribution date; and
- (7) if a trust redetermination date has occurred during the trust calculation period immediately preceding any such distribution date, the mortgages trustee cash manager will apply all

mortgages trust principal receipts between funding, funding (no. 2) and the seller (as applicable) in proportion to the weighted average funding share percentage, the weighted average funding (no. 2) percentage and the weighted average seller share percentage for that distribution date or the weighted average funding proportion and the weighted average funding (no. 2) proportion (each as applicable).

Mortgages trust allocation and distribution of principal receipts after the occurrence of a trigger event

Following the occurrence of an asset trigger event

On each distribution date after the occurrence of an asset trigger event (and whether or not there has been any enforcement of the funding security or any security to be granted by funding (no. 2) (the "**funding (no. 2) security**") or the security granted by the issuer, any new issuer or any person holding any funding (no. 2) debt), the mortgages trustee cash manager will allocate and distribute all mortgages trust principal receipts (including any retained principal amounts but excluding any MRCLN collateral amounts unless permitted to be released pursuant to the terms of the MRCLN collateral agreement, for example due to a failure to repay any amounts outstanding under the MRCLN by the seller), in the following order of priority (the "**mortgages trust post asset trigger event allocation of principal receipts**"):

- (a) *first*, in advancing to the seller pursuant to the terms of the MRCLN the then required MRCLN aggregate debt principal balancing advance; and
- (b) *second*, with no order of priority between them but in proportion to the respective amounts due, to funding, funding (no. 2) and the seller according to the funding share percentage of the trust property, the funding (no. 2) share percentage of the trust property and the seller share percentage of the trust property, respectively (in each case as determined in respect of the immediately preceding trust determination date), until the funding share of the trust property and the funding (no. 2) share of the trust property is zero, even though those payments may reduce the seller share of the trust property to an amount less than the minimum seller share,

save that, and notwithstanding the foregoing, if a trust redetermination date has occurred during the trust calculation period immediately preceding any such distribution date, the mortgages trustee cash manager will apply all mortgages trust principal receipts between funding, funding (no. 2) and the seller in proportion to the weighted average funding share percentage, the weighted average funding (no. 2) percentage and the weighted average seller share percentage for that distribution date.

Following the occurrence of an asset trigger event, each series of notes will be subject to prepayment risk (i.e. each series of notes may be repaid earlier than expected). (See "*Risk Factors – Occurrence of a trigger event, the enforcement of the funding security and/or the issuer security*").

Following the occurrence of a non-asset trigger event

On each distribution date after the occurrence of a non-asset trigger event (and whether or not there has been any enforcement of the funding security, the funding (no. 2) security or the security granted by the issuer, any new issuer or any person holding any funding (no. 2) debt) and until the occurrence of an asset trigger event, the mortgages trustee cash manager will allocate and distribute all mortgages trust principal receipts (including, if applicable, but excluding any MRCLN collateral amounts unless permitted to be released pursuant to the terms of the MRCLN collateral agreement for example due to a failure to repay any amounts outstanding under the MRCLN by the seller) in the following order of priority (the "**mortgages trust post non-asset trigger event allocation of principal receipts**" and together with the mortgages trust post asset trigger event and the mortgages trust pre-trigger event principal priority of payments, the "**mortgages trust principal priority of payments**"):

- (a) *first*, in advancing to the seller pursuant to the terms of the MRCLN the then required MRCLN aggregate debt principal balancing advance; and
- (b) *second*, to funding and funding (no. 2) in no order of priority between them, and *pro rata* according to the funding proportion and the funding (no. 2) proportion, respectively, until the funding share of the trust property and the funding (no. 2) share of the trust property is zero; and
- (c) *third*, to the seller, until the seller share of the trust property is zero,

save that, and notwithstanding the foregoing, if a trust redetermination date has occurred during the trust calculation period immediately preceding any such distribution date, the mortgages trustee cash manager will apply all mortgages trust principal receipts between funding and funding (no. 2) in proportion to the weighted average funding share percentage and the weighted average funding (no. 2) percentage for that distribution date.

Following the occurrence of a non-asset trigger event, each series of notes will be subject to prepayment risk (i.e. each series of notes may be repaid earlier than expected). (See "*Risk Factors – Occurrence of a trigger event, the enforcement of the funding security and/or the issuer security*").

Allocation of losses on the mortgage loans

All realised losses experienced on the mortgage loans in the mortgage loan portfolio ("**losses**") will, save as otherwise provided, be applied in reducing proportionately the funding share of the trust property, the funding (no. 2) share of the trust property and the seller share of the trust property.

Save as otherwise provided, the funding share of losses will be determined on any trust calculation date, in respect of the immediately preceding trust calculation period, by multiplying the amount of losses during such trust calculation period by the funding share percentage (as determined in respect of the trust determination date falling at the beginning of such trust calculation period) until the funding share of the trust property is zero and the funding (no. 2) share of losses will be determined on any trust calculation date, in respect of the immediately preceding trust calculation period, by multiplying the amount of losses during such trust calculation period by the funding (no. 2) share percentage (as determined in respect of the trust determination date falling at the beginning of such trust calculation period) until the funding (no. 2) share of the trust property is zero. However, if, during the trust calculation period immediately preceding such trust calculation date, a trust redetermination date has occurred, then the amount of losses during the immediately preceding trust calculation period shall be multiplied by the relevant weighted average funding share percentage and the relevant weighted average funding (no. 2) share percentage (as calculated in respect of that trust determination date) rather than the then current funding share percentage and the current funding (no. 2) share percentage respectively. The remainder of the losses during the immediately preceding trust calculation period shall be allocated to the seller.

Allocation of mortgage reserve principal loss reductions on the MRCLN

All mortgage reserve principal loss reductions on the MRCLN will, save as otherwise provided, be applied in reducing proportionately the funding share of the trust property, the funding (no. 2) share of the trust property and the seller share of the trust property.

Save as otherwise provided, the funding share of mortgage reserve principal loss reductions will be determined on any trust calculation date, in respect of the immediately preceding trust calculation period, by multiplying the amount of mortgage reserve principal loss reductions during the immediately preceding trust calculation period by the funding share percentage (as determined in respect of the trust determination date falling at the beginning of such trust calculation period) until the funding share of the trust property is zero and the funding (no. 2) share of mortgage reserve principal loss reductions will be determined on any trust calculation date, in respect of the immediately preceding trust calculation period, by multiplying the amount of mortgage reserve principal loss reductions during the immediately preceding trust calculation period by the funding (no. 2) share percentage (as determined in respect of the trust determination date falling at the beginning of such trust calculation period) until the funding (no. 2) share of the trust property is zero. However, if, during the trust calculation period immediately preceding such trust calculation date, a trust redetermination date has occurred, then the amount of mortgage reserve principal loss reductions during the immediately preceding trust calculation period shall be multiplied by the weighted average funding share percentage and the weighted average funding (no. 2) share percentage (as calculated in respect of that trust determination date) rather than the then current funding share percentage and the current funding (no. 2) share percentage respectively. The remainder of the mortgage reserve principal loss reductions during the immediately preceding trust calculation period shall be allocated to the seller.

Disposal of trust property

The trust property will be held on bare trust for the benefit of funding, funding (no. 2) and the seller absolutely. Subject as provided otherwise in the mortgages trust deed and the other transaction

documents, the mortgages trustee will not be entitled to dispose of the trust property or create any security interests over the trust property.

If a loan note event of default occurs under any loan note (a "**loan note event of default**") and (following the service on funding and the funding security trustee of a loan note tranche enforcement notice) the funding security trustee enforces the funding security, then the funding security trustee will be entitled, among other things, to sell the funding share of the trust property.

Additions to the trust property

The trust property may be increased from time to time by way of:

- (a) the sale of new mortgage loans and their related security to the mortgages trustee;
- (b) the sale of further advances relating to mortgage loans in the mortgages trust; and
- (c) the making of any additional MRCLN advances to the seller pursuant to the terms of the MRCLN, or by further contributions or additional initial contributions (see below).

See "*The Mortgage Assets*", "*Assignment of the Mortgage Loans and Related Security*" and "*The MRCLN*".

Arrears

The aggregate current balance of the mortgage loans in the mortgages trust will be increased at any time by the amount in which the mortgage loans that have been sold to the mortgages trust are in arrears and those arrears have been capitalised. Such increase shall be allocated to funding, funding (no. 2) and the seller at such time in proportion to their respective percentage shares in the trust property as determined on any trust calculation date in respect of the immediately preceding trust calculation period or interim calculation period (if any), in which the arrears occur.

Increasing the funding share of the trust property and the funding (no. 2) share of the trust property by way of further contributions and additional initial contributions

If funding issues a new loan note tranche or funding (no. 2) increases its outstanding debt, then it may apply the proceeds of that new loan note tranche or new debt arrangement as either a further contribution or an additional initial contribution to the mortgages trust to increase its beneficial interest in, and the funding share or the funding (no. 2) share (as applicable) of, the trust property on a distribution date. Funding and/or funding (no. 2) will be permitted to do this only if certain conditions are met, including amongst others:

- (a) that no loan note tranche enforcement notice has been served under any existing loan note tranche and no enforcement notice has been served under any existing funding (no. 2) debt arrangement;
- (b) that as at the most recent payment date no deficiency was recorded on the funding principal deficiency ledger or the principal deficiency ledger in respect of funding (no. 2);
- (c) that no event of default under the transaction documents shall have occurred and which is continuing;
- (d) that the rating agencies have confirmed in writing to the relevant loan note tranche holder that the proposed increase in the funding share or the funding (no. 2) share would not adversely affect the then current ratings by the rating agencies of any existing notes of any loan note tranche holder or any funding (no. 2) associated debt; and
- (e) that, as of the last day of the immediately preceding trust calculation period, the aggregate current balance of the mortgage accounts for which the associated mortgage loans in the mortgages trust which were then in excess of three monthly payments in arrears is less than 4 per cent. of the sum of: (i) the aggregate current balance of all mortgage loans in the mortgages trust as of such date; and (ii) the then principal amount outstanding on the MRCLN, unless the rating

agencies have confirmed that the then current ratings of the notes and any debt issued by a person holding any funding (no. 2) debt will not be adversely affected.

Payment of deferred purchase price and MRCLN deferred subscription price by the mortgages trustee

In accordance with and pursuant to the terms of the mortgage sale agreement, the MRCLN note purchase facility agreement and the mortgages trust deed, any deferred contributions received by the mortgages trustee from funding and/or funding (no. 2) on any date shall be applied by the mortgages trustee on such date:

- (a) in an amount equal to:

$$TDC \times \left(\frac{ACB}{ACB + PAO} \right)$$

(the "**deferred purchase price calculation formula**"), to make payments of mortgage loan deferred purchase price (including in respect of any early repayment charges) to the seller in respect of the previous purchase of any mortgage loans in the mortgage loan portfolio;

- (b) in an amount equal to:

$$TDC \times \left(\frac{PAO}{ACB + PAO} \right)$$

(the "**MRCLN deferred subscription price calculation formula**"), to make payments of MRCLN deferred subscription price to the seller for the subscription of the MRCLN,

where,

- TDC = the total amount of deferred contribution paid by funding and/or funding (no. 2) at such time;
- ACB = the aggregate current balance on the mortgage loans in the then mortgage loan portfolio as at the immediately preceding trust determination date; and
- PAO = the principal amount outstanding on the MRCLN as at the immediately preceding trust determination date.

Special distributions

Pursuant to the terms of the mortgages trust deed, the beneficiaries have agreed that amounts held by the mortgages trustee on any date in respect of any further contribution paid by any of the beneficiaries to the mortgages trustee on that date will be allocated and paid by the mortgages trustee to the beneficiaries as directed and agreed by the beneficiaries at such time (any such payment being a "**special distribution**" from the mortgages trust). In particular special distributions may be made to:

- (a) the seller, if the further contribution was made by funding or funding (no. 2);
- (b) funding, if the further contribution was made by the seller or funding (no. 2); and/or
- (c) funding (no. 2), if the further contribution was made by the seller or funding.

The payment of any such special distribution will decrease the recipient beneficiary's share of the trust property by a respective amount. Funding will apply any amount it receives from a special distribution (each such amount a "**funding special distribution amount**") in accordance with the then applicable funding priority of payments.

Termination of the mortgages trust

The mortgages trust will terminate on the date on which there is no remaining trust property or, if earlier, such date as may be requested in writing by the seller to the mortgages trustee being on or after the date on which:

- (a) all of the loan note tranches and any funding (no. 2) debt have been repaid in full;
- (b) there is no further claim under any loan note tranches or any funding (no. 2) debt;
- (c) the funding share of the trust property and the funding (no. 2) share of the trust property has been reduced to zero; or
- (d) such other date which may be agreed between the mortgages trustee, funding, funding (no. 2) and the seller,

so long as all amounts due from funding to the funding secured creditors and all amounts due from funding (no. 2) to the secured creditors of funding (no. 2) have been repaid in full.

Retirement of mortgages trustee

The mortgages trustee will not be entitled to retire or otherwise terminate its appointment.

Governing law of the mortgages trust deed

The mortgages trust deed is governed by English law.

The controlling beneficiary deed

On the mortgages trust establishment date, funding, funding (no. 2) and the seller (as a beneficiary) entered into a controlling beneficiary deed (the "**controlling beneficiary deed**") to agree to, amongst other things, arrangements amongst them in respect of certain commercial decisions (relating to authorisations, consents, waivers, instructions or other acts) to be made from time to time in respect of the transaction documents.

It is intended that if there is a conflict of interest between the funding beneficiaries in respect of directing the mortgages trustee or the exercising of any rights, powers, discretions or consents under the transaction documents then, pursuant to the terms of the controlling beneficiary deed, the funding beneficiaries agree to act in accordance with the controlling directions. The seller agreed that, where necessary, it shall provide directions to the mortgages trustee that are consistent with the controlling directions.

For the purposes of the previous paragraph, "**controlling directions**" means the funding beneficiary representing the issuing entity(ies) with the highest ranking class of notes then outstanding, and if each funding beneficiary represents issuing entity(ies) with the same class of notes as their highest ranking class, then the direction of the funding beneficiary representing the issuing entity(ies) with the greatest principal amount outstanding of the highest ranking class of notes will prevail.

Where:

"**issuing entity(ies)**" means, in the case of funding, the issuer or any new issuer that funds its acquisition of loan note tranches issued by funding through the issuance of notes that are rated by a rating agency and in the case of funding (no. 2), any entity that funds its acquisition or borrowing of debt issued or provided by funding (no. 2) through the issuance of notes that are rated by a rating agency.

For the purposes of the above:

- (i) all denominations of the principal amount outstanding of any note shall be calculated in sterling and where the principal amount outstanding of any note tranche of any funding beneficiary is not denominated in sterling it shall be converted into sterling at the rate specified in the hedging agreements applicable to such note; and
- (ii) the highest ranking class of notes outstanding shall mean the class A notes, the class B notes (so long as there are no class A notes outstanding), the class C notes (so long as there are neither

class A notes nor class B notes outstanding), the class D notes (so long as there are neither class A notes, class B notes nor class C notes outstanding), the class E notes (so long as there are neither class A notes, class B notes, class C notes or class D notes outstanding) or the class F notes (so long as there are neither class A notes, class B notes, class C notes, class D notes or class E notes outstanding).

The controlling beneficiary deed will be governed by English law.

THE MRCLN

The MRCLN and the MRCLN note purchase facility agreement

On the mortgages trust establishment date the mortgages trustee subscribed for and purchased a variable funding credit linked note (the "MRCLN") issued by the seller pursuant to the terms of a note purchase facility agreement (the "MRCLN note purchase facility agreement") dated on the mortgages trust establishment date (as amended from time to time) between, *inter alios*, the seller and the mortgages trustee.

As of the latest trust determination date, the principal amount outstanding on the MRCLN was approximately £319,625,865.26.

The subscription price for the MRCLN

Pursuant to the terms of the MRCLN note purchase facility agreement, the subscription price paid by the mortgages trustee to the seller for the MRCLN was and will be (as applicable):

- (a) on the mortgages trust establishment date, an amount equal to the then aggregate mortgage reserve account balances of all reference mortgage reserves which were linked to the mortgage loans purchased by the mortgages trustee on the mortgages trust establishment date (the "MRCLN initial subscription price"), which was funded by the mortgages trustee from the sum received by the mortgages trustee from the seller by way of a MRCLN contribution made by the seller to the mortgages trustee on the mortgages trust establishment date; and
- (b) from time to time and in accordance with the terms of the mortgages trust deed, an amount determined in accordance with the then application of the MRCLN deferred subscription price calculation formula to the amount of deferred contribution received by the mortgages trustee at such relevant time (such amount being the then "MRCLN deferred subscription price") (see "*The Mortgages Trust – Payment of deferred purchase price and MRCLN deferred subscription price by the mortgages trustee*").

The MRCLN

Additional MRCLN advances

On the mortgages trust establishment date the principal amount outstanding on the MRCLN equalled the MRCLN initial subscription price. However, the MRCLN is a variable funding note and as such the mortgages trustee will, pursuant to the terms of the MRCLN, be under an obligation, in the circumstances described below, to lend further amounts to the seller on: (i) any distribution date; and (ii) any assignment date, each such additional amount lent to the seller being an "additional MRCLN advance".

Upon the mortgages trustee making an additional MRCLN advance to the seller, the principal amount outstanding on the MRCLN will increase by an amount equal to such additional MRCLN advance.

The mortgages trustee will be required to make an additional MRCLN advance in the following circumstances:

- (a) on each distribution date (and as calculated on the immediately preceding trust calculation date), in an amount equal to the then aggregate mortgage reserve account balance increase amount for all mortgage reserves which were reference mortgage reserves on the immediately preceding trust determination date (and for the purposes of all relevant calculations, such additional MRCLN advance will be deemed to have been made on such immediately preceding trust determination date); and
- (b) on any assignment date, in an amount equal to the then aggregate mortgage reserve account balance for all mortgage reserves which became reference mortgage reserves on such assignment date,

where:

- (i) the "**aggregate mortgage reserve account balance increase amount**" is the then sum of all mortgage reserve account balance increase amounts for each reference mortgage reserve (as calculated on a reference mortgage reserve by reference mortgage reserve basis); and
- (ii) a "**mortgage reserve account balance increase amount**" for a reference mortgage reserve is an amount equal to the mortgage reserve account balance of the relevant reference mortgage reserve as at the end of the immediately preceding trust calculation period minus the mortgage reserve account balance of such reference mortgage reserve as at the beginning of the immediately preceding trust calculation period or, in relation to a mortgage reserve that became a reference mortgage reserve during such immediately preceding trust calculation period, the applicable assignment date and also further minus an amount equal to the potential MRCLN interest for the then immediately preceding trust calculation period (as described below) (save that if the result of such calculation is a negative amount the then mortgage reserve account balance increase amount for such reference mortgage reserve shall equal zero).

Funding an additional MRCLN advance

The mortgages trustee shall fund an additional MRCLN advance in the following ways and in the following order of priority:

- (a) from any sum received by the mortgages trustee from funding in respect of any initial contribution to be made by funding to the mortgages trustee on an assignment date;
- (b) from any mortgages trust available principal receipts which are available on a distribution date, but only up to an amount equal to the then MRCLN aggregate debt principal balancing amount; and/or
- (c) from any sum received by the mortgages trustee from the seller in respect of any MRCLN contribution made by the seller to the mortgages trustee on the mortgages trust establishment date or, as applicable, to be made on any distribution date,

where:

- (a) the "**MRCLN aggregate debt principal balancing amount**" is the then sum of all mortgage account debt principal balancing amounts for each and every mortgage account (as calculated on a mortgage account by mortgage account basis) for the then relevant trust calculation period; and
- (b) a "**mortgage account debt principal balancing amount**" for a mortgage account is:
 - (i) if the size of the decrease (if any) on the mortgage account balance of such mortgage account as at the end of the immediately preceding trust calculation period when compared to the size of the mortgage account balance of such mortgage account as at the beginning of such immediately preceding trust calculation period (the then "**mortgage account debt balance decrease amount**") is less than the aggregate amount of mortgage loan principal receipts received by the mortgages trustee in respect of such mortgage account during such trust calculation period (the then "**mortgage loan principal receipts amount**"), then the mortgage account debt principal balancing amount for such mortgage loan on the relevant distribution date will be an amount equal to:
 - (1) the then mortgage loan principal receipts amount for such mortgage loan account; less
 - (2) the then mortgage account debt balance decrease amount for such mortgage account;
 - (ii) if the mortgage account balance of such mortgage account as at the end of the immediately preceding trust calculation period is equal to or greater than the mortgage account balance of such mortgage account as at the beginning of such immediately preceding trust calculation period, then the mortgage account debt principal balancing

amount for such mortgage account on the relevant distribution date will be equal to the then mortgage loan principal receipts amount for such mortgage account.

Interest on the MRCLN

Interest will be payable by the seller in relation to the principal amount outstanding on the MRCLN (the "**MRCLN interest**"), monthly in arrears in sterling on each distribution date (each such day a "**MRCLN payment date**") (although for the purposes of calculating the mortgages trust available revenue receipts in respect of each trust determination date, such MRCLN payments will be deemed to have been made to the mortgages trustee during the immediately preceding trust calculation period). The amount of interest due and payable on the MRCLN is linked, as described below, to the amount of interest charged to a borrower on such borrower's reference mortgage reserve (any such interest being "**mortgage reserve interest**").

The amount of MRCLN interest due and payable on each MRCLN payment date will be an amount equal to the sum of: (i) MRCLN immediately due and payable interest for that date; and (ii) MRCLN subsequently due and payable interest for that date, where:

(a) "**MRCLN immediately due and payable interest**" in respect of each MRCLN payment date is an amount equal to the sum of (in aggregate in respect of every mortgage reserve but as determined on a reference mortgage reserve by reference mortgage reserve basis):

(i) in relation to each borrower whose mortgage reserve account balance as at the beginning of the immediately preceding trust calculation period is greater than or equal to the mortgage reserve account balance for such mortgage reserve as at the end of such immediately preceding trust calculation period, the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period;

(ii) in relation to each borrower:

(1) whose mortgage reserve account balance as at the beginning of the immediately preceding trust calculation period is less than the mortgage reserve account balance for such mortgage reserve as at the end of such immediately preceding trust calculation period; and

(2) whose mortgage reserve account balance as at the end of such immediately preceding trust calculation period is less than or equal to the mortgage reserve credit limit as at the end of such immediately preceding trust calculation period,

the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period;

(iii) in relation to each borrower:

(1) whose mortgage reserve account balance as at the beginning of the immediately preceding trust calculation period is less than the mortgage reserve account balance for such mortgage reserve as at the end of the immediately preceding trust calculation period; and

(2) where: (A) the amount equal to the mortgage reserve account balance as at the end of the immediately preceding trust calculation period minus the amount equal to the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period; is greater than or equal to (B) the mortgage reserve credit limit as at the end of such immediately preceding trust calculation period,

the amount equal to: (i) the mortgage reserve account balance as at the beginning of such immediately preceding trust calculation period; minus (ii) the amount equal to the mortgage reserve account balance as at the end of such immediately preceding trust

calculation period minus the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period, save that if the total of the calculation described in this paragraph is less than zero then such total shall be deemed to equal zero;

(iv) in relation to each borrower:

(1) whose mortgage reserve account balance as at the beginning of the immediately preceding trust calculation period is less than the mortgage reserve account balance for such mortgage reserve as at the end of such immediately preceding trust calculation period; and

(2) where: (A) the amount equal to the mortgage reserve account balance as at the end of such immediately preceding trust calculation period minus the amount equal to the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period; is less than (B) the mortgage reserve credit limit as at the end of such immediately preceding trust calculation period; and

(3) where the mortgage reserve account balance as at the end of such immediately preceding trust calculation period is greater than the mortgage reserve credit limit as at the end of such immediately preceding trust calculation period,

the amount equal to the greater of:

(A) the amount equal to: (i) the mortgage reserve account balance as at the beginning of such immediately preceding trust calculation period; minus (ii) the amount equal to the mortgage reserve account balance as at the end of such immediately preceding trust calculation period minus the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period; and

(B) the amount equal to: (i) the mortgage reserve credit limit as at the end of such immediately preceding trust calculation period; minus (ii) the amount equal to the mortgage reserve account balance as at the end of such immediately preceding trust calculation period minus the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period,

and, in relation to any borrower whose payment of mortgage reserve interest falls into one of the scenarios described in paragraphs (iii) or (iv) above, the amount which (by reference to the above paragraphs and still on a borrower by borrower and reference mortgage reserve by reference mortgage reserve basis) is equal to the sum of:

(A) the amount of mortgage reserve interest charged to such borrower and debited from such borrower's reference mortgage reserve during such immediately preceding trust calculation period;

minus,

(B) the result of the relevant calculation for such reference mortgage reserve as set out in the applicable paragraph (iii) or (iv) above,

shall be referred to herein as the then "**potential MRCLN interest**" in relation to each such reference mortgage reserve for such trust calculation period and such potential MRCLN interest added to any previous potential MRCLN interest which has been accrued in relation to such reference mortgage reserve for any previous trust calculation period shall be referred to herein as the "**aggregate potential MRCLN interest**" for such reference mortgage reserve (less any

amounts of released potential MRCLN interest in relation to such reference mortgage reserve as described in paragraph (b) below).

(b) **"MRCLN subsequently due and payable interest"** in respect of each MRCLN payment date is an amount equal to the aggregate of the released potential MRCLN interest for each reference mortgage reserve during such trust calculation period, where **"released potential MRCLN interest"** will arise if the following two statements are true in respect of such trust calculation period:

- (i) the relevant reference mortgage reserve at the beginning of a trust calculation period has aggregate potential MRCLN interest recorded against it at such time; and
- (ii) the mortgage reserve account balance for such reference mortgage reserve as at the end of the last day of the relevant trust calculation period is less than the mortgage reserve account balance for such reference mortgage reserve as at the beginning of the first day of such trust calculation period,

and if so, the released potential MRCLN interest for such reference mortgage reserve will be an amount equal to the lesser of:

- (1) an amount equal to the mortgage reserve account balance for such reference mortgage reserve as at the beginning of the first day of such trust calculation period minus the mortgage reserve account balance for such reference mortgage reserve as at the end of the last day of the relevant trust calculation period; and
- (2) the then aggregate potential MRCLN interest for such reference mortgage reserve,

and the aggregate potential MRCLN interest amount will thereafter be reduced by an amount equal to such released potential MRCLN interest. In addition, released potential MRCLN interest will also be deemed to have arisen in relation to a reference mortgage reserve and in an amount equal to the total aggregate potential MRCLN interest recorded in respect of such reference mortgage reserve at the beginning of a trust calculation period if that reference mortgage reserve is, by the end of such trust calculation period, no longer a reference mortgage reserve (for whatsoever reason (for example, the associated mortgage loan has been repaid or repurchased by the seller), save that, in this respect, if the mortgage loan associated with a reference mortgage reserve is repurchased on a trust determination date, then, for the purposes of determining the amount and timing of when released potential MRCLN interest is deemed to have arisen (as a result of such reference mortgage reserve ceasing to be a reference mortgage reserve as a consequence), the relevant reference mortgage reserve shall be deemed to have ceased to have been a reference mortgage reserve during the immediately prior trust calculation period (with, for the avoidance of doubt, the resulting released potential MRCLN interest in respect of such reference mortgage reserve therefore contributing to the amount of interest to be paid on the MRCLN on the MRCLN payment date immediately following such trust determination date)).

Interest rate on the reference mortgage reserves

Pursuant to the terms of the MRCLN note purchase agreement, the seller will agree to maintain the interest rate on any reference mortgage reserve at a rate that is at no time lower than the lower of Barclays then standard variable rate and Barclays then base rate.

Repayment of the MRCLN

The seller will be required on each MRCLN payment date to repay the MRCLN in an amount equal to the then aggregate mortgage reserve principal repayment amount for all mortgage reserves which were reference mortgage reserves at the beginning of the immediately preceding trust calculation period or, in relation to any mortgage reserve which only became a reference mortgage reserve during such trust calculation period, as at the applicable assignment date (and for the purposes of calculating the mortgages trust principal receipts in respect of each trust determination date, such MRCLN principal repayments will be deemed to have been made to the mortgages trustee during the immediately preceding trust calculation period or, as applicable, interim calculation period), where:

- (a) the "**aggregate mortgage reserve principal repayment amount**" is the then sum of all mortgage reserve principal repayment amounts for each and every mortgage reserve which were reference mortgage reserves (and as calculated on a reference mortgage reserve by reference mortgage reserve basis) at the start of the immediately preceding trust calculation period (or if added as reference mortgage reserves during the relevant trust calculation period, on the relevant assignment date); and
- (b) a "**mortgage reserve principal repayment amount**" in relation to a reference mortgage reserve is equal to the mortgage reserve account balance of the relevant reference mortgage reserve at the start of the immediately preceding trust calculation period minus the account balance of such reference mortgage reserve at the end of the immediately preceding trust calculation period (save that:
 - (1) if the result of such calculation is a negative amount then the mortgage reserve principal repayment amount for such reference mortgage reserve shall equal zero;
 - (2) any released potential MRCLN interest in respect of such reference mortgage reserve in respect of such trust calculation shall be excluded for these purposes (and thus reduce the size of such mortgage reserve principal repayment amount);
 - (3) if the reference mortgage reserve was not a reference mortgage reserve at the beginning of the trust calculation period, reference shall be made to the account balance of the relevant mortgage reserve as at the time when it became a reference mortgage reserve; and
 - (4) if the reference mortgage reserve is not a reference mortgage reserve at the end of the trust calculation period (for whatsoever reason (for example, the associated mortgage loan has been repaid or repurchased by the seller)), then the mortgage reserve principal repayment amount for such reference mortgage reserve is equal to the account balance of such reference mortgage reserve as at the beginning of the trust calculation period less any aggregate potential MRCLN interest for such reference mortgage reserve. Save that, in this respect, if the mortgage loan associated with a reference mortgage reserve is repurchased on a trust determination date, then, for the purposes of determining the amount and timing of when the MRCLN should be repaid (as a result of such reference mortgage reserve ceasing to be a reference mortgage reserve as a consequence), the relevant reference mortgage reserve shall be deemed to have ceased to have been a reference mortgage reserve during the immediately prior trust calculation period (with, for the avoidance of doubt, the resulting mortgage reserve repayment amount in respect of such reference mortgage reserve therefore contributing to the amount of principal to be repaid on the MRCLN on the MRCLN payment date immediately following such trust determination date)).

MRCLN limited in recourse

The MRCLN is a credit linked note and as such the obligation to repay any principal amount outstanding on the MRCLN by the seller is directly linked to the seller receiving payments from borrowers, and to such borrowers repaying the then outstanding mortgage reserve account balance on the reference mortgage reserves and not redrawing such balances in the same period.

Mortgage reserve principal loss reductions

To the extent, following, *inter alia*, the enforcement of the mortgage security granted by a borrower in respect of the relevant reference mortgage reserve and the mortgage loan in the mortgage loan portfolio, the seller fails to recover the full amount outstanding on the mortgage reserve account balance on the relevant reference mortgage reserve, the principal amount outstanding under the MRCLN will be reduced by an amount equal to such outstanding and unrecovered amount (any such reduction in their share of the trust property, a "**mortgage reserve principal loss reduction**"). Pursuant to the terms of the mortgages trust deed (and save as otherwise provided therein), funding, funding (no. 2) and the seller will share proportionally any mortgage reserve principal loss reduction (see "*The Mortgages Trust – Allocation of mortgage reserve principal loss reductions on the MRCLN*").

Any payments from the enforcement of any mortgage security will be applied first to reduce any account balance on a reference mortgage reserve and thereafter applied in reducing the current balance (and any accrued interest thereon) on the associated mortgage loan in the mortgage loan portfolio.

Withholding tax on the MRCLN

All payments made to the mortgages trustee under the MRCLN will be made free and clear of, and without withholding or deduction for, any tax unless such withholding tax or deduction is required by law.

If any such withholding or deduction is so required, the amount of the payment due to the mortgages trustee will be increased to the extent necessary to ensure that, after that withholding or deduction has been made, the amount received by the mortgages trustee is equal to the amount that it would have received had that withholding or deduction not been required to be made pursuant to and in accordance with condition 7(e) (*Optional Redemption*), the issuer will have the right to redeem the notes in such circumstances.

No security for the seller's obligation under the MRCLN

It should be noted that the seller's obligations to the mortgages trustee under the MRCLN and the MRCLN note purchase facility agreement are unsecured debt obligations of the seller.

Prospective noteholders should also note that the mortgages trustee will have no direct contractual right to require any repayment by the borrower of any debt outstanding on any reference mortgage reserve as the seller's rights (and obligations) under a reference mortgage reserve are not at any time transferred to the mortgages trustee and are therefore at all times owed to the seller.

However, the related security that is assigned to the mortgages trustee under the mortgage sale agreement shall also be security over amounts owing to the seller under the associated reference mortgage reserves. The mortgages trustee shall hold the related security, to the extent the related security secures amounts owing to the seller under the associated reference mortgage reserves, on trust for the seller. Given that the mortgages trustee shall not be able to directly apply such enforcement proceeds to the amounts owing under the associated mortgage reserves (as such amounts are owed directly to the seller), in the event the mortgages trustee exercises its rights to enforce the related security, the mortgages trustee shall be required to pay, on the immediately following distribution date, such security enforcement proceeds it receives (such amounts being "**mortgage reserve security enforcement proceed amounts**") directly to the seller for the seller to apply the same in reducing the mortgage reserve account balance of the associated reference mortgage reserves. Any such reduction in the mortgage reserve account balance shall, as described above, require the seller to repay a corresponding amount under the MRCLN to the mortgages trustee. In addition, pursuant to the terms of the mortgage sale agreement and the MRCLN note purchase facility agreement, the mortgages trustee shall be entitled to set-off the amounts payable to the seller in relation to any such mortgage reserve security enforcement proceed amounts against the corresponding amounts then payable by the seller under the MRCLN.

Pursuant to the terms of the mortgage sale agreement and the MRCLN note purchase agreement, any enforcement proceeds from any related security of a mortgage account will first be applied in discharging the relevant borrower's obligations under its associated reference mortgage reserve and thereafter in discharging the relevant borrower's obligations under the associated mortgage loan.

Events of default under the MRCLN

The MRCLN will contain a list of certain limited events of default that may lead to a default under the terms of the MRCLN, including:

- (a) a failure to pay by the seller;
- (b) a breach of undertakings by either party to the MRCLN note purchase facility agreement;
- (c) a failure by the seller to post any required MRCLN collateral as and when required pursuant to the terms of the MRCLN collateral agreement;
- (d) the insolvency of the seller; and
- (e) repudiation,

each, a "**MRCLN event of default**".

Upon the occurrence of a MRCLN event of default (unless waived by the mortgages trustee at such time):

- (i) all amounts outstanding on the MRCLN will become immediately due and payable; and
- (ii) the seller will no longer be entitled to any additional MRCLN advances from the mortgages trustee.

Certain MRCLN events of default may be subject to a rectification period. Also, certain MRCLN events of default are subject to a materiality test where the occurrence of an event will not lead to a MRCLN event of default unless the occurrence of such an event would have material adverse effects.

MRCLN Collateral

Pursuant to the terms of the MRCLN note purchase facility agreement, if the seller ceases to have a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB- or by Moody's of at least Baa3 (unless each affected rating agency confirms in writing to, *inter alios*, the issuer and the mortgages trustee that the then current ratings of any existing series of notes and any funding (no. 2) notes will not be adversely affected thereby) the seller will be required to provide in accordance with the terms of the MRCLN collateral agreement and within 30 days, collateral on an ongoing basis in an amount equal to the principal amount outstanding on the MRCLN, so as to support its payment obligations under the MRCLN (any such collateral being "**MRCLN collateral**") until such time as the seller again has a long term unsecured, unsubordinated and unguaranteed credit rating by S&P of at least BBB-, by Fitch of at least BBB-and by Moody's of at least Baa3.

No Assignment

Neither the seller nor the mortgages trustee shall be entitled to assign and/or novate and/or otherwise transfer any of its rights, title, interest or obligations under the MRCLN or the MRCLN note purchase facility agreement to any other person.

Governing law

The MRCLN and the MRCLN note purchase facility agreement are governed by English law.

The MRCLN collateral agreement

Pursuant to the terms of the MRCLN and the MRCLN note purchase facility agreement, the seller has also been required to enter into, on the mortgages trust establishment date, a collateral agreement between, *inter alios*, the mortgages trustee and the seller (the "**MRCLN collateral agreement**"), which governs, *inter alia*, the requirements, timing, holding mechanics and amount of MRCLN collateral that may be required to be posted to the mortgages trustee by the seller from time to time.

Any MRCLN collateral will, pursuant to the mortgages trust deed, be held on trust by the mortgages trustee and will constitute trust property.

Pursuant to the terms of the MRCLN collateral agreement, any amount of MRCLN collateral that is permitted to be released and paid back to the seller (together with, if applicable, any interest on any permitted securities and/or other permitted investments that constitutes the MRCLN collateral at any time) (any such amounts being "**MRCLN collateral release amounts**") will be paid, in accordance with the mortgages trust revenue priority of payments, to the seller by the mortgages trustee on the immediately following distribution date.

Governing law

The MRCLN collateral agreement is governed by English law.

THE LOAN NOTE TRANCHES AND FUNDING CASHFLOWS

The following discussion and the discussions under "*Cash Management Agreement for Funding*" summarise the material terms of global loan note no. 1 and each notional tranche of global loan note no. 1 (referred to as a "**loan note tranche**") and the security in respect of the loan note tranches, and the cash management provisions in relation to the funding share of trust property held by funding. These summaries do not purport to be complete and are qualified in their entirety by reference to the provisions of the funding security trust deed, the funding cash management agreement, global loan note no. 1 and any supplement to global loan note no. 1.

General

The final terms for a particular series will specify the class of the loan note tranche which acts as collateral for that series. Each loan note tranche will be issued as a notional tranche of global loan note no. 1 pursuant to the funding security trust deed and a supplement to global loan note no. 1. Neither the funding security trust deed nor the supplements to global loan note no. 1 limit the principal amount of loan note tranches that may be issued. However, a number of issuance tests will need to be fulfilled before certain loan note tranches may be issued (see "*Issuance of new loan note tranches*" below). Each supplement to global loan note no. 1 will describe the provisions specific to that loan note tranche. Holders of loan note tranches, including the issuer, will not have the right to prior review of, or consent to, any subsequent issuance of loan note tranches or the issuance of other global loan notes in addition to global loan note no. 1. Loan note tranches and other global loan notes may be issued to holders other than the issuer.

Global loan note no. 1 consists of multiple classes of loan note tranches. A class designation determines the relative seniority for receipt of cash flows and funding of the losses allocated to the loan note tranches. Each subordinated class of loan note tranches provides credit enhancement for more senior classes of loan note tranches. Whenever a "class" of loan note tranches is referred to in this base prospectus or any final terms, it includes all loan note tranches of that class, unless the context requires otherwise.

Funding may issue different classes of loan note tranches at the same time or at different times, but no loan note tranche may be issued unless the issuance tests in relation to that loan note tranche have been satisfied. Such issuance tests include, amongst other things, the availability of a sufficient amount of subordinated loan note tranches as subordination for senior loan note tranches (see "*Required subordinated amount for loan note tranches*" and "*Issuance of new loan note tranches*" below).

Funding will issue loan note tranches denominated in sterling only.

Each holder of a loan note tranche (including the issuer) will have the benefit of the security granted in relation to the loan note tranches to the funding security trustee in the funding security trust deed and any related supplement to global loan note no. 1 (see "*The Funding Security and Funding Security Trust Deed*").

Funding as a beneficiary of the mortgages trust will receive allocations of mortgages trust revenue receipts and mortgages trust principal receipts in respect of the funding share of trust property. The method for calculating the allocations of mortgages trust available revenue receipts and mortgages trust principal receipts to funding is described in "*The Mortgages Trust*" above.

Funding will pay principal and interest on loan note tranches solely from amounts of mortgages trust revenue receipts and mortgages trust principal receipts which are allocated to funding in respect of the funding share of trust property as set out in the mortgages trust deed and the funding cash management agreement. If those sources are not sufficient for the payment of principal or interest on a particular loan note tranche, the holder of that loan note tranche will have no recourse to any other assets of funding, or any other person or entity for the payment of principal or interest on that loan note tranche.

The funding cash manager will make calculations (such calculations to be made on the immediately preceding trust calculation date) in relation to distributions and receipts to occur on each funding payment date, such date being the 20th day of February, May, August and November (or if such a day is not a business day, the next succeeding business day and subject to adjustment as specified in the relevant final

terms in respect of the first funding payment date), or such other dates as specified in the first supplement to the global loan note no. 1 and the related final terms (the "**funding payment date**").

Interest

Interest will accrue on each loan note tranche from its date of creation at the applicable interest rate for that loan note tranche, as specified in the related supplement to global loan note no. 1 and the final terms of the series which that loan note tranche supports (if that loan note tranche is acquired by the issuer). Interest on a loan note tranche will be due and payable on each funding payment date or as otherwise specified in the related supplement to global loan note no. 1 and the related final terms. Interest payments will be funded from amounts of mortgages trustee available revenue receipts allocated to funding in respect of the preceding trust calculation period, and from certain other amounts specified in the funding cash management agreement and any related supplement to a global loan note, including (but otherwise than with respect to an RF loan note tranche) any amounts of funding available principal receipts which may be utilised to make up certain shortfalls in funding available revenue receipts.

For each issuance of a loan note tranche, the interest rate index or other formula on which the interest payment is based together with any margin will be designated in the related supplement to global loan note no. 1 and the relevant final terms.

In respect of a loan note tranche, whilst the loan note tranche is secured for a specified series of notes, the basis on which the rate of interest is calculated for such loan note tranche will be the same for each funding interest period as the basis on which the rate of interest or the determination of any payments under any related swap agreement is calculated for that series notwithstanding that the length of the interest periods on the loan note tranche and the series may be different.

Each payment of interest on a loan note tranche will include all interest accrued from and including the preceding funding payment date – or, for the first funding interest period, from and including the issue date – up to and including the day preceding the next funding payment date, or any other period as may be specified in the related supplement to global loan note no. 1 and the relevant final terms. Interest on a loan note tranche will be due and payable on each funding payment date **provided that** any amount of interest not paid on a funding payment date in respect of any loan note tranche, other than the loan note tranche that is then the most senior, will defer until the earlier of the next funding payment date on which funds are available for it to be paid and the final maturity date for such loan note tranche. Amounts of interest which are deferred will accrue interest at the rate set out in the related supplement to global loan note no. 1 and the relevant final terms. Failure to pay interest on the then most senior loan note tranche will constitute a loan note event of default.

Principal

The timing of payment of principal on any loan note tranche will be specified in the related supplement to global loan note no. 1 and the relevant final terms.

Each date on which a final payment of principal (and any accrued interest thereon) is scheduled to be made on a bullet pay loan note tranche will be referred to in this base prospectus and the related final terms as a "**scheduled redemption date**". In addition each date on which a loan note tranche is due to be repaid in full (plus any accrued interest thereon) is referred to in this base prospectus and the related final terms as a "**final maturity date**".

Principal of a loan note tranche may be repaid later than the date on which it is scheduled to be repaid if funds allocated to funding in respect of the funding share of trust property are not sufficient for that purpose. Additionally, in the case of a subordinated loan note tranche, principal in respect of that loan note tranche will be repaid on any scheduled date only to the extent that the subordination provisions of the senior loan note tranches and the repayment tests permit such payment. See "*Redemption and early redemption of loan note tranches*" below.

It will not be a loan note event of default if the outstanding principal amount of a bullet pay loan note tranche is not paid on its scheduled redemption date. If the stated principal amount of a bullet pay loan note tranche is not paid on its scheduled redemption date, any amounts standing to the credit of the principal funding ledger for such bullet pay loan note tranche on its scheduled redemption date will be paid to the holder of such bullet pay loan note tranche on such date and any unpaid amounts shall be due

and payable on each succeeding funding payment date until such bullet pay loan note tranche has been repaid in full. However, if the outstanding principal amount of any loan note tranche is not paid in full by its final maturity date, a loan note event of default will occur with respect to that loan note tranche. See "*Loan note events of default*" below.

Principal of a loan note tranche may be repaid earlier than its scheduled redemption date or other dates specified in the related supplement to global loan note no. 1 if an early redemption event occurs. See "*Early redemption events*" and "*Loan note events of default*" below.

See "*Risk Factors*" for a discussion of factors that may affect the timing of principal payments to noteholders as a result of factors affecting a loan note tranche.

Accumulation and early amortisation periods

Each bullet pay loan note tranche will have an accumulation period and may also have an early amortisation period. If a bullet pay loan note tranche is not in an accumulation period or an early amortisation period, funding will not accumulate any amount representing principal in respect of that bullet pay loan note tranche and no payments of principal shall be made to the holder of that bullet pay loan note tranche.

During the accumulation period for a bullet pay loan note tranche commencing on the accumulation period commencement date, funding will on each funding payment date accumulate in the principal funding ledger for such bullet pay loan note tranche, principal amounts received by funding equal to the controlled deposit amount to be applied towards payment of principal on such bullet pay loan note tranche at the earlier to occur of (a) the scheduled redemption date for that bullet pay loan note tranche or (b) the commencement of an early amortisation period in respect of that bullet pay loan note tranche (at which time the accumulation period for such loan note tranche will terminate). No payments of principal will be made to the holder of a bullet pay loan note tranche during an accumulation period. The supplement to global loan note no. 1 for that bullet pay loan note tranche and the relevant final terms will specify the scheduled redemption date and the accumulation period commencement date for an accumulation period with respect to that bullet pay loan note tranche. On the scheduled redemption date or at the commencement of an early amortisation period for a bullet pay loan note tranche, amounts accumulated in the relevant principal funding ledger for that bullet pay loan note tranche will be used to repay such bullet pay loan note tranche in whole or in part.

For the purposes of this base prospectus an "**early amortisation period**" will be any period where there is an asset trigger amortisation period or a non-asset trigger amortisation period.

For the purposes of this base prospectus, an "**asset trigger amortisation period**" in respect of a loan note tranche will commence on the day on which an asset trigger event occurs and will continue until the earlier to occur of:

- (a) the date on which the outstanding principal amount of such loan note tranche is reduced to zero; and
- (b) the final maturity date of such loan note tranche.

For the purposes of this base prospectus a "**non-asset trigger amortisation period**" will commence on the day on which a non-asset trigger event occurs and will continue until the earliest to occur of:

- (a) the commencement of an asset trigger amortisation period;
- (b) the date on which the outstanding principal amount of such loan note tranche is reduced to zero; and
- (c) the final maturity date of such loan note tranche.

During an early amortisation period, payments of principal will not be accumulated by funding in the principal funding ledger for a loan note tranche and will instead be paid to the issuer and deposited in the matching series ledger in the issuer distribution account.

Controlled deposit amount

Prior to each funding payment date, funding (or the funding cash manager on funding's behalf) will determine whether such funding payment date is within the accumulation period for a bullet pay loan note tranche and if such funding payment date is within the accumulation period will determine the controlled deposit amount to be deposited into the principal funding ledger for such bullet pay loan note tranche on the relevant funding payment date.

The relevant supplement to global loan note no. 1 for a bullet pay loan note tranche will specify the scheduled redemption date on which principal is scheduled to be repaid with respect to such bullet pay loan note tranche.

The "**accumulation period**" with respect to a bullet pay loan note tranche means the period beginning on the accumulation period commencement date for such bullet pay loan note tranche and ending on the earlier of:

- (a) the date on which the outstanding principal amount of the relevant loan note tranche is reduced to zero; or
- (b) the commencement of an early amortisation period with respect to such bullet pay loan note tranche.

The "**accumulation period commencement date**" with respect to a bullet pay loan note tranche means the period beginning on the earlier to occur of:

- (a) the date determined to be the number of months equal to the anticipated accumulation period length prior to the scheduled redemption date of the relevant bullet pay loan note tranche; and
- (b) the date six months prior to the scheduled redemption date of the relevant bullet pay loan note tranche,

and ending when the relevant bullet pay loan note tranche has been repaid in full.

The "**anticipated accumulation period length**" means, on any trust determination date, the anticipated number of months required to accumulate sufficient funding available principal receipts to repay the relevant bullet pay loan note tranche on its scheduled redemption date which will be equal to:

$$\frac{A + B - C}{D \times E \times F}$$

calculated in months and rounded up to the nearest whole number which is a multiple of three, where:

- A = outstanding principal amount of the relevant bullet pay loan note tranche
- B = aggregate outstanding principal amount on that trust determination date of:
 - (i) each other bullet pay loan note tranche which was not previously repaid on its scheduled redemption date; and
 - (ii) each other bullet pay loan note tranche with a scheduled redemption date which falls on or before the scheduled redemption date of the relevant bullet pay loan note tranche
- C = amounts standing to the credit of the principal funding ledger for the relevant bullet pay loan note tranche;
- D = means the sum of the monthly CPR on the 12 most recent trust determination dates which have occurred prior to that date divided by 12;
- E = 0.85; and

F = the sum of the aggregate outstanding principal balance of the mortgage loans included in the mortgage loan portfolio on the previous trust determination date and the outstanding principal balance on the MRCLN as at the previous trust determination date.

The "**monthly CPR**" means, on any trust determination date, the sum of the aggregate amount of mortgages trust principal receipts received by the mortgages trustee during the immediately preceding trust calculation period less the aggregate mortgage reserve debt principal balancing amount for such trust calculation period, divided by the sum of the aggregate outstanding principal balance of the mortgage loans included in the mortgage loan portfolio as at the immediately preceding trust determination date and the outstanding principal balance of the MRCLN as at the immediately preceding trust determination date.

The "**controlled deposit amount**" means the amount to be deposited to the principal funding ledger with respect to a bullet pay loan note tranche on each funding payment date during the accumulation period for such bullet pay loan note tranche which will be equal to the outstanding principal amount for such bullet pay loan note tranche on the day immediately preceding the accumulation period commencement date.

Scheduled redemption

Each loan note tranche which is not a bullet pay loan note tranche or an RF loan note tranche will, prior to the occurrence of a trigger event, be in a period of controlled amortisation (each a "**controlled amortisation period**") and will have a controlled amortisation schedule (each a "**loan note tranche controlled amortisation schedule**") for the repayment of principal on such loan note tranche prior to the occurrence of a trigger event or the enforcement of the funding security. Each loan note tranche controlled amortisation schedule will specify the required outstanding principal amount for each loan note tranche immediately after each funding payment date (such required outstanding principal amount being the "**target balance**" for such loan note tranche). The principal payments required by funding to be paid on each funding payment date in respect of each loan note tranche, so that the outstanding principal amount on each loan note tranche equals the relevant target balance immediately after such funding payment date, are known as the "**controlled amortisation amount**".

The loan note tranche controlled amortisation schedule in respect of each loan note tranche will be set out in the relevant supplement to global loan note no. 1 for such loan note tranche.

Upon the occurrence of a trigger event, a loan note tranche which is in a controlled amortisation period will cease to be in a controlled amortisation period and will enter either an asset trigger amortisation period or a non-asset trigger amortisation period (as applicable).

Early redemption events

An "**early redemption event**" means the occurrence of a trigger event and, with respect to a loan note tranche, any other event specified as such in the supplement to global loan note no. 1 for such loan note tranche.

The occurrence of an asset trigger event will cause an asset trigger amortisation period to occur in respect of an affected loan note tranche.

The occurrence of a non-asset trigger event will cause a non-asset trigger amortisation period to occur in respect of an affected loan note tranche.

Loan note events of default

A "**loan note event of default**" is specified in respect of each global loan note and in respect of global loan note no. 1 is any of the following events and, in respect of a loan note tranche, any other event specified as such in the relevant supplement to global loan note no. 1:

- (a) funding does not pay any amount payable under global loan note no. 1 or any supplement to global loan note no. 1 within 5 business days of such amount becoming due and payable in accordance with the terms of global loan note no. 1 or any supplement to global loan note no. 1 (subject always to the limited recourse provisions set out therein);

- (b) funding does not comply in any material respect with any of its obligations under the transaction documents (except for its payment obligations under global loan note no. 1 or any supplement to global loan note no. 1) and, if capable of remedy, such non-compliance is not remedied within 20 business days of funding becoming aware that non-compliance or of receiving notice from the funding security trustee requiring that non-compliance to be remedied;
- (c) a representation or warranty of funding made or repeated in connection with any of the transaction documents and any other document delivered by funding is incorrect in any material respect when made or deemed to be made or repeated;
- (d) an insolvency event occurs in relation to funding;
- (e) it is, or becomes, unlawful for funding to perform its obligations under any of the transaction documents; and
- (f) the funding security trust deed is no longer binding or enforceable against funding or is no longer effective to create the security intended to be created by it.

Upon the occurrence of a loan note event of default the funding security trustee may enforce part or all of the security in respect of the loan note tranches of global loan note no. 1.

Principal funding ledger

Funding has established and will maintain a ledger in the funding GIC account in relation to each loan note tranche (each, a "**principal funding ledger**"). Amounts will be accumulated in a principal funding ledger during an accumulation period for a bullet pay loan note tranche (see "*Controlled deposit amount*" above).

On each funding payment date during the early amortisation period following an accumulation period for a bullet pay loan note tranche, amounts standing to the credit of the principal funding ledger shall be utilised as part of funding available principal receipts on such funding payment date to repay the relevant bullet pay loan note tranche (and shall reduce the amount standing to the credit of such principal funding ledger for the relevant bullet pay loan note tranche accordingly).

Initial principal amount, outstanding principal amount, adjusted outstanding principal amount and nominal liquidation amount

Each loan note tranche has an initial principal amount, an outstanding principal amount, an adjusted outstanding principal amount and a nominal liquidation amount.

Initial principal amount

The initial principal amount of a loan note tranche is the amount that is stated in the supplement to global loan note no. 1 for such loan note tranche to be payable to the holders of the loan note tranche. It will be denominated in sterling. Such amount will be set out in the final terms of the series which such loan note tranche supports.

Outstanding principal amount

The outstanding principal amount of a loan note tranche is the initial principal amount of that loan note tranche, as described in the related supplement to global loan note no. 1 for such loan note tranche and the relevant final terms less principal payments to the holders of that loan note tranche.

Adjusted outstanding principal amount

The adjusted outstanding principal amount of a bullet pay loan note tranche is the outstanding principal amount of such bullet pay loan note tranche less any funds on deposit in the principal funding ledger for that bullet pay loan note tranche. The adjusted outstanding principal amount of any bullet pay loan note tranche will decrease as a result of each deposit standing to the credit of the principal funding ledger for such bullet pay loan note tranche and will increase as a result of the release of any amount deposited to the credit of the principal funding ledger where such amount is not used to make a principal payment to the holders of such bullet pay loan note tranche.

Nominal liquidation amount

The "**nominal liquidation amount**" of a loan note tranche, other than an RF loan note tranche, is based on the initial principal amount of that loan note tranche at the date of issuance and may be reduced as described below:

- (a) the nominal liquidation amount of a loan note tranche may be reduced to the extent of any amounts debited to the funding principal deficiency sub-ledger for such loan note tranche as a result of (i) the allocation of losses on the mortgage loans and/or the allocation of mortgage reserve principal loss reductions in relation to the MRCLN allocated by the mortgages trustee to funding and subsequently to such loan note tranche and (ii) the application of funding available principal receipts to meet any deficiency in funding available revenue receipts (see "*Funding principal deficiency ledger*" below);
- (b) the nominal liquidation amount of a loan note tranche will be reduced by the amount standing to the credit of the principal funding ledger for such loan note tranche; and
- (c) the nominal liquidation amount of a loan note tranche will be reduced by the amount of any payment of principal to the holder of that loan note tranche.

Amounts which are debited to the funding principal deficiency ledger will be allocated from the most subordinated classes of loan note tranches to the most senior classes of loan note tranches. Amounts allocated to a class will then be allocated between each of the loan note tranches within such class in accordance with their size and such allocated amounts will be debited to the funding principal deficiency sub-ledger for such loan note tranche.

The nominal liquidation amount of a loan note tranche can be increased as follows:

- for each loan note tranche, the nominal liquidation amount of that loan note tranche will increase if funding available revenue receipts are available to reimburse earlier reductions in the nominal liquidation amount as a result of any debits to the funding principal deficiency sub-ledger for such loan note tranche. Increases will be allocated first to the most senior class of loan note tranches with a nominal liquidation amount deficit and then, in succession, to the subordinated classes with nominal liquidation amount deficits;
- for each loan note tranche, the nominal liquidation amount of that loan note tranche will increase by an amount equal to any increase in the outstanding principal amount of such loan note tranche at any time after the initial issuance of such loan note tranche; and
- for each loan note tranche, to the extent of any amounts released from the principal funding ledger for such loan note tranche which are not used to repay principal on such loan note tranche.

In most circumstances, the nominal liquidation amount of a loan note tranche, together with any principal amounts standing to the credit of the principal funding ledger for such loan note tranche, will equal the outstanding principal amount of that loan note tranche. However, if there are reductions in the nominal liquidation amount as a result of any debits to the funding principal deficiency sub-ledger due to any losses and/or mortgage reserve principal loss reductions allocated to such loan note tranche or the application of any funding available principal receipts to make up shortfalls in funding available revenue receipts, then there will be a deficit in the nominal liquidation amount of that loan note tranche. Unless that deficit is reimbursed through the application of funding available revenue receipts allocated to that loan note tranche, the outstanding principal amount of that loan note tranche may not be paid in full and the holder of that loan note tranche may receive less than the full outstanding principal amount of that loan note tranche. This will occur because the amount of funding available principal receipts distributed to funding by the mortgages trustee in respect of the funding share and allocated by funding to pay that loan note tranche is less than the outstanding principal amount of that loan note tranche.

The nominal liquidation amount of a loan note tranche may not be reduced below zero, and may not be increased above the adjusted outstanding principal amount of that loan note tranche.

Debits to the funding principal deficiency ledger and subsequently to relevant funding principal deficiency sub-ledgers on a funding payment date reduce the nominal liquidation amount of loan note

tranches which are outstanding on such funding payment date only and do not affect loan note tranches that are issued after that time.

Funding principal deficiency ledger

A ledger (the "**funding principal deficiency ledger**") has been established and is maintained by the cash manager to record:

- (a) any losses on the mortgage loans allocated by the mortgages trustee to funding (see "*The Mortgages Trust – Allocation of losses on the mortgage loans*");
- (b) any mortgage reserve principal loss reduction on the MRCLN allocated by the mortgages trustee to funding (see "*The MRCLN – MRCLN limited in recourse – Mortgage reserve principal loss reductions*");
- (c) the application of funding available principal receipts to meet certain deficiencies in funding available revenue receipts (see "*Use of funding available principal receipts to fund any deficiency in funding available revenue receipts*" below); and
- (d) the application of funding available principal receipts in order to fund the funding liquidity reserve fund.

The funding principal deficiency ledger may be divided into sub-ledgers (each a "**funding principal deficiency sub-ledger**" and together, the "**funding principal deficiency sub-ledgers**") for each loan note tranche and will correspond to:

- (a) each class A loan note tranche (each a "**class A principal deficiency sub-ledger**");
- (b) each class B loan note tranche (each a "**class B principal deficiency sub-ledger**");
- (c) each class C loan note tranche (each a "**class C principal deficiency sub-ledger**");
- (d) each class D loan note tranche (each a "**class D principal deficiency sub-ledger**");
- (e) each class E loan note tranche (each a "**class E principal deficiency sub-ledger**"); and
- (f) each class F loan note tranche (each a "**class F principal deficiency sub-ledger**").

The:

- (a) allocation of principal losses on the mortgage loans allocated to funding;
- (b) allocation of mortgage reserve principal loss reductions on the MRCLN allocated to funding;
- (c) the application of funding available principal receipts to meet any funding available revenue deficit amount; and/or
- (d) the application of funding available principal receipts to fund the funding liquidity reserve fund,

will be recorded as follows:

first, on each class F principal deficiency sub-ledger, on a *pari passu* and *pro rata* basis based on the then adjusted outstanding principal amount of the relevant loan note tranche, until the balance of that sub-ledger is equal to the adjusted outstanding principal amount of that class F loan note tranche;

second, on each class E principal deficiency sub-ledger, on a *pari passu* and *pro rata* basis based on the then adjusted outstanding principal amount of the relevant loan note tranche, until the balance of that sub-ledger is equal to the adjusted outstanding principal amount of that class E loan note tranche;

third, on each class D principal deficiency sub-ledger, on a *pari passu* and *pro rata* basis based on the then adjusted outstanding principal amount of the relevant loan note tranche, until the balance of that sub-ledger is equal to the adjusted outstanding principal amount of that class D loan note tranche;

fourth, on each class C principal deficiency sub-ledger, on a *pari passu* and *pro rata* basis based on the then adjusted outstanding principal amount of the relevant loan note tranche, until the balance of that sub-ledger is equal to the adjusted outstanding principal amount of that class C loan note tranche;

fifth, on each class B principal deficiency sub-ledger until the balance of that sub-ledger, on a *pari passu* and *pro rata* basis based on the then adjusted outstanding principal amount of the relevant loan note tranche, is equal to the adjusted outstanding principal amount of that class B loan note tranche; and

sixth, on each class A principal deficiency sub-ledger, on a *pari passu* and *pro rata* basis based on the then adjusted outstanding principal amount of the relevant loan note tranche, until the balance of that sub-ledger is equal to the adjusted outstanding principal amount of that class A loan note tranche.

In general, if funding issues a new loan note tranche, and that loan note tranche has not been structured to reflect the payment obligations of funding under the funding cash management agreement, global loan note no. 1 or any supplement to global loan note no. 1 and which may therefore not have an equivalent rating or structure to any of the existing or previously contemplated loan note tranches, then funding will establish a further funding principal deficiency sub-ledger which will correspond to and be known by the rating and/or structure of the applicable class of the new loan note tranche.

Required subordinated amount for loan note tranches

The required subordinated amount for a senior loan note tranche is the amount of subordinated loan note tranches and other enhancement that is required to be outstanding and available to provide subordination for that senior loan note tranche on the date when that senior loan note tranche is issued. This amount will be calculated in relation to the required subordination percentage for a loan note tranche which will be specified in the related supplement to global loan note no. 1 and the final terms of the series which such loan note tranche supports. No loan note tranche may be issued unless the required subordinated amount for that loan note tranche is available at the time of its issuance, as specified in the related supplement to global loan note no. 1 and such final terms. The required subordinated amount is also used to determine the remaining available subordinated amount for a senior loan note tranche and whether a subordinated loan note tranche may be repaid before its final maturity date while senior loan note tranches are outstanding.

The required subordinated amount for a senior loan note tranche may be varied provided funding, the funding security trustee and the funding cash manager have received written confirmation that the varied required subordinated amount satisfies the ratings test in relation to any then outstanding series of notes.

Funding liquidity reserve fund

Funding will be required to establish a reserve fund (the "**funding liquidity reserve fund**") if, and for so long as, the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller cease to be rated at least A3 by Moody's (unless Moody's confirms that the then current ratings of any outstanding series of notes will not be adversely affected by the ratings downgrade of the seller). Funding shall notify Fitch in advance if it is required to establish the funding liquidity reserve fund.

Prior to enforcement of the funding security, the funding liquidity reserve fund may be used:

- (i) to help meet any shortfall in interest payments on any class A loan note tranches or class B loan note tranches on any funding payment date;
- (ii) to credit the funding principal deficiency sub-ledger for any class A loan note tranche on any funding payment date; and
- (iii) to help meet any deficit in funding available principal receipts available for (i) prior to the occurrence of a trigger event, repayment of principal due in respect of any bullet pay loan note tranche (which is a class A loan note tranche only), and (ii) on or after the occurrence of a trigger event, repayment of principal due in respect of any bullet pay loan note tranche (which is a class A loan note tranche only) on its final redemption date (each of (i) and (ii) being a "**funding liquidity reserve principal repayment**").

After the enforcement of the funding security, the funding liquidity reserve fund may also be used to repay any class A loan note tranche which is also a bullet pay loan note tranche on its final maturity date.

The funding liquidity reserve fund, if required to be established, will be funded on the relevant funding payment date up to and including the amount at such time equal to the "**funding liquidity reserve required amount**", being an amount as at any funding payment date equal to:

- (i) if there are any class A loan note tranches or class B loan note tranches outstanding on such funding payment date: (A) 3 per cent. of the aggregate outstanding principal amount of the loan note tranches on such funding payment date (prior to the application of any funding available principal receipts on such funding payment date); less (B) the amount standing to the credit of the common funding reserve ledger on such funding payment date (prior to any debits or credits to be made to the common funding reserve ledger on such funding payment date); or
- (ii) if there are no class A loan note tranches or class B loan note tranches outstanding on such funding payment date, zero (and for the avoidance of doubt any amounts still standing to the credit of the funding liquidity reserve fund at such time shall be released and shall be applied as general funding available revenue receipts).

Monies allocated to the funding liquidity reserve fund will be deposited in funding's name in the funding GIC account. A ledger (the "**funding liquidity reserve ledger**") will be established at the same time as the funding liquidity reserve fund and will be maintained by the funding cash manager to record the balance from time to time of the funding liquidity reserve fund.

On each funding payment date prior to enforcement of the funding security, funds standing to the credit of the funding liquidity reserve fund will be added to certain other income of funding in calculating funding available revenue receipts which will be utilised to make payment of interest only on the relevant loan note tranches and of certain other amounts which have the benefit of the funding liquidity reserve fund.

Save as disclosed below, upon its establishment, the funding liquidity reserve fund will be funded on each funding payment date from funding available principal receipts until it has been fully funded. Once it has been fully funded, the funding liquidity reserve fund will be replenished from funding available principal receipts, to the extent applied in making a funding liquidity reserve principal repayment, in accordance with the funding pre-enforcement principal priority of payments up to and including an amount equal to such funding liquidity reserve principal repayment, from any funding available revenue receipts in accordance with the funding pre-enforcement revenue priority of payments up to the funding liquidity reserve required amount on such funding payment date.

Once the funding liquidity reserve fund has been fully funded for the first time or to the extent that amounts have been withdrawn from the funding liquidity reserve fund before it has been fully funded for the first time, the amount of funding available revenue receipts required on any funding payment date to:

- (i) replenish any amounts previously withdrawn from the funding liquidity reserve fund prior to its having been fully funded for the first time; or
- (ii) replenish the funding liquidity reserve fund up to the funding liquidity reserve required amount on any funding payment date after it has previously been fully funded for the first time,

(the "**funding liquidity reserve revenue deficit amount**") will be deposited to the funding liquidity reserve fund and credited to the funding liquidity reserve ledger.

On any funding payment date:

- (i) when the funding liquidity reserve fund is established but has not been fully funded for the first time, an amount equal to: (A) the funding liquidity reserve required amount; less (B) the sum of: (a) any amounts standing to the credit of the funding liquidity reserve fund on such funding payment date; plus (b) the aggregate of any amounts previously withdrawn from the funding liquidity reserve fund prior to its having been fully funded for the first time and which have not been previously replenished from funding available revenue receipts (due to a then shortfall in funding available revenue receipts to so replenish the funding liquidity reserve fund); or
- (ii) after the funding liquidity reserve fund has been fully funded for the first time and where the amount of funding available revenue receipts deposited to the funding liquidity reserve fund is less than the funding liquidity reserve revenue deficit amount,

the amount of the shortfall (the "**funding liquidity reserve principal deficit amount**"), will be deposited to the funding liquidity reserve fund from amounts of funding available principal receipts in accordance with the funding principal priority of payments. See "*Use of funding available revenue receipts prior to enforcement of funding security*" and "*Use of funding available principal receipts prior to enforcement of the funding security*" below.

Notwithstanding the above, on the earlier to occur of any of the following:

- (i) the long term ratings of the seller has improved to A3 by Moody's;
- (ii) all the class A loan note tranches and the class B loan note tranches have been redeemed in full or are otherwise no longer outstanding; and
- (iii) the programme final maturity date,

funding shall be entitled to transfer the amounts credited to the funding liquidity reserve fund to the funding transaction account as funding available revenue receipts and apply the same to the funding pre-enforcement revenue priority of payments on each funding payment date thereafter.

Common funding reserve fund

Funding established on the first issue date a reserve fund (the "**common funding reserve fund**") to help meet (a) any shortfall in funding available revenue receipts, (b) any deficit in funding available principal receipts available for (i) prior to the occurrence of a trigger event, repayment of principal due in respect of any bullet pay loan note tranche (which is a class A loan note tranche only), and (ii) on or after the occurrence of a trigger event, repayment of principal due in respect of any bullet pay loan note tranche (which is a class A loan note tranche only) on its final redemption date (each of (i) and (ii) being a "**common funding reserve principal repayment**"), and (c) any deficit recorded on the funding principal ledger.

Monies allocated to the common funding reserve fund will be deposited in funding's name in the funding GIC account. A ledger (the "**common funding reserve ledger**") was established at the same time as the common funding reserve fund was established and is maintained by the funding cash manager to record the balance from time to time of the common funding reserve fund.

On each funding payment date funds standing to the credit of the common funding reserve fund will be added to other income of funding in calculating funding available revenue receipts which will be available to make, *inter alia*, payments of interest and fees on each loan note tranche.

The amount up to which the common funding reserve fund is required to be funded and replenished (the "**common funding reserve required amount**") will be set out in the relevant supplement to global loan note no. 1 for such loan note tranche and in the final terms applicable to the series which such loan note tranche supports. The common funding reserve required amount may (after consultation with, *inter alios*, the funding security trustee and the rating agencies) be increased from time to time.

On an ongoing basis and in accordance with the relevant funding priority of payments, the common funding reserve fund will be increased and/or replenished from funding available principal receipts, to the extent applied in making a common funding reserve principal repayment, in accordance with the funding pre-enforcement principal priority of payments up to and including an amount equal to such common funding reserve principal repayment, from funding available revenue receipts, which are distributed to funding from the mortgages trust and deposited in the funding GIC account, and on any issue date from any additional amounts allocated for such purposes from any drawings under the senior expenses loan facility agreement entered into on the first issue date between funding, the security trustee and Barclays (in its capacity as senior expenses loan facility provider) (the "**senior expenses loan facility agreement**") and/or from the proceeds of issue of any RF loan note tranches. Furthermore, following the occurrence of an arrears or step-up trigger event, the common funding reserve fund will be increased and/or replenished from any funding available revenue receipts to be paid in accordance with item (r) of the funding pre-enforcement revenue priority of payments up to and including an amount equal to the sum of the common funding reserve required amount and:

- (a) if an arrears or step-up trigger event has occurred under item (i) only of the arrears or step-up trigger event definition, the amount specified in relation to such event in the most recent final terms;
- (b) if an arrears or step-up trigger event has occurred under item (ii) only of the arrears or step-up trigger event definition, the amount specified in relation to such event in the most recent final terms; and
- (c) if an arrears or step-up trigger event has occurred under both items (i) and (ii) of the arrears or step-up trigger event 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 the arrears or step-up trigger event definition and such event(s) have been cured, the common funding reserve fund will be reduced by the applicable amount specified in relation to such event(s) in the most recent final terms and the amount of such reduction will constitute funding available revenue receipts.

An "**arrears or step-up trigger event**" occurs when: (i) the aggregate current balance of the mortgage accounts where the corresponding mortgage loans are then in excess of three monthly payments in arrears is more than 2 per cent. of the aggregate current balance of all mortgage accounts in the mortgages trust (unless the rating agencies have confirmed in writing to the funding security trustee, funding, the issuer security trustee and the loan note tranche holders that the then current ratings of any outstanding series will not be adversely affected by the funding arrears test not having been met); or (ii) if the issuer fails to exercise its option to redeem any series of notes on the relevant step-up date of such series of notes in accordance with the terms and conditions of the notes.

Funding available revenue receipts will, in accordance with the funding pre-enforcement revenue priority of payments, only be applied by funding to replenish the common funding reserve fund after funding has, *inter alia*:

- (i) paid interest due on each loan note tranche ranking senior in the relevant funding priority of payment;
- (ii) reduced to zero any deficiency on any funding principal deficiency sub-ledger for a loan note tranche ranking senior in the relevant funding priority of payment; and
- (iii) replenished the funding liquidity reserve fund (if established) up to the then funding liquidity reserve required amount.

Following enforcement of the funding security, amounts standing to the credit of the common funding reserve ledger may be applied in accordance with the funding post-enforcement priority of payments.

Segregated funding reserve fund

If the relevant supplement to global loan note no. 1 for a loan note tranche specifies that such loan note tranche will have the benefit of a segregated funding reserve fund then funding will establish a segregated reserve fund (a "**segregated funding reserve fund**") to help meet (a) any shortfall in funding available

revenue receipts, (b) any deficit in funding available principal receipts available for (i) prior to the occurrence of a trigger event, repayment of principal due in respect of any bullet pay loan note tranche (which is a class A loan note tranche only), and (ii) on or after the occurrence of a trigger event, repayment of principal due in respect of any bullet pay loan note tranche (which is a class A loan note tranche only) on its final redemption date (each of (i) and (ii) being a "**segregated funding reserve principal repayment**"), and (c) any deficit recorded on the funding principal ledger.

Monies allocated to a segregated funding reserve fund will be deposited in funding's name in the funding GIC account. A ledger (the "**segregated funding reserve ledger**") will be established at the same time as the segregated funding reserve fund is established and will be maintained by the funding cash manager to record the balance from time to time of such segregated funding reserve fund.

On each funding payment date funds standing to the credit of a segregated funding reserve fund may be utilised in order to make payments of interest on and to reimburse amounts debited to the funding principal deficiency sub-ledger of the relevant loan note tranches which may be specified in the relevant supplement to global loan note no. 1 as having the benefit of such segregated funding reserve fund.

The relevant supplement to global loan note no. 1 for such loan note tranches will also specify the amounts required to be deposited to the relevant segregated funding reserve fund (each a "**segregated funding reserve required amount**") on the issue date for such loan note tranche.

A segregated funding reserve fund will initially be funded to the applicable segregated funding reserve required amount from any drawings under the senior expenses loan facility agreement and/ or from the proceeds of issue of any RF loan note tranches.

On an ongoing basis and in accordance with the relevant funding priority of payments, each segregated funding reserve fund will be replenished from funding available principal receipts, to the extent applied in making a segregated funding reserve principal repayment, in accordance with the funding pre-enforcement principal priority of payments up to and including an amount equal to such segregated funding reserve principal repayment, from funding available revenue receipts, which are distributed to funding from the mortgages trust and deposited in the funding GIC account and credited to the relevant segregated funding reserve ledger.

Funding available revenue receipts will, in accordance with the funding pre-enforcement revenue priority of payments, only be applied by funding to replenish a segregated funding reserve fund after funding has, *inter alia*:

- (i) paid interest due on each loan note tranche ranking senior in the relevant funding priority of payment;
- (ii) reduced to zero any deficiency on any funding principal deficiency sub-ledger for a loan note tranche ranking senior in the relevant funding priority of payment;
- (iii) replenished the funding liquidity reserve fund (if established) up to the then funding liquidity reserve required amount; and
- (iv) replenished the common funding reserve fund up to the then common funding reserve required amount.

Following enforcement of the funding security, amounts standing to the credit of a segregated funding reserve ledger may be applied in accordance with the funding post-enforcement priority of payments but only initially in respect of meeting all amounts then due and payable on the relevant loan note tranches associated with such segregated funding reserve fund as specified in the relevant supplement to global loan note no. 1 and thereafter from meeting all other amounts due and payable by funding in accordance with the funding post-enforcement priority of payments.

Yield Supplement Account

Overview

Funding established on the first issue date a fund (the "**yield supplement account**"). As set out below, funding will be able to utilise certain amounts permitted to be withdrawn from the yield supplement

account on each distribution date in order to supplement the amount of mortgage trust revenue receipts which funding is entitled to pursuant to the terms of the mortgages trust deed on each distribution date, with such supplemental amounts being transferred on the relevant distribution date from the yield supplement GIC account to the funding transaction account and thereafter constituting funding available revenue receipts for application on each funding payment date in accordance with the then relevant funding priority of payments.

Requirement to request a yield supplement drawdown

Pursuant to the terms of the mortgage sale agreement and the funding cash management agreement, it will be a requirement prior to the purchase of any mortgage loan by the mortgages trustee for funding to have requested and received in respect of such mortgage loan a drawdown under the yield supplement loan facility from the yield supplement loan facility provider in an amount (if any) equal to the initial required yield supplement deposit amount for such mortgage loan.

The "**initial required yield supplement deposit amount**" for a mortgage loan is an amount equal to:

$$MLCB \times WAS$$

where,

- (i) "**MLCB**" is the then current balance of the relevant mortgage loan;
- (ii) "**WAS**" is the weighted average spread (expressed as a percentage per annum) required to ensure that, following the application of the relevant basis rate swap, the yield on the mortgage loan is 3 month LIBOR plus the target margin for the 12 trust calculation periods immediately following the relevant assignment date (inclusive of the trust calculation period during which such mortgage loan was assigned to the mortgages trustee); and
- (iii) "**target margin**" equals 0.75 per cent. per annum.

If a mortgage loan to be assigned causes the product of such formulae to be an amount greater than zero then such mortgage loan shall be referred to for these purposes as a "**yield supplement supported mortgage loan**".

Pursuant to the terms of the funding cash management agreement, the initial required yield supplement deposit amount was required to be deposited in the yield supplement GIC account.

The yield supplement support ledger

Pursuant to the terms of the funding cash management agreement, funding (or the funding cash manager on its behalf), as applicable, has been and will be required to maintain a ledger (a "**yield supplement support ledger**") in respect of each yield supplement supported mortgage loan and shall credit such ledger with the initial required yield supplement loan deposit amount in respect of such yield supplement supported mortgage loan and debit the ledger with all amounts permitted to be withdrawn from the ledger as described below. The amount then standing to the credit of a yield supplement support ledger is herein referred to as the "**yield supplement support balance**" for such yield supplement supported mortgage loan. Upon the yield supplement support balance in respect of a yield supplement supported mortgage loan equalling zero, the relevant yield supplement supported mortgage loan shall cease to be designated as a yield supplement supported mortgage loan.

Permitted withdrawals from the yield supplement account

Pursuant to the terms of the funding cash management agreement, funding (or the funding cash manager on its behalf), as applicable, has been and will be required to calculate on each trust calculation date for each yield supplement supported mortgage loan the following amounts:

- (a) the "**required yield supplement utilisation amount**" in respect of each such yield supplement supported mortgage loan for the immediately following distribution date and which equals:

$$(Y_c + Y_a) \times \frac{I_{paid}}{I_c}$$

where,

- (i) "**Y_c**" is equal to:

$$(MLCB \times CRSD) \times \frac{mpd}{365^4}$$

⁴ Or if the relevant year is a leap year, 366

where,

(A) "**MLCB**" equals the current balance of the relevant mortgage loan at the beginning of the immediately preceding monthly period of the mortgage loan that ended during the immediately preceding trust calculation period (the "**relevant monthly period**");

(B) "**CRSD**" equals the spread (expressed as a percentage per annum) required to ensure that, following the application of the relevant basis rate swap, the yield on the mortgage loan is three month LIBOR plus the target margin for the relevant trust calculation period;

(C) "**mpd**" equals the number of days in such relevant monthly period; and

(ii) "**Y_a**" is an amount equal to the aggregate, calculated on a month by month basis and in respect of all previous distribution dates, of the amount equal to the yield supplement utilisation amount for the previous distribution date (assuming that there was not, and had never been, any arrears of interest owned on such yield supplement supported mortgage loan) minus the yield supplement utilisation amount for such previous distribution date (as actually calculated given the factual position of such yield supplement supported mortgage loan);

(iii) "**I_{paid}**" is an amount equal to the amount of interest actually paid by the borrower on the relevant yield supplement supported mortgage loan during such immediately preceding trust calculation period;

(iv) "**I_c**" is an amount equal to the amount of interest due and payable on the relevant yield supplement supported mortgage loan on the monthly payment date in respect of such relevant monthly period including, for the avoidance of doubt and without limitation, an amount equal to the aggregate amount of arrears of interest due and payable on such yield supplement supported mortgage loan on the monthly payment date in respect of such relevant monthly period;

- (b) the "**funding revenue allocated yield supplement amount**" in respect of each such yield supplement supported mortgage loan for the immediately following distribution date and which equals the then required yield supplement utilisation amount for such mortgage loan multiplied by the funding share percentage as at the beginning of the immediately preceding trust calculation period; and

- (c) the "**yield supplement loan allocated senior repayment amount**" in respect of each such yield supplement supported mortgage loan for the immediately following distribution date and which equals the then required yield supplement utilisation amount for such mortgage loan less the then funding revenue allocated yield supplement amount.

Following the calculation of the funding revenue allocated yield supplement amount and the yield supplement loan allocated senior repayment amount in respect of each yield supplement supported mortgage loan, funding (or the funding cash manager on its behalf) shall on the immediately following distribution date:

- (i) transfer from amounts credited to the yield supplement GIC account an amount equal to the aggregate funding revenue allocated yield supplement amounts for all yield supplement supported mortgage loans to the funding transaction account and thereafter such amounts shall be treated as forming part of funding available revenue receipts for allocation (together with all funding available revenue receipts) in accordance with the then relevant funding priority of payments on the immediately following funding payment date; and
- (ii) repay from amounts credited to the yield supplement transaction account the yield supplement loan facility in an amount equal to the aggregate yield supplement loan allocated senior repayment amounts for all yield supplement supported mortgage loans. It should be noted that such repayment is not subject to the funding priority of payments and thus such amount is repaid to the yield supplement loan facility provider on a senior basis.

Thereafter on such trust calculation date and following the provisioning for the transfer of such amounts described above in respect of the next distribution date and following the occurrence of any repayment and/or prepayment of any yield supplement supported mortgage loan (whether voluntarily by the relevant borrower or as a result of the enforcement of the related security of such yield supplement supported mortgage loan) during the immediately preceding monthly period which ended during the immediately preceding trust calculation period, funding shall calculate the yield supplement loan repayment amount, where the "**yield supplement loan repayment amount**" is an amount equal to:

$$YSSB - \left(YSSB \times \frac{NMLCB}{PMLCB} \right)$$

where,

- (a) "**YSSB**" equals the then yield supplement support balance for such yield supplement supported mortgage loan;
- (b) "**NMLCB**" equals the current balance of the relevant yield supplement supported mortgage loan following the relevant repayment and/or, as the case may be, prepayment of such mortgage loan; and
- (c) "**PMLCB**" equals the current balance of the relevant yield supplement supported mortgage loan immediately prior to the relevant repayment and/or, as applicable, prepayment of such mortgage loan.

Following the calculation of the yield supplement loan repayment amount in respect of each yield supplement supported mortgage loan which has been the subject of a repayment and/or prepayment during the immediately preceding trust calculation period, funding (or the funding cash manager on its behalf) shall on the immediately following distribution date repay the yield supplement loan facility in an amount equal to the aggregate yield supplement loan repayment amounts for all relevant yield supplement supported mortgage loans. It should be noted that such repayment is not subject to the funding priority of payments and thus such amount is repaid to the yield supplement loan facility provider on a senior basis.

In addition on such trust calculation date and following the provisioning for the transfer of such amounts described above in respect of the next distribution date and following the occurrence of any obligation on the seller to repurchase a mortgage loan in accordance with the terms of the mortgage sale agreement during the immediately preceding trust calculation period, funding shall calculate the yield supplement loan repurchase amount, where the "**yield supplement loan repurchase amount**" is an amount equal to the then remaining yield supplement support balance for such yield supplement supported mortgage loan

that is subject to such repurchase obligations. Following the calculation of the yield supplement loan repurchase amount in respect of each yield supplement supported mortgage loan which has been the subject of a repurchase obligation during the immediately preceding trust calculation period, funding (or the funding cash manager on its behalf) shall on the immediately following distribution date repay the yield supplement loan facility in an amount equal to the aggregate yield supplement loan repayment amounts for all relevant yield supplement supported mortgage loans. It should be noted that such repayment is not subject to the funding priority of payments and thus such amount is repaid to the yield supplement loan facility provider on a senior basis.

Excess principal ledger

Pursuant to the terms of the funding cash management agreement, a ledger (the "**excess principal ledger**") is maintained by the funding cash manager to record any excess funding available principal receipts available after the payment or, as the case may be, allocation of any amounts due in items (a) through (j) of the funding pre-enforcement principal priority of payments, on any funding payment date. Any amounts standing to the credit of the excess principal ledger on any funding payment date will be available to funding as funding available principal receipts.

Final repayment of the loan note tranches

Holders of loan note tranches will not receive payment of principal on any funding interest payment date in excess of the nominal liquidation amount of that loan note tranche prior to its final maturity date and will in no circumstances receive a payment of principal on any date in excess of the outstanding principal amount of that loan note tranche.

A loan note tranche will be considered to be paid in full, the holder of that loan note tranche will have no further right or claim to, and funding will have no further obligation or liability to pay principal or interest, on the earlier to occur of:

- the date of the payment in full of the outstanding principal amount of and all accrued, past due and additional interest on that loan note tranche; and
- the final maturity date for that loan note tranche after giving effect to all deposits, allocations, reallocations and payments to be made on that date.

Subordination of interest and principal

Interest and principal payments on subordinated classes of loan note tranches will be paid from funding available revenue receipts, funding available principal receipts and, in the case of loan note tranches specified in the related supplement to the global loan note for such loan note tranche as having the benefit of a segregated funding reserve fund, from the relevant segregated funding reserve fund for such loan note tranche as set out in "*Use of funding available revenue receipts prior to enforcement of funding security*" below and "*Common funding reserve fund*" and "*Segregated funding reserve fund*" above.

In certain circumstances, amounts of funding available principal receipts may be used to make up shortfalls in the application of funding available revenue receipts pursuant to the applicable funding priority of payments and the funding cash manager will debit such amounts to the funding principal deficiency ledger. Unless otherwise indicated in the related supplement to global loan note no. 1, subordinated loan note tranches bear the risk of reduction in their nominal liquidation amount due to deficits being recorded on their related funding principal deficiency sub-ledgers before senior classes of loan note tranches.

In addition, funding available principal receipts will be allocated first to more senior loan note tranches before being allocated to more subordinated loan note tranches.

Loan Note Tranche Holder Fee Amount

In consideration for the issuance or granting of global loan note no. 1 to the issuer, the issuer in its capacity as the holder of the relevant loan note tranche, will also be entitled to be paid by funding, on each funding payment date, to a fee of an amount equal to 0.01 per cent. of the aggregate interest received by the issuer on each loan note tranche (other than in respect of further interest) (the "**loan fee amount**").

Further interest

Global loan note no. 1 will also accrue further interest in an amount which is calculated under the funding cash management agreement. On each funding payment date, funding shall pay from the amount available to pay further interest in accordance with the funding priorities of payment set out in "Use of funding available revenue receipts prior to enforcement of funding security" and "*Use of funding available principal receipts and funding available revenue receipts following enforcement of funding security*" below, an amount to each holder of a loan note tranche other than any RF loan note tranche (which forms part of global loan note no. 1 or any other global loan note on which further interest is payable) equal to the product of: (i) the amount available to be paid as further interest on such funding payment date; and (ii) a fraction the numerator of which is the weighted average available funds calculation amount for such loan note tranche for the related funding interest period and the denominator of which is the weighted average available funds calculation amount for all outstanding loan note tranches which form part of global loan note no. 1 or any other global loan note on which further interest is payable. Holders of loan note tranches which form notional tranches of a global loan note which carries a right to further interest will also be obliged to make payments of deferred amounts ("**deferred subscription price**") in respect of the global loan note of which such loan note tranche forms part. See "*The issuer security trust deed and the issuer security trust deed supplements – interest and payments*" for a description of the payment of deferred subscription price by the issuer.

The "**weighted average available funds calculation amount**" shall mean in relation to any loan note tranche with respect to any funding interest period, an amount equal to the sum of the available funds calculation amounts for such loan note tranche as of the close of business on each day during such funding interest period divided by the actual number of days in such funding interest period;

The "**available funds calculation amount**" means, on any date of determination during any funding interest period for any loan note tranche, an amount equal to the sum of: (i) the nominal liquidation amount for such loan note tranche as of the last day of the preceding funding interest period or, if such loan note tranche was issued since the last day of the preceding funding interest period, the issuance date for such loan note tranche; plus (ii) the aggregate amount of any increases in the nominal liquidation amount of such loan note tranche as a result of the increase in the principal amount outstanding under such loan note tranche during such funding interest period on or prior to such date **provided, however, that** the "available funds calculation amount" for any loan note tranche which will be repaid in full during such funding interest period shall be zero.

Use of funding available revenue receipts prior to enforcement of funding security

Funding will utilise funding available revenue receipts to make the payments and provisions set out below.

"**funding available revenue receipts**" means, in respect of any funding payment date, the amount calculated by the funding cash manager, on behalf of funding (or, following enforcement of the funding security, the funding security trustee), on the trust calculation date immediately preceding such funding payment date, equal to the sum of (without double counting):

- (a) all mortgages trustee available revenue receipts distributed to funding during the funding interest period ending on (but excluding) the relevant funding payment date;
- (b) any funding revenue allocated yield supplement amounts transferred to the funding GIC account during the funding interest period ending on (but excluding) the relevant funding payment date;
- (c) amounts to be received by funding on or about the relevant funding payment date in accordance with and pursuant to the terms of the basis rate swap agreement (excluding amounts standing to the credit of the basis rate collateral accounts (which shall be applied in accordance with the provisions of the relevant basis swap collateral agreement) and early termination amounts applied or to be applied by funding in the purchase of one or more replacement swaps);
- (d) any other net income of funding (including all amounts of interest received on the funding GIC account and the funding transaction account and all income from authorised investments but excluding any amounts standing to the credit of the basis rate collateral accounts (which shall be applied in accordance with the provisions of the relevant basis swap collateral agreement) and also excluding any amounts of interest received on the yield supplement GIC account (which

shall be applied in accordance with the provisions of the yield supplement loan facility agreement)), in each case to be received on or prior to the relevant funding payment date;

- (e) the amount standing to the credit of the common funding reserve ledger, subject to any limits or conditions on the purposes for which the common funding reserve fund may be utilised as set out in the funding cash management agreement;
- (f) the amount standing to the credit of the funding liquidity reserve ledger, subject to any limits or conditions on the purposes for which the funding liquidity reserve fund may be utilised as set out in the funding cash management agreement;
- (g) for any loan note tranche specified in the related supplement to the global loan note no. 1 as having the benefit of a segregated funding reserve fund, the amount standing to the credit of the segregated funding reserve ledger for such loan note tranche, subject to any limits or conditions on the purposes for which the segregated funding reserve fund may be utilised as set out in the related supplement to the global loan note for such loan note tranche; and
- (h) the aggregate of all funding available principal receipts (if any) on such funding payment date which are to be applied on such funding payment date to pay items (a), (b), (c), (d), (e), (g), (j), (l), (n) and (p) of the funding pre-enforcement revenue priority of payments.

On the trust calculation date immediately preceding the relevant funding payment date (and prior to taking into account the application of any funding available principal receipts (if any)) the cash manager will calculate whether there will be an excess or a deficit of funding available revenue receipts to pay items (a), (b), (c), (d), (e), (g), (j), (l), (n) and (p) of the funding pre-enforcement revenue priority of payments.

Subject as provided below, if there is a deficit in the amount of funding available revenue receipts to pay items (a), (b), (c), (d), (e), (g), (j), (l), (n) and (p) of the funding pre-enforcement revenue priority of payments (such deficit being the "**funding available revenue deficit amount**"), then the funding cash manager shall pay or provide for that deficit by applying amounts which constitute funding available principal receipts, if any, and the funding cash manager shall make a corresponding entry in the funding principal deficiency ledger, as further described in "*Funding principal deficiency ledger*" above. Funding available principal receipts may not, however, be used to pay interest on any loan note tranche if application of funding available principal receipts would create or increase a principal deficiency in respect of a more senior loan note tranche.

The limits and conditions on the utilisation by funding of the common funding reserve fund and, if established, the funding liquidity reserve fund and any segregated funding reserve fund are set out in "*Liquidity reserve fund*", "*Common funding reserve fund*" and "*Segregated reserve fund*" above.

"**basis rate swap collateral account**" means separate accounts opened with a bank whose short-term unsecured, unsubordinated unguaranteed debt obligations satisfy the minimum short-term rating as described therein in relation to any collateral received from a funding swap provider pursuant to a basis rate swap collateral agreement.

"**basis rate swap collateral agreement**" means a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) to a basis rate swap agreement entered into between the basis rate swap provider and funding in support of the obligations of such basis rate swap provider under the basis rate swap agreement.

On:

- (i) each funding payment date; or
- (ii) in respect of amounts due to third parties by funding under paragraph (b) below, when due,

and prior to the enforcement of the funding security, the funding cash manager will, on behalf of funding and subject to the limits and conditions on the purposes for which the common funding reserve fund, the funding liquidity reserve fund and any segregated funding reserve fund may be utilised, apply funding available revenue receipts in the following order of priority (the "**funding pre-enforcement revenue priority of payments**"):

- (a) *first*, to pay amounts due and payable to the funding security trustee or to become due and payable to the funding security trustee during the following funding interest period, in accordance with and pursuant to the terms of the transaction documents;
- (b) *second, pro rata and pari passu*:
 - (i) in payment of amounts due and payable to any third party creditors of funding, or to become due and payable to any third party creditors of funding during the following funding interest period (other than those referred to later in the funding pre-enforcement revenue priority of payments or, as the case may be, the funding pre-enforcement principal priority of payments and other than in respect of amounts provided for in items (b)(ii) and (b)(iii) below) which have been:
 - (1) approved in writing by the funding security trustee;
 - (2) notified to the funding cash manager prior to the relevant trust calculation date; and
 - (3) incurred without breach by funding of the transaction documents to which it is a party (and for which payment has not been provided for elsewhere);
 - (ii) to set aside an amount by way of an accrual for the payment of any liability of funding for United Kingdom corporation tax in respect of income, profits or gains arising to it during the funding interest period ending immediately prior to the current funding payment date; and
 - (iii) to pay and discharge any liability of funding for tax in respect of income, profits or gains arising to it in any funding interest period but only to the extent that an accrual for this liability has not been made at item (b)(ii) on this or any previous transfer date;
- (c) *third, pro rata and pari passu*, in payment of amounts:
 - (i) due and payable to the funding cash manager or to become due and payable to the funding cash manager during the following funding interest period, in accordance with and pursuant to the terms of the funding cash management agreement;
 - (ii) due and payable to the loan note registrar or to become due and payable to the loan note registrar during the following funding interest period, in accordance with and pursuant to the terms of the funding security trust deed;
 - (iii) due and payable to the funding account bank or to become due and payable to the funding account bank during the following funding interest period, in accordance with and pursuant to the terms of the funding account bank agreement;
 - (iv) due and payable to the funding corporate services provider or to become due and payable to the funding corporate services provider during the following funding interest period, in accordance with and pursuant to the terms of the funding corporate services agreement;
 - (v) due and payable to the holdings corporate services provider or to become due and payable to the holdings corporate services provider during the following funding interest period, in accordance with and pursuant to the terms of the holdings corporate services agreement; and
 - (vi) due and payable to the PECO corporate services provider or to become due and payable to the PECO corporate services provider during the following funding interest

period, in accordance with and pursuant to the terms of the PECO corporate services agreement;

- (d) *fourth*, in payment of amounts, *pro rata* and *pari passu*:
- (i) equal to the funding basis rate swap premium amount (if any) which is due and payable to the basis swap provider in accordance with and pursuant to the terms of the basis rate swap agreement and the mortgages sale agreement; and
 - (ii) equal to amounts due and payable to the basis rate swap provider in accordance with and pursuant to the terms of the basis rate swap agreement (except for any termination payment or any part thereof due and payable to the basis rate swap provider as a result of a basis rate swap provider default (being the occurrence of an event of default by the basis rate swap provider under the basis rate swap agreement ("**basis swap provider default**")) by the basis rate swap provider, save to the extent such termination payment may be satisfied by any termination payment received by funding from a replacement basis rate swap provider made to funding following a downgrade termination event in respect of the basis rate swap and applied in accordance with this funding pre-enforcement revenue priority of payments);
- (e) *fifth*, to pay, *pro rata* and *pari passu*:
- (i) in relation to each loan note tranche holder, an amount equal to the loan note tranche holder pre-enforcement fee for such loan note tranche holder (where "**loan note tranche holder pre-enforcement fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in items (a), (b), (c)(i), (c)(iii) and (d) of the issuer pre-enforcement revenue priority of payments (the "**issuer pre-enforcement pre-loan note tranche fee**") and, in the case of any other loan note tranche holder the payments (if any) identified as such for that other loan note tranche holder);
 - (ii) in relation to each class A loan note tranche holder, the class A loan note tranche pre-enforcement swap fee for such loan note holder (where "**class A loan note tranche holder pre-enforcement swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (e)(i) of the issuer pre-enforcement revenue priority of payments (but only to the extent that such amounts are not satisfied by paragraph (iii) below) (the "**issuer class A pre-enforcement swap fee**") and, in the case of any other loan note tranche holder the payments (if any) identified as such for that other loan note tranche holder); and
 - (iii) in relation each class A loan note tranche holder, amounts due or overdue and payable on such funding payment date (other than in respect of principal) on the class A loan note tranches;
- (f) *sixth*, towards a credit, *pro rata* and *pari passu*, to each class A principal deficiency sub-ledger in an amount necessary to eliminate any debit on any such sub-ledger;
- (g) *seventh*, to pay, *pro rata* and *pari passu*:
- (i) in relation to each class B loan note tranche holder, the class B loan note tranche holder pre-enforcement swap fee for such loan note holder (where "**class B loan note tranche holder pre-enforcement swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (f)(i) of the issuer pre-enforcement revenue priority of payments (but only to the extent that such amounts are not satisfied by paragraph (ii) below) (the "**issuer class B pre-enforcement swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder);
 - (ii) in relation to each class B loan note tranche holder, amounts due or overdue and payable on such funding payment date (other than in respect of principal) on the class B loan note tranches;

- (h) *eight*, to credit the funding liquidity reserve ledger in an amount up to the funding liquidity reserve required amount;
- (i) *ninth*, towards a credit, *pro rata* and *pari passu*, to each class B principal deficiency sub-ledger in an amount necessary to eliminate any debit on any such sub-ledger;
- (j) *tenth*, to pay, *pro rata* and *pari passu*:
 - (i) in relation to each class C loan note tranche holder, the class C loan note tranche holder pre-enforcement swap fee for such loan note holder (where "**class C loan note tranche holder pre-enforcement swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (g)(i) of the issuer pre-enforcement revenue priority of payments (but only to the extent that such amounts are not satisfied by paragraph (ii) below) (the "**issuer class C pre-enforcement swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder);
 - (ii) in relation to each class C loan note tranche holder, amounts due or overdue and payable on such funding payment date (other than in respect of principal) on the class C loan note tranches;
- (k) *eleventh*, towards a credit, *pro rata* and *pari passu*, to each class C principal deficiency sub-ledger in an amount necessary to eliminate any debit on any such sub-ledger;
- (l) *twelfth*, to pay, *pro rata* and *pari passu*:
 - (i) in relation to each class D loan note tranche holder, the class D loan note tranche holder pre-enforcement swap fee for such loan note holder (where "**class D loan note tranche holder pre-enforcement swap fee**" means, where the loan note tranche is the issuer, an amount equal to the payments set out in item (h)(i) of the issuer pre-enforcement revenue priority of payments (but only to the extent that such amounts are not satisfied by paragraph (ii) below) (the "**issuer class D pre-enforcement swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder);
 - (ii) in relation to each class D loan note tranche holder, amounts due or overdue and payable on such funding payment date (other than in respect of principal) on the class D loan note tranches;
- (m) *thirteenth*, towards a credit, *pro rata* and *pari passu*, to each class D principal deficiency sub-ledger in an amount necessary to eliminate any debit on any such sub-ledger;
- (n) *fourteenth*, to pay, *pro rata* and *pari passu*:
 - (i) in relation to each class E loan note tranche holder, the class E loan note tranche holder pre-enforcement swap fee for such loan note holder ("**class E loan note tranche holder pre-enforcement swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (i)(i) of the issuer pre-enforcement revenue priority of payments (but only to the extent that such amounts are not satisfied by paragraph (ii) below) (the "**issuer class E pre-enforcement swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder);
 - (ii) in relation to each class E loan note tranche holder, amounts due or overdue and payable on such funding payment date (other than in respect of principal) on the class E loan note tranches;
- (o) *fifteenth*, towards a credit, *pro rata* and *pari passu*, to each class E principal deficiency sub-ledger in an amount necessary to eliminate any debit on any such sub-ledger;

- (p) *sixteenth*, to pay, *pro rata* and *pari passu*:
- (i) in relation to each class F loan note tranche holder, the class F loan note tranche holder pre-enforcement swap fee for such loan note holder ("**class F loan note tranche holder pre-enforcement swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (j)(i) of the issuer pre-enforcement revenue priority of payments (but only to the extent that such amounts are not satisfied by paragraph (ii) below) (the "**issuer class F pre-enforcement swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder);
 - (ii) in relation to each class F loan note tranche holder, amounts due or overdue and payable on such funding payment date (other than in respect of principal) on the class F loan note tranches;
- (q) *seventeenth*, towards a credit, *pro rata* and *pari passu*, to each class F principal deficiency sub-ledger in an amount necessary to eliminate any debit on any such sub-ledger;
- (r) *eighteenth*, towards a credit to the common funding reserve ledger in an amount up to the common funding reserve required amount or, if an arrears or step-up trigger event has occurred, to credit the common funding reserve ledger with such additional amount as set out in "*The Loan Note Tranches and Funding Cashflows – Common funding reserve fund*" above;
- (s) *nineteenth*, towards a credit, *pro rata* and *pari passu*, to each segregated funding reserve fund in an amount up to the segregated funding reserve required amount for such segregated funding reserve fund;
- (t) *twentieth*, to pay, *pro rata* and *pari passu*, an amount equal to the aggregate of each loan note tranche holder's fee amount to be paid to the holders of the loan note tranches pursuant to the relevant global loan note and related supplement to global loan note;
- (u) *twenty-first*, to pay, *pro rata* and *pari passu*, an amount equal to any termination payment due and payable and not satisfied under item (d) above to the basis rate swap provider following a basis rate swap provider default in respect of the basis rate swap provider;
- (v) *twenty-second*, to retain amounts in the funding transaction account equal to the required aggregate funding margin applicable for funding's then financial year and any previous financial year but only to the extent not previously provided for in any previous funding interest period (less any amount set aside at item (b)(ii) above for corporation tax in respect of that funding interest period), which amount may be distributed by funding at its election to its shareholders by way of dividend payment, which shall be paid to funding on the immediately following funding payment date;
- (w) *twenty-third*, to pay, *pro rata* and *pari passu*, (i) in relation to each senior expenses loan facility provider, the amount of interest (and any other amounts that are not of a principal nature) due or overdue and payable on such funding payment date under the senior expenses loan facility agreements of such senior expenses loan facility provider and, (ii) in relation to any RF loan note tranche holder, the amount of interest (and any other amounts that are not of a principal nature) due or overdue and immediately payable on such funding payment date in respect of any RF loan note tranches;
- (x) *twenty-fourth* to pay, *pro rata* and *pari passu*, in relation to each junior expenses loan facility provider, the amount of interest (and any other amounts that are not of a principal nature) due or overdue and payable on such funding payment date under the junior expenses loan facility agreements of such junior expenses loan facility provider;
- (y) *twenty-fifth*, to pay (but only after deducting any yield supplement loan senior interest amounts to be paid in respect of the yield supplement loan facility on the immediately following funding payment date) the amount of interest (and any other amounts that are not of a principal nature) due or overdue and payable on such funding payment date under the yield supplement loan facility agreement;

- (z) *twenty-sixth*, to pay, *pro rata* and *pari passu*, (i) in relation to each senior expenses loan facility provider, the amount of principal due or overdue and payable on such funding payment date under the senior expenses loan facility agreements of such senior expenses loan facility provider and, (ii) in relation to any RF loan note tranche holder, the amount of principal due or overdue and immediately payable on such funding payment date in respect of any RF loan note tranches;
- (aa) *twenty-seventh*, to pay, *pro rata* and *pari passu*, in relation to each junior expenses loan facility provider, the amount of principal due or overdue and payable on such funding payment date under the junior expenses loan facility agreements of such junior expenses loan facility provider;
- (bb) *twenty-eighth*, to pay in respect of each yield supplement supported mortgage loan an amount equal to:

- (i) the aggregate of all funding revenue allocated yield supplement amounts in respect of such yield supplement supported mortgage loan made in the immediately preceding three trust calculation periods;

plus

- (ii) the difference between:
 - (1) the sum of all previous funding revenue allocated yield supplement amounts in respect of such yield supplement supported mortgage loan made in any trust calculation period other than in respect of the immediately preceding three trust calculation periods; and
 - (2) the sum of all previous yield supplement loan allocated junior repayment amounts,

such amount being the "**yield supplement loan allocated junior repayment amount**" for such yield supplement supported mortgage loan for such funding interest period. The aggregate of such yield supplement allocated junior repayment amounts in respect of every yield supplement supported mortgage loan shall be applied on such funding payment date by funding to repay (in whole or in part) to the yield supplement loan facility provider the yield supplement loan facility; and

- (cc) *twenty-ninth*, to pay an amount equal to the balance, if any, which will be available to be paid to certain loan note tranche holders as further interest under a global loan note with an entitlement to further interest and which shall be paid to the relevant loan note tranche holders on such funding payment date.

In addition on each assignment date (or any such other date that funding receives a distribution from the mortgages trustee relating to any mortgage purchase inducement fee) funding will apply any distribution received from the mortgages trustee in respect of any mortgage purchase inducement fee in paying any funding basis rate swap premium amount then due and payable to the seller pursuant to the terms of the basis rate swap agreement.

Use of funding available principal receipts prior to enforcement of the funding security

"**funding available principal receipts**" means, on any funding payment date, the amount calculated by the funding cash manager or otherwise on behalf of funding (or, following enforcement of the funding security, the funding security trustee) on the trust calculation date immediately preceding that funding payment date in respect of the immediately preceding trust calculation period, equal to:

- (a) the sum of (avoiding any double counting):
 - (i) all mortgages trust principal receipts and any funding special distribution amounts received by funding from the mortgages trustee during the funding interest period ending on (but excluding) such funding payment date;

- (ii) all funding available revenue receipts which are to be applied on the funding payment date to credit the funding principal deficiency ledger pursuant to the terms of the funding pre-enforcement revenue priority of payments;
 - (iii) any amounts standing to the credit of any principal funding ledger on such trust calculation date;
 - (iv) the amount standing to the credit of the common funding reserve ledger, subject to any limits or conditions on the purposes for which the common funding reserve fund may be utilised as set out in the funding cash management agreement;
 - (v) the amount standing to the credit of the funding liquidity reserve ledger, subject to any limits or conditions on the purposes for which the funding liquidity reserve fund may be utilised as set out in the funding cash management agreement; and
 - (vi) any amounts standing to the credit of the excess principal ledger on such trust calculation date; less
- (b) the aggregate of all mortgages trust principal receipts and any funding special distribution amounts received by funding from the mortgages trustee during the funding interest period ending on (but excluding) such funding payment date which are to be applied on that date to provide for the funding available revenue deficit amount.

On each funding payment date prior to the enforcement of the funding security, the funding cash manager will apply funding available principal receipts in the following order of priority (the "**funding pre-enforcement principal priority of payments**"):

- (a) *first*, an amount equal to the funding liquidity reserve principal deficit amount (if any) on the funding payment date shall be deposited to the funding liquidity reserve fund and credited to the funding liquidity reserve ledger;
- (b) *second*, to the extent that funds have been drawn from a segregated funding reserve fund to make a segregated funding reserve principal repayment prior to the funding payment date, an amount equal to such segregated funding reserve principal repayment shall be deposited to the relevant segregated funding reserve fund and credited to the relevant segregated funding reserve ledger;
- (c) *third*, to the extent that funds have been drawn from the funding liquidity reserve fund to make a funding liquidity reserve principal repayment prior to the funding payment date, an amount equal to such funding liquidity reserve principal repayment shall be deposited to the funding liquidity reserve fund and credited to the funding liquidity reserve ledger;
- (d) *fourth*, to the extent that funds have been drawn from the common funding reserve fund to make a common funding reserve principal repayment prior to the funding payment date, an amount equal to such common funding reserve principal repayment shall be deposited to the common funding reserve fund and credited to the common funding reserve ledger;
- (e) *fifth, pro rata and pari passu* the amounts due on the funding payment date:
 - (i) prior to the occurrence of an early redemption event in relation to any class A loan note tranche, to credit *pro rata* and *pari passu* in priority from the class A loan note tranches with the earliest final maturity date to the class A loan note tranches with the latest final maturity date:
 - (A) with respect to any class A loan note tranches which are bullet pay loan note tranches and which are in an accumulation period following an accumulation period commencement date:
 - (1) prior to the scheduled redemption date for any such class A loan note tranches to credit an amount equal to the controlled deposit amount for each such class A loan note tranche to the principal funding ledger for such class A loan note tranche; and

- (2) on the scheduled redemption date for such class A loan note tranche to pay an amount equal to the lesser of: (i) the amount standing to the credit of the principal funding ledger for such class A loan note tranche on the funding payment date (after giving effect to any reductions or reimbursements due to any debits or credits to the relevant principal funding ledger on the funding payment date); and (ii) the nominal liquidation amount for such class A loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date); and
 - (3) after the scheduled redemption date for such class A loan note tranche to pay an amount equal to the nominal liquidation amount for such class A loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date),
- to the holder of such class A loan note tranche; and
- (B) with respect to any other class A loan note tranches which are in a controlled amortisation period, to pay an amount equal to the lesser of (i) the controlled amortisation amount for any such class A loan note tranche and (ii) the nominal liquidation amount for such class A loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class A loan note tranche;
 - (ii) in respect of each class A loan note tranche which is in a non-asset trigger amortisation period, to pay *pro rata* and *pari passu* in priority from the class A loan note tranches with the earliest final maturity date to the class A loan note tranches with the latest final maturity date an amount equal to the nominal liquidation amount of any such class A loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency sub-ledger on the funding payment date) to the holder of such class A loan note tranche; and
 - (iii) in respect of each class A loan note tranche which is in an asset trigger amortisation period, to pay *pro rata* and *pari passu* and in no order of priority between any such class A loan note tranches, an amount equal to the nominal liquidation amount of any such class A loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency sub-ledger on the funding payment date) to the holder of such class A loan note tranche;
- (f) *sixth, pro rata* and *pari passu* to the amounts due on the funding payment date:
- (i) with respect to any class B loan note tranches which are bullet pay loan note tranches and which are in an accumulation period following an accumulation period commencement date:
 - (1) prior to the scheduled redemption date for any such class B loan note tranches to credit an amount equal to the controlled deposit amount for each such class B loan note tranche to the principal funding ledger for such class B loan note tranche; and
 - (2) on the scheduled redemption date for such class B loan note tranche to pay an amount equal to the lesser of: (i) the amount standing to the credit of the principal funding ledger for such class B loan note tranche on the funding payment date (after giving effect to any reductions or reimbursements due to any debits or credits to the relevant principal funding ledger on the funding payment date); and (ii) the nominal liquidation amount for such class B loan note tranche (after giving effect to any reductions or reimbursements due to any

debits or credits to the funding principal deficiency ledger on the funding payment date); and

- (3) after the scheduled redemption date for such class B loan note tranche to pay an amount equal to the nominal liquidation amount for such class B loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date),

to the holder of such class B loan note tranche;

- (ii) with respect to any other class B loan note tranches which are in a controlled amortisation period, to pay an amount equal to the lesser of (i) the controlled amortisation amount for any such class B loan note tranche and (ii) the nominal liquidation amount for such class B loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class B loan note tranche; and
- (iii) in respect of each class B loan note tranche which is in an early amortisation period, to pay an amount equal to the nominal liquidation amount of such class B loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class B loan note tranche,

provided that, with respect to any principal amounts to be paid in respect of a class B loan note tranche on the immediately following funding payment date, such amounts will only be permitted to be paid to the extent that the repayment tests are satisfied on such date in respect of such class B loan note tranche;

- (g) *seventh, pro rata and pari passu* to the amounts due on the funding payment date:

- (i) with respect to any class C loan note tranches which are bullet pay loan note tranches and which are in an accumulation period following an accumulation period commencement date:

- (1) prior to the scheduled redemption date for any such class C loan note tranches to credit an amount equal to the controlled deposit amount for each such class C loan note tranche to the principal funding ledger for such class C loan note tranche; and

- (2) on the scheduled redemption date for such class C loan note tranche to pay an amount equal to the lesser of: (i) the amount standing to the credit of the principal funding ledger for such class C loan note tranche on the funding payment date (after giving effect to any reductions or reimbursements due to any debits or credits to the relevant principal funding ledger on the funding payment date); and (ii) the nominal liquidation amount for such class C loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date); and

- (3) after the scheduled redemption date for such class C loan note tranche to pay an amount equal to the nominal liquidation amount for such class C loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date),

to the holder of such class C loan note tranche;

- (ii) with respect to any other class C loan note tranches which are in a controlled amortisation period, to pay an amount equal to the lesser of (i) the controlled amortisation amount for any such class C loan note tranche and (ii) the nominal

liquidation amount for such class C loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class C loan note tranche; and

- (iii) in respect of each class C loan note tranche which is in an early amortisation period, to pay an amount equal to the nominal liquidation amount of such class C loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class C loan note tranche,

provided that, with respect to any principal amounts to be paid in respect of a class C loan note tranche on the funding payment date, such amounts will only be permitted to be paid to the extent that the repayment tests are satisfied on such date in respect of such class C loan note tranche;

- (h) *eighth, pro rata and pari passu* to the amounts due on the funding payment date:

- (i) with respect to any class D loan note tranches which are bullet pay loan note tranches and which are in an accumulation period following an accumulation period commencement date:

- (1) prior to the scheduled redemption date for any such class D loan note tranches to credit an amount equal to the controlled deposit amount for each such class D loan note tranche to the principal funding ledger for such class D loan note tranche; and

- (2) on the scheduled redemption date for such class D loan note tranche to pay an amount equal to the lesser of: (i) the amount standing to the credit of the principal funding ledger for such class D loan note tranche on the funding payment date (after giving effect to any reductions or reimbursements due to any debits or credits to the relevant principal funding ledger on the funding payment date); and (ii) the nominal liquidation amount for such class D loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date); and

- (3) after the scheduled redemption date for such class D loan note tranche to pay an amount equal to the nominal liquidation amount for such class D loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date),

to the holder of such class D loan note tranche;

- (ii) with respect to any other class D loan note tranches which are in a controlled amortisation period, to pay an amount equal to the lesser of (i) the controlled amortisation amount for any such class D loan note tranche and (ii) the nominal liquidation amount for such class D loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class D loan note tranche; and

- (iii) in respect of each class D loan note tranche which is in an early amortisation period, to pay an amount equal to the nominal liquidation amount of such class D loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date) to the holder of such class D loan note tranche,

provided that, with respect to any principal amounts to be paid in respect of a class D loan note tranche on the funding payment date, such amounts will only be permitted to be paid to the extent that the repayment tests are satisfied on such date in respect of such class D loan note tranche;

- (i) *ninth, pro rata and pari passu* to the amounts due on the funding payment date:
- (i) with respect to any class E loan note tranches which are bullet pay loan note tranches and which are in an accumulation period following an accumulation period commencement date:
- (1) prior to the scheduled redemption date for any such class E loan note tranches to credit an amount equal to the controlled deposit amount for each such class E loan note tranche to the principal funding ledger for such class E loan note tranche; and
 - (2) on the scheduled redemption date for such class E loan note tranche to pay an amount equal to the lesser of: (i) the amount standing to the credit of the principal funding ledger for such class E loan note tranche on the funding payment date (after giving effect to any reductions or reimbursements due to any debits or credits to the relevant principal funding ledger on the funding payment date); and (ii) the nominal liquidation amount for such class E loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date); and
 - (3) after the scheduled redemption date for such class E loan note tranche to pay an amount equal to the nominal liquidation amount for such class E loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date),
- to the holder of such class E loan note tranche;
- (ii) with respect to any other class E loan note tranches which are in a controlled amortisation period, to pay an amount equal to the lesser of (i) the controlled amortisation amount for any such class E loan note tranche and (ii) the nominal liquidation amount for such class E loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on funding payment date) to the holder of such class E loan note tranche; and
- (iii) in respect of each class E loan note tranche which is in an early amortisation period, to pay an amount equal to the nominal liquidation amount of such class E loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on funding payment date) to the holder of such class E loan note tranche,

provided that, with respect to any principal amounts to be paid in respect of a class E loan note tranche on the funding payment date, such amounts will only be permitted to be paid to the extent that the repayment tests are satisfied on such date in respect of such class E loan note tranche; and

- (j) *tenth, pro rata and pari passu* to the amounts due on the funding payment date:
- (i) with respect to any class F loan note tranches which are bullet pay loan note tranches and which are in an accumulation period following an accumulation period commencement date:
- (1) prior to the scheduled redemption date for any such class F loan note tranches to credit an amount equal to the controlled deposit amount for each such class F loan note tranche to the principal funding ledger for such class F loan note tranche; and
 - (2) on the scheduled redemption date for such class F loan note tranche to pay an amount equal to the lesser of: (i) the amount standing to the credit of the principal funding ledger for such class F loan note tranche on the funding

payment date (after giving effect to any reductions or reimbursements due to any debits or credits to the relevant principal funding ledger on the funding payment date); and (ii) the nominal liquidation amount for such class F loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date); and

- (3) after the scheduled redemption date for such class F loan note tranche to pay an amount equal to the nominal liquidation amount for such class F loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on the funding payment date),

to the holder of such class F loan note tranche;

- (ii) with respect to any other class F loan note tranches which are in a controlled amortisation period, to pay an amount equal to the lesser of (i) the controlled amortisation amount for any such class F loan note tranche and (ii) the nominal liquidation amount for such class F loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on funding payment date) to the holder of such class F loan note tranche; and
- (iii) in respect of each class F loan note tranche which is in an early amortisation period, an amount equal to the nominal liquidation amount of such class F loan note tranche (after giving effect to any reductions or reimbursements due to any debits or credits to the funding principal deficiency ledger on funding payment date) to the holder of such class F loan note tranche,

provided that, with respect to any principal amounts to be paid in respect of a class F loan note tranche on the funding payment date, such amounts will only be permitted to be paid to the extent that the repayment tests are satisfied on such date in respect of such class F loan note tranche,

provided that, in respect of items (e), (f), (g), (h), (i) and (j) above, funding available principal receipts will not be available to meet any payments of principal in respect of any particular loan note tranche of any particular series identified at any such item above to the extent that such funding available principal receipts are constituted by funding special distribution amounts unless one the following conditions is satisfied in respect of such particular loan note tranche of such particular series:

- (i) such loan note tranche of such series is then in an early amortisation period; and/or
- (ii) such loan note tranche of such series has amounts still outstanding and the then funding payment date is a date falling after the final maturity date of such loan note tranche of such series; and/or
- (iii) such loan note tranche of such series is on such funding payment date the subject of a permitted early redemption.

Reduction to the nominal liquidation amount of subordinated classes

On each funding payment date, the funding cash manager will calculate whether there will be an excess or a deficit of funding available revenue receipts to pay items (a), (b), (c), (d), (e), (g), (j), (l), (n) and (p) of the funding pre-enforcement revenue priority of payments.

If, prior to taking into account the application of any funding available principal receipts (if any) (but for the avoidance of doubt after taking into account any applicable amounts standing to the credit of, *inter alia*, the funding liquidity reserve fund, the common funding reserve fund and any relevant segregated funding reserve fund at such time), there is a deficit in the amount of funding available revenue receipts to pay items (a), (b), (c), (d), (e), (g), (j), (l), (n) and (p) of the funding pre-enforcement revenue priority of payments then funding shall provide for that deficit by the application of funds which constitute funding available principal receipts, if any, and the funding cash manager shall make a corresponding debit entry in the relevant funding principal deficiency sub-ledgers, as described in "*Funding principal deficiency ledger*" above.

Funding available principal receipts may not be used to pay interest on any loan note tranche if and to the extent that would result in a deficiency being recorded, or an existing deficiency being increased, on a funding principal deficiency sub-ledger relating to a higher ranking loan note tranche. Funding available principal receipts may therefore not be used to pay interest on a loan note tranche if the sum of the nominal liquidation amounts of the loan note tranches of the same class as such loan note tranche is equal to zero.

Funding shall apply, in accordance with the funding pre-enforcement revenue priority of payments, any excess funding available revenue receipts to extinguish any balance on the funding principal deficiency ledger, as described in "Use of funding available revenue receipts prior to enforcement of funding security" above.

Use of funding available principal receipts and funding available revenue receipts following enforcement of funding security

On each funding payment date following the enforcement of the funding security, the funding security trustee (or the funding cash manager on its behalf) will apply amounts received or recovered by the funding security trustee (or any receiver appointed on its behalf) (other than amounts standing to the credit of the basis rate swap collateral account) in accordance with the following order of priority (the "funding post-enforcement priority of payments" and, together with the funding pre-enforcement revenue priority of payments and the funding pre-enforcement principal priority of payments, the "funding priorities of payments" and each a "funding priority of payments"):

- (a) *first*, to pay, *pro rata* and *pari passu*, equal to amounts due and payable to the funding security trustee and/or any receiver appointed by the funding security trustee or to become due or and payable to the funding security trustee and/or any such receiver during the following funding interest period, in accordance with and pursuant to the terms of the transaction documents;
- (b) *second*, *pro rata* and *pari passu*, to pay amounts:
 - (i) due and payable to the funding cash manager or to become due and payable to the funding cash manager during the following funding interest period, in accordance with and pursuant to the terms of the funding cash management agreement;
 - (ii) due and payable to the loan note registrar or to become due and payable to the loan note registrar during the following funding interest period, in accordance with and pursuant to the terms of the funding security trust deed;
 - (iii) due and payable to the funding account bank or to become due and payable to the funding account bank during the following funding interest period, in accordance with and pursuant to the terms of the funding account bank agreement;
 - (iv) due and payable to the funding corporate services provider or to become due and payable to the funding corporate services provider during the following funding interest period, in accordance with and pursuant to the terms of the funding corporate services agreement;
 - (v) due and payable to the holdings corporate services provider or to become due and payable to the holdings corporate services provider during the following funding interest period, in accordance with and pursuant to the terms of the holdings corporate services agreement; and
 - (vi) due and payable to the PECO corporate services provider or to become due and payable to the PECO corporate services provider during the following funding interest period, in accordance with and pursuant to the terms of the PECO corporate services agreement;
- (c) *third*, to pay amounts, *pro rata* and *pari passu*:
 - (i) equal to the funding basis rate swap premium amount which is due and payable to the basis swap provider in accordance with and pursuant to the terms of the basis rate swap agreement, to the basis rate swap provider; and

- (ii) equal to amounts due and payable to the basis rate swap provider in accordance with and pursuant to the terms of the basis rate swap agreement (except for any termination payment or any part thereof due and payable to the basis rate swap provider as a result of a basis rate swap provider default (being the occurrence of an event of default by the basis rate swap provider under the basis rate swap agreement ("**basis swap provider default**")) by the basis rate swap provider, save to the extent such termination payment may be satisfied by any termination payment received by funding from a replacement basis rate swap provider made to funding following a downgrade termination event in respect of the basis rate swap and applied in accordance with this funding pre-enforcement revenue priority of payments);
- (d) *fourth, to pay, pro rata and pari passu:*
- (i) in relation to each loan note tranche holder, the loan note tranche holder post-enforcement costs amount for such loan note tranche holder (where "**loan note tranche holder post-enforcement costs amount**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in items (a) through (c) of the issuer post-enforcement priority of payments (the "**issuer post-enforcement costs amount**") and, in the case of any other loan note tranche holder, the payment(s) identified as such for such loan note tranche holder);
 - (ii) in relation to each class A loan note tranche holder, the class A loan note tranche holder post-enforcement currency swap fee for that loan note tranche holder (where "**class A loan note tranche holder post-enforcement currency swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (d)(i) of the issuer post-enforcement priority of payments (but only to the extent that such amounts are not satisfied by paragraph (iii) below) (the "**issuer class A post-enforcement currency swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder); and
 - (iii) in respect of each class A loan note tranche, equal to the amount of interest and principal (and any other amounts) required to repay in full such class A loan note tranche, to the relevant loan note tranche holder of such class A loan note tranche;
- (e) *fifth, to pay, pro rata and pari passu:*
- (i) in relation to each class B loan note tranche holder, the class B loan note tranche holder post-enforcement currency swap fee for that loan note tranche holder (where "**class B loan note tranche holder post-enforcement currency swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (e)(i) of the issuer post-enforcement priority of payments (but only to the extent that such amounts are not satisfied by item paragraph (ii) below) (the "**issuer class B post-enforcement currency swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder); and
 - (ii) in respect of each class B loan note tranche, equal to the amount of interest and principal (and any other amounts) required to repay in full such class B loan note tranche, to the relevant loan note tranche holder of such class B loan note tranche;
- (f) *sixth, to pay, pro rata and pari passu:*
- (i) in relation to each class C loan note tranche holder, the class C loan note tranche holder post-enforcement currency swap fee for that loan note tranche holder (where "**class C loan note tranche holder post-enforcement currency swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (f)(i) of the issuer post-enforcement priority of payments (but only to the extent that such amounts are not satisfied by paragraph (ii) below) (the "**issuer class C post-enforcement currency swap fee**") and, in the case of any other loan note tranche

- holder, the payments (if any) identified as such for that other loan note tranche holder); and
- (ii) in respect of each class C loan note tranche an amount equal to the amount of interest and principal (and any other amounts) required to repay in full such class C loan note tranche, to the relevant loan note tranche holder of such class C loan note tranche;
- (g) *seventh*, to pay, *pro rata* and *pari passu*:
- (i) in relation to each class D loan note tranche holder, the class D loan note tranche holder post-enforcement currency swap fee for that loan note tranche holder (where "**class D loan note tranche holder post-enforcement currency swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (g)(i) of the issuer post-enforcement priority of payments (but only to the extent that such amounts are not satisfied by item paragraph (ii) below) (the "**issuer class D post-enforcement currency swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder); and
- (ii) in respect of each class D loan note tranche an amount equal to the amount of interest and principal (and any other amounts) required to repay in full such class D loan note tranche, to the relevant loan note tranche holder of such class D loan note tranche;
- (h) *eighth*, to pay, *pro rata* and *pari passu*:
- (i) in relation to each class E loan note tranche holder, the class E loan note tranche holder post-enforcement currency swap fee for that loan note tranche holder (where "**class E loan note tranche holder post-enforcement currency swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (h)(i) of the issuer post-enforcement priority of payments (but only to the extent that such amounts are not satisfied by item (ii) below) (the "**issuer class E post-enforcement currency swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder); and
- (ii) in respect of each class E loan note tranche an amount equal to the amount of interest and principal (and any other amounts) required to repay in full such class E loan note tranche, to the relevant loan note tranche holder of such class E loan note tranche;
- (i) *ninth*, to pay, *pro rata* and *pari passu*:
- (i) in relation to each class F loan note tranche holder, the class F loan note tranche holder post-enforcement currency swap fee for that loan note tranche holder ("**class F loan note tranche holder post-enforcement currency swap fee**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (i)(i) of the issuer post-enforcement priority of payments (but only to the extent that such amounts are not satisfied by item paragraph (ii) below) (the "**issuer class F post-enforcement currency swap fee**") and, in the case of any other loan note tranche holder, the payments (if any) identified as such for that other loan note tranche holder); and
- (ii) in respect of each class F loan note tranche an amount equal to the amount of interest and principal (and any other amounts) required to repay in full such class F loan note tranche, to the relevant loan note tranche holder of such class F loan note tranche;
- (j) *tenth*, to pay, *pro rata* and *pari passu*, to each loan note tranche holder the loan note tranche holder post-enforcement profit amount for that loan note tranche holder (where "**loan note tranche holder post-enforcement swap termination amount**" means, where the loan note tranche holder is the issuer, an amount equal to the payments set out in item (j) in the issuer post-enforcement priority of payments (the "**issuer post-enforcement swap termination amount**") and, in the case of any other loan note tranche holder, the payment(s) identified as such for that other loan note tranche holder);

- (k) *eleventh*, to pay amounts, *pro rata* and *pari passu*, equal to any termination payment due and payable and not satisfied under item (c) above to the basis rate swap provider following a basis rate swap provider default in respect of the basis rate swap provider;
- (l) *twelfth*, to pay amounts, *pro rata* and *pari passu*, (i) in relation to each senior expenses loan facility provider, equal to the aggregate amounts of interest and principal (and any other amounts) due or overdue and payable on the funding payment date in relation to any senior expenses loan facility agreement, and (ii) in relation to any RF loan note tranche holder an amount equal to the aggregate amounts of interest and principal (and any other amounts) due or overdue and immediately payable on the funding payment date in respect of any RF loan note tranches;
- (m) *thirteenth*, to pay amounts, *pro rata* and *pari passu*, in relation to each junior expenses loan facility provider equal to the aggregate amounts of interest and principal (and any other amounts) due or overdue and payable on the funding payment date in relation to any junior expenses loan facility agreement;
- (n) *fourteenth*, to pay an amount equal to the amount of interest and principal (and any other amounts) due or overdue and payable on the following payment date in relation to the yield supplement loan facility agreement, to the yield supplement loan facility provider; and
- (o) *fifteenth*, to pay amounts, equal to any amount remaining following the application of principal and revenue set forth in paragraphs (a) through (n) above, which is available as further interest to certain loan note tranche holders under any global loan note under which further interest is payable, to the relevant loan note tranche holders.

Redemption and early redemption of loan note tranches (other than RF loan note tranches)

Whenever funding is to redeem a loan note tranche (other than RF loan note tranches), it will do so only to the extent that (i) funding available revenue receipts and funding available principal receipts it has received and allocated to that loan note tranche are sufficient to redeem that loan note tranche in full, (ii) that the funding principal repayment tests are met prior to the occurrence of an asset trigger event, and (iii) only to the extent that the loan note tranches to be redeemed are not required to provide subordination for senior loan note tranches. The holder of a loan note tranche will have no claim against funding if funding fails to make a required redemption of a loan note tranche before the final maturity date for that loan note tranche because no funds are available for that purpose, because the funding principal repayment tests are not satisfied prior to the occurrence of an asset trigger event or because the loan note tranches that would otherwise be redeemed are required to provide subordination for senior loan note tranches. The failure to redeem before the final maturity date under these circumstances will not be a loan note event of default.

Funding may only repay principal amounts owing in respect of subordinated loan note tranches pursuant to the terms and conditions of the global loan note, if the following conditions in relation to such loan note tranche (together, the "**repayment tests**") are satisfied:

- **Funding principal repayment tests**
Prior to the occurrence of an asset trigger event, the funding arrears test, funding reserve requirement and the funding rating repayment test are satisfied.
- **Required subordination for repayment of any class B loan note tranche**
On any funding payment date on which a repayment of principal is made in respect of any class B loan note tranche, immediately after making such payment, the class A available subordinated amount is at least equal to the class A required subordinated amount, save that for the purposes of this calculation excess spread is deemed to be zero.
- **Required subordination for repayment of any class C loan note tranche**
On any funding payment date on which a repayment of principal is made in respect of any class C loan note tranche, immediately after making such payment, 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, save that for the purposes of this calculation excess spread is deemed to be zero.

- **Required subordination for repayment of any class D loan note tranche**

On any funding payment date on which a repayment of principal is made in respect of any class D loan note tranche, immediately after making such payment, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount and the class C available subordinated amount is at least equal to the class C required subordinated amount, save that for the purposes of this calculation excess spread is deemed to be zero.

- **Required subordination for repayment of any class E loan note tranche**

On any funding payment date on which a repayment of principal is made in respect of any class E loan note tranche, immediately after making such payment, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class C available subordinated amount is at least equal to the class C required subordinated amount and the class D available subordinated amount is at least equal to the class D required subordinated amount, save that for the purposes of this calculation excess spread is deemed to be zero.

- **Required subordination for repayment of any class F loan note tranche**

On any funding payment date on which a repayment of principal is made in respect of any class F loan note tranche, immediately after making such payment, the class A available subordinated amount is at least equal to the class A required subordinated amount, the class B available subordinated amount is at least equal to the class B required subordinated amount, the class C available subordinated amount is at least equal to the class C required subordinated amount, the class D available subordinated amount is at least equal to the class D required subordinated amount and the class E available subordinated amount is at least equal to the class E required subordinated amount, save that for the purposes of this calculation excess spread is deemed to be zero.

The "**funding principal repayment tests**" means: (i) the funding arrears test; (ii) the funding reserve requirement and (iii) the funding rating repayment test.

The "**funding arrears test**" is satisfied on a funding payment date if funding, or the funding cash manager on its behalf, calculates on the trust calculation date immediately preceding that funding payment date that, as of the last day of the trust calculation period immediately preceding that trust calculation date:

- (a) the aggregate current balance of the mortgage accounts where the corresponding mortgage loans are then in excess of three monthly payments in arrears is less than 4 per cent. of the aggregate current balance of all mortgage accounts in the mortgages trust, unless the rating agencies have confirmed in writing to the funding security trustee, funding, the issuer security trustee and the loan note tranche holders that the then current ratings of any outstanding series will not be adversely affected by the funding arrears test not having been met; and
- (b) the aggregate arrears of interest in respect of all the mortgage accounts in the mortgages trust as a percentage of the aggregate gross interest due on all mortgage accounts during the succeeding 12 months does not exceed 2 per cent., or such other percentage as is then acceptable to the rating agencies in order to maintain the then current ratings of any outstanding series.

The "**funding reserve requirement**" is satisfied on a funding payment date if:

- (a) after taking account of the application of any funding available revenue receipts to the credit of the common funding reserve ledger, the amount of funds in the common funding reserve fund is equal to the common funding reserve required amount or, if the common funding reserve fund is not so fully funded on such funding payment date, no unreimbursed payments have been made prior to such funding payment date, nor will be made on such payment date, from the common funding reserve fund; and

- (b) after taking account of the application of any funding available revenue receipts to the credit of any segregated funding reserve ledger, the amount of funds in such segregated funding reserve fund is at least equal to the segregated funding reserve required amount for such segregated funding reserve fund or, if such segregated funding reserve fund is not so fully funded on such payment date, no payments have been made prior to such funding payment date, nor will be made on such funding payment date, from such segregated funding reserve fund.

The "**funding rating repayment test**" is only required to be satisfied in respect of any funding payment date and in relation to any particular loan note tranche of a particular series if the requirement to satisfy the funding rating repayment test in relation to such loan note tranche is stated as necessary in the relevant applicable final terms. If so stated, then the funding rating repayment test will be satisfied in respect of such funding payment date if: (a) whilst any class A loan note tranche remains outstanding (save to the extent that all such class A loan note tranches would be repaid on such applicable funding payment date), S&P has previously confirmed that the repayment of such loan note tranche at such time will not adversely affect its then ratings of any notes then outstanding; or (b) no class A loan note tranche remains outstanding at such time.

Issuance of new loan note tranches

Unless otherwise specified in the related supplement to global loan note no. 1 which will be set out in the final terms of the series which such loan note tranche supports, funding may only issue a new loan note tranche, or increase the outstanding principal amount of an existing loan note tranche, if the following conditions (together, the "**issuance tests**") are satisfied:

- **Increase in common funding reserve required amount and/or establishment and funding of segregated funding reserve fund**

If the issuance of such loan note tranche results in the requirement to fund an increase in the common funding reserve required amount or the requirement to establish and fund a segregated funding reserve fund, on such date funding will have deposited an amount equal to the relevant required amount into the common funding reserve fund or segregated funding reserve fund, as applicable.

- **Class A required subordination**

On the issuance date for a class A loan note tranche and after giving effect to the issuance of such class A loan note tranche, the class A available subordinated amount must be greater than or equal to the class A required subordinated amount.

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

$$AxB$$

where:

- A = the class A required subordination percentage as specified in the related supplement to the global loan note for such loan note tranche
- B = the aggregate outstanding principal amount of all loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date).

The "**class A available subordinated amount**" is calculated, on any date, as the sum of (a) the aggregate outstanding principal amount of all class B loan note tranches, class C loan note tranches, class D loan note tranches, class E loan note tranches and class F loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date), (b) the amount standing to the credit of the common funding reserve ledger on such date, (c) any segregated funding reserve funds which provide enhancement to any class B loan note tranches, any class C loan note tranches, any class D loan note tranches, any class E loan note tranches and any class F loan note tranches on such date, and (d) excess spread.

- **Class B required subordination**

On the issuance date for a class B loan note tranche and after giving effect to the issuance of such class B loan note tranche, the class B available subordinated amount must be greater than or equal to the class B required subordinated amount.

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

$$A \times B$$

where:

- A = the class B required subordination percentage as specified in the related supplement to the global loan note for such loan note tranche
- B = the aggregate outstanding principal amount of all loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date).

The "**class B available subordinated amount**" is calculated, on any date, as the sum of (a) the aggregate outstanding principal amount of all class C loan note tranches, class D loan note tranches, class E loan note tranches and class F loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date), (b) the amount standing to the credit of the common funding reserve ledger on such date, (c) any segregated funding reserve funds which provide enhancement to any class C loan note tranches, any class D loan note tranches, any class E loan note tranches and any class F loan note tranches on such date, and (d) excess spread.

- **Class C required subordination**

On the issuance date for a class C loan note tranche and after giving effect to the issuance of such class C loan note tranche, the class C available subordinated amount must be greater than or equal to 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 subordination percentage as specified in the related supplement to the global loan note for such loan note tranche
- B = the aggregate outstanding principal amount of all loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date).

The "**class C available subordinated amount**" is calculated, on any date, as the sum of (a) the aggregate outstanding principal amount of all class D loan note tranches, class E loan note tranches and class F loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date), (b) the amount standing to the credit of the common funding reserve ledger on such date, (c) any segregated funding reserve funds which provide enhancement to any class D loan note tranches, any class E loan note tranches and any class F loan note tranches on such date, and (d) excess spread.

- **Class D required subordination**

On the issuance date for a class D loan note tranche and after giving effect to the issuance of such class D loan note tranche, the class D available subordinated amount must be greater than or equal to the class D required subordinated amount.

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

$$A \times B$$

where:

- A = the class D required subordination percentage as specified in the related supplement to the global loan note for such loan note tranche
- B = the aggregate outstanding principal amount of all loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date).

The "**class D available subordinated amount**" is calculated, on any date, as the sum of (a) the aggregate outstanding principal amount of all class E loan note tranches and class F loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date), (b) the amount standing to the credit of the common funding reserve ledger on such date, (c) any segregated funding reserve funds which provide enhancement to any class E loan note tranches and any class F loan note tranches on such date, and (d) excess spread.

- **Class E required subordination**

On the issuance date for a class E loan note tranche and after giving effect to the issuance of such class E loan note tranche, the class E available subordinated amount must be greater than or equal to the class E required subordinated amount.

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

$$A \times B$$

where:

- A = the class E required subordination percentage as specified in the related supplement to the global loan note for such loan note tranche
- B = the aggregate outstanding principal amount of all loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date).

The "**class E available subordinated amount**" is calculated, on any date, as the sum of (a) the aggregate outstanding principal amount of all class F loan note tranches (after giving effect to any repayments of principal to be made on any loan note tranches on such date), (b) the amount standing to the credit of the common funding reserve ledger on such date, (c) any segregated funding reserve funds which provide enhancement to any class F loan note tranches on such date, and (d) excess spread.

For the purposes of the above, the "**excess spread**" is calculated on any date of determination as:

$$\left[\left(\frac{W + X}{2} \right) \times Y \right] - Z$$

where:

- W = the weighted average yield on (i) the mortgage loans in the mortgages trust at such date, together with any new mortgage loans (if any) to be assigned to the mortgages trustee on such date and (ii) the reference mortgage reserves on such date, taking into account the margins on the basis rate swaps and any relevant funding revenue allocated yield supplement amounts and the performance of the underlying borrowers.
- X = LIBOR for three month sterling deposits plus 0.40 per cent.
- Y = the aggregate nominal liquidation amount of all loan note tranches on such date after giving effect to any amounts to be repaid on any loan note tranche on such date
- Z = the funding expense rate

The "**funding expense rate**" means, on any date of determination, the sum of:

- (i) the product of (A) the weighted average of the loan note tranche interest rates of the loan note tranches then outstanding and (B) the aggregate outstanding principal amount of the loan tranches then outstanding; and
- (ii) the amounts payable by funding under items (a), (b), (c), (d), (e), (g), (j), (l), (n) and (p) of the funding pre-enforcement revenue priority of payments (see "*Use of funding available revenue receipts prior to enforcement of funding security*" above).

- **No debit balance on the funding principal deficiency ledger**

On the issuance date for a loan note tranche, there is no debit balance on the funding principal deficiency ledger and there are no uncured drawings of the common funding reserve on the issue date.

- **No loan note tranche enforcement notice has been served**

On the issuance date for a loan note tranche, no loan note tranche enforcement notice has been served on funding by the funding security trustee in respect of any outstanding loan note tranche.

- **No loan note event of default has occurred**

On the issuance date for a loan note tranche, no loan note event of default pursuant to the terms of global loan note no. 1 and any related supplement to global loan note no. 1 under any loan note tranche outstanding at such time has occurred which has not been either remedied or waived and no loan note event of default under any loan note tranche will occur as a result of the new issuance of such loan note tranche.

Funding is not required to provide prior notice to, permit any prior review by or to obtain the consent of any loan note tranche holder of an outstanding loan note tranche to issue any additional loan note tranche. There are no restrictions on the timing or amount of any additional issuance of loan note tranches, so long as the conditions described above are met.

Funding may from time to time, without notice to, or the consent of, the registered holders of a loan note tranche, increase the outstanding principal amount of a loan note tranche so long as the conditions described above are met.

When issued, the additional loan note tranches will be identical in all respects to the other outstanding loan note tranches of that class equally and rateably entitled to the benefits of the funding security trust deed, the funding cash management agreement the relevant global loan note and the related supplement to a global loan note as applicable to the previously issued loan note tranches of that class without preference, priority or distinction.

Payments on loan note tranches

Funding, the funding security trustee, the registrar and any agent of funding or of the funding security trustee will treat the registered holder of any loan note tranche as the absolute owner of that loan note tranche, whether or not the loan note tranche is overdue and notwithstanding any notice to the contrary, for the purpose of making payment and for all other purposes.

Funding will make payments on a loan note tranche to the registered holder of the loan note tranche by the close of business on the funding record date established for the related funding payment date.

If any withholding or deduction for any taxes, duties, assessments or government charges is imposed, levied, collected, withheld or assessed on payments of principal or interest on any loan note tranche by any jurisdiction or any political subdivision or authority in or of any jurisdiction having power to tax, payments by funding will be reduced accordingly and neither funding, nor the funding security trustee, will be required to make any additional payments to the holders of the loan note tranches for that withholding or deduction. The amount of any relevant reduction will not be treated as a deferred payment and, accordingly, will not bear additional interest. As at the date of this base prospectus, there is no

obligation under Jersey or UK tax law on funding to make any deduction or withhold any amount on payments made under the loan note tranches.

The "**funding record date**" in respect of any funding payment date means the last business day of the relevant funding interest period unless otherwise specified in the related supplement to global loan note no. 1 and the final terms of the series which such loan note tranche supports.

Senior expenses loan facility

Pursuant to the terms of a loan agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**senior expenses loan facility agreement**"), the senior expenses loan facility provider granted, on an uncommitted basis, a sterling subordinated limited recourse loan facility to funding (the "**senior expenses loan facility**"). Pursuant to the terms of the senior expenses loan facility agreement, funding will be permitted on each issue date to request a draw down under the senior expenses loan facility, and subsequently draw down on such issue date the requested amount (each, a "**senior expenses loan draw down**"). Funding will be required to utilise any such drawn down amount to enable it to fund the common funding reserve fund or any applicable segregated funding reserve fund up to the then required amount for the common funding reserve fund or such segregated funding reserve fund.

Each final terms will specify the size of the senior expenses loan draw down (if any) to be requested by funding on the relevant issue date.

The senior expenses loan facility provider may assign any or all of its rights and/or obligations under the senior expenses loan facility agreement in accordance with the terms of the senior expenses loan facility agreement.

The senior expenses loan facility agreement is governed by English law.

Junior expenses loan facility

Pursuant to the terms of a loan agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**junior expenses loan facility agreement**" and, together with the senior expenses loan facility agreement, the "**expenses loan facility agreements**"), the junior expenses loan facility provider granted, on an uncommitted basis, a sterling subordinated limited recourse loan facility to funding (the "**junior expenses loan facility**" and, together with the senior expenses loan facility, the "**expenses loan facilities**"). Pursuant to the terms of the junior expenses loan facility agreement, funding is permitted on each issue date to request a draw down under the junior expenses loan facility, and subsequently draw down on such issue date the requested amount (each, a "**junior expenses loan draw down**", and junior expenses loan draw downs and senior expenses loan draw downs together being referred to as "**expenses loan draw downs**"). Funding is required to utilise any such drawn down amount to enable it to pay the expenses it has incurred in connection with: (a) if applicable, acquisition by funding of the increased funding share of the trust property; and (b) the grant of the relevant loan note tranche by funding on such issue date (including the payment of any fees and costs of any loan note tranche holder then due and payable to such loan note tranche holder in connection with its holding of the relevant loan note tranche pursuant to the terms of the funding security trust deed, the funding cash management agreement and the related supplement to the global loan note for such loan note tranche).

Each final terms will specify the size of the junior expenses loan draw down (if any) to be requested by funding on the relevant issue date.

The junior expenses loan facility provider may assign any or all of its rights and/or obligations under the junior expenses loan facility agreement in accordance with the terms of the relevant junior expenses loan facility agreement.

The junior expenses loan facility agreement is governed by English law.

Yield supplement loan facility

Pursuant to the terms of a loan agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**yield supplement loan facility agreement**"), the yield supplement loan facility provider granted, on an uncommitted basis, a sterling subordinated limited recourse loan facility to funding (the "**yield supplement loan facility**"). Pursuant to the terms of the yield supplement loan

facility agreement, the funding cash management agreement and the mortgages sale agreement, funding is permitted on the first issue date and on each assignment date to request a draw down under the yield supplement loan facility in an amount equal to the initial required yield supplement deposit amount in respect of each yield supplement supported mortgage loan, and subsequently draw down on such assignment date the requested amount (each, a "**yield supplement loan draw down**"). Funding is required to utilise any such drawn down amount to enable it to deposit the relevant initial required yield supplement deposit amount in respect of a yield supplement supported mortgage loan into the yield supplement GIC account.

Interest is payable quarterly on each funding payment date to the yield supplement loan facility provider on amounts outstanding from time to time on the yield supplement loan facility at a rate equal to LIBOR for three months' sterling deposits plus a margin of 2.00 per cent. per annum. Funding pays such interest amounts then due and payable by way of:

- (a) applying any interest earned on amounts deposited in the yield supplement GIC account ("**yield supplement loan senior interest amounts**") exclusively for such purpose. It should be noted that such payments are not subject to the funding priority of payments and thus such amounts are paid to the yield supplement loan facility provider on a senior basis; and
- (b) to the extent that any interest amounts are still due and payable, by way of the application of funding available revenue receipts in accordance with the then relevant funding priority of payments.

The yield supplement loan facility shall be repaid or, as applicable, prepaid by funding by way of utilising the following amounts as they become available:

- (a) yield supplement loan allocated senior repayment amounts;
- (b) yield supplement loan allocated junior repayment amounts;
- (c) yield supplement loan prepayment amounts; and
- (d) yield supplement loan repurchase amounts.

The yield supplement loan facility provider may assign any or all of its rights and/or obligations under the yield supplement loan facility agreement in accordance with the terms of the relevant yield supplement loan facility agreement.

The yield supplement loan facility agreement is governed by English law.

See also "*The Loan Note Tranches and Funding Cashflows – Yield Supplement Account*".

Bank accounts

Bank accounts of the mortgages trustee

Pursuant to the terms of an account bank agreement dated the mortgages trust establishment date (the "**mortgages trustee account bank agreement**") between the mortgages trustee, the funding security trustee, the mortgages trustee cash manager and the mortgages trustee account bank, the mortgages trustee account bank opened the following sterling denominated accounts in the name of the mortgages trustee:

- (a) a transaction account (the "**mortgages trustee transaction account**") for day to day cash management purposes; and
- (b) a deposit account (the "**mortgages trustee GIC account**" and together with the mortgages trustee transaction account, the "**mortgages trustee accounts**") for the purposes of holding all deposits.

All monies (and interest thereon) held in the mortgages trustee accounts in accordance with and pursuant to the terms of the mortgages trust deed, form part of the trust property of the mortgages trust.

The mortgages trustee, the funding security trustee, the mortgages trustee cash manager and the mortgages trustee account bank entered into a guaranteed investment contract (the "**mortgages trustee GIC agreement**"), whereby the mortgages trustee account bank agreed to pay a variable rate of interest on funds in the mortgages trustee GIC account of 0.20 per cent. per annum below LIBOR for one-month sterling deposits.

If the short-term, unguaranteed and unsubordinated ratings of the mortgages trustee account bank cease to be rated A-1 by S&P, P-1 by Moody's and F1 by Fitch, then (i) the mortgages trustee accounts will be closed and similar accounts will be opened with a bank approved in writing by the funding security trustee that has the requisite ratings or (ii) the mortgages trustee account bank will obtain an eligible guarantee of its obligations from a satisfactorily rated financial institution and such guarantee will comply with any applicable rating criteria.

"**Eligible guarantee**" means a guarantee that satisfies the then current ratings criteria to ensure the then current ratings of the notes are not adversely affected

Bank accounts of funding

Pursuant to the terms of an account bank agreement dated the mortgages trust establishment date (the "**funding account bank agreement**") between funding, the funding security trustee, the funding cash manager and the funding account bank, the funding account bank has opened the following sterling denominated accounts in the name of funding:

- (a) a transaction account (the "**funding transaction account**") for day to day cash management purposes;
- (b) a deposit account (the "**funding GIC account**") for the purposes of holding all deposits (including any amounts in relation to the common funding reserve fund, any segregated funding reserve fund and, if established, the funding liquidity reserve fund but excluding any amounts posted as collateral by the basis rate swap provider pursuant to the terms of the floating basis rate swap agreement and any amounts in relation to the operating of the yield supplement account) which are not invested in authorised investments; and
- (c) a deposit account (the "**yield supplement GIC account**" and together with the funding transaction account and the funding GIC account, the "**funding accounts**") solely for the purposes of holding all deposits in relation to the operation of the yield supplement account and which are not invested in authorised investments.

Funding's interests in the funding accounts are secured for the benefit of the funding secured creditors pursuant to the terms of the funding security trust deed.

Funding, the funding security trustee, the funding cash manager and the funding account bank entered into:

- (a) a guaranteed investment contract (the "**funding GIC agreement**"), whereby the funding account bank agreed to pay a variable rate of interest on funds in the funding GIC account of 0.20 per cent. per annum below LIBOR for one-month sterling deposits; and
- (b) a guaranteed investment contract as amended from time to time (the "**yield supplement GIC agreement**"), whereby the funding account bank agreed to pay a variable rate of interest on funds in the yield supplement GIC account of 0.20 per cent. per annum below LIBOR for one-month sterling deposits.

If the short-term, unguaranteed and unsubordinated ratings of the funding account bank cease to be rated A-1 by S&P, P-1 by Moody's and F1 by Fitch, then (i) the funding accounts will be closed and similar accounts will be opened with a bank approved in writing by the funding security trustee that has the requisite ratings or (ii) the funding account bank will obtain an eligible guarantee of its obligations from a satisfactorily rated financial institution and such guarantee will comply with any applicable rating criteria.

Bank accounts of the issuer

Pursuant to the terms of an account bank agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**issuer account bank agreement**") between the issuer, the issuer security trustee, the issuer cash manager and the issuer account bank, the issuer account bank opened the following accounts in the name of the issuer:

- (a) a sterling denominated transaction account (the "**issuer sterling transaction account**") for day to day cash management purposes of all amounts denominated in sterling;
- (b) a euro denominated transaction account (the "**issuer euro transaction account**") for day to day cash management purposes of all amounts denominated in euro; and
- (c) a U.S. dollar denominated transaction account (the "**issuer dollar transaction account**" and together with the issuer sterling transaction account and the issuer euro transaction account, the "**issuer accounts**") for day to day cash management purposes of all amounts denominated in U.S. dollars.

To the extent that the issuer issues any notes in a currency other than sterling, euro or dollars, the issuer shall be required to open up a further issuer account in such other relevant currency.

The issuer's interests in the issuer accounts are secured for the benefit of the issuer secured creditors pursuant to the terms of the issuer security trust deed.

If the short-term, unguaranteed and unsubordinated ratings of the issuer account bank cease to be rated A-1 by S&P, P-1 by Moody's and F1 by Fitch, then (i) the issuer accounts will be closed and similar accounts will be opened with a bank approved in writing by the issuer security trustee that has the requisite ratings or (ii) the issuer account bank will obtain an eligible guarantee of its obligations from a satisfactorily rated financial institution and such guarantee will comply with any applicable rating criteria.

Tax deed of covenant

The obligations of funding and the issuer under the transaction documents are supported by a deed of covenant (the "**tax deed of covenant**") entered into on the first issue date under which, *inter alios*, funding and the issuer give certain representations, warranties and covenants in relation to their tax affairs each for the benefit of the funding security trustee and the issuer security trustee.

The tax deed of covenant is governed by English law.

ISSUER CASHFLOWS

Distribution of issuer available revenue receipts prior to enforcement of the issuer security

(A) Relevant definitions

References in this base prospectus to:

"issuer available revenue receipts" means:

- (i) in respect of any issuer payment date, the amount calculated by the issuer cash manager, on behalf of the issuer (or, following enforcement of the issuer security, on behalf of the issuer security trustee) on the trust calculation date immediately preceding that issuer payment date, equal to the sum of:

interest, fees and any other amount (excluding principal) paid by funding on the relevant funding payment date in respect of each loan note tranche;

amounts to be received by the issuer on the relevant issuer payment date under or in accordance with the then issuer swap agreements (excluding amounts received in respect of principal, amounts standing to the credit of the issuer swap collateral accounts (which shall be applied in accordance with the provisions of the relevant issuer swap credit support document) and early termination amounts applied or to be applied by the issuer in the purchase of one or more replacement swaps); and

interest payable on the issuer accounts and any income from authorised investments, in either case which has been or will be received on or before the relevant issuer payment date; or

- (i) in respect of any money market note exclusive payment date, the amount equal to any amounts received by the issuer on such money market note exclusive payment date under or in accordance with any issuer swap agreements (excluding amounts standing to the credit of the issuer swap collateral accounts (which shall be applied in accordance with the provisions of the relevant issuer swap credit support document) and early termination amounts applied or to be applied by the issuer in the purchase of one or more replacement swaps).

"issuer swap collateral" means any asset (including, without limitation, cash or securities) which is paid or transferred by an issuer swap provider to the issuer as collateral to secure the performance by such issuer swap provider of its obligations under the relevant issuer swap agreement together with any income or distributions received in respect of such asset and any equivalent or replacement of such asset into which such asset is transformed.

"issuer swap provider default" means the occurrence of an event of default or downgrade termination event (as defined in the relevant issuer swap agreement) where an issuer swap provider is the defaulting party or the affected party (as such terms are defined in the relevant issuer swap agreement).

"issuer swap default" means the occurrence of an event of default (as defined in the relevant issuer swap agreement) where the issuer is the defaulting party (as defined in the relevant issuer swap agreement).

(B) Distribution of issuer available revenue receipts prior to the enforcement of the issuer security

On each money market note exclusive payment date and prior to the enforcement of the funding security under the funding security trust deed and/or the issuer security under the issuer security trust deed, the issuer cash manager will, on behalf of the issuer, apply issuer available revenue receipts then received in payment of interest then due or overdue and payable on any money market notes to the holders of such money market notes.

On:

- (i) each issuer payment date; or
- (ii) in respect of amounts due to third parties by the issuer under paragraph (c) below, when due,

and prior to the enforcement of the funding security under the funding security trust deed and/or the issuer security under the issuer security trust deed and any issuer security trust deed supplement, the issuer cash manager will, on behalf of the issuer, apply issuer available revenue receipts in the following order of priority (the "**issuer pre-enforcement revenue priority of payments**"):

- (a) *first, pro rata and pari passu*, in payment of amounts due and payable to the issuer security trustee or to become due and payable to the issuer security trustee during the following issuer interest period in accordance with and pursuant to the terms of the transaction documents;
- (b) *second, pro rata and pari passu*, in payment of amounts:
 - (i) due and payable to the agent bank or to become due and payable to the agent bank during the following issuer interest period in accordance with and pursuant to the terms of the agency agreement;
 - (ii) due and payable to each paying agent or to become due and payable to each paying agent during the following issuer interest period in accordance with and pursuant to the terms of the agency agreement;
 - (iii) due and payable to the transfer agent or to become due and payable to the transfer agent during the following issuer interest period in accordance with and pursuant to the terms of the agency agreement;
 - (iv) due and payable to the registrar or to become due and payable to the registrar during the following issuer interest period in accordance with and pursuant to the terms of the agency agreement; and
 - (v) due and payable to any new currency swap provider in respect of the cost of entering into a replacement swap save to the extent such amount may be satisfied by a termination payment received by the issuer upon the termination of an issuer swap;
- (c) *third, pro rata and pari passu*
 - (i) in payment of amounts due and payable to any third party creditors of the issuer, or to become due and payable to any third party creditors of the issuer during the following issuer interest period, (other than those referred to later in the issuer pre-enforcement revenue priority of payments or, as the case may be, the issuer pre-enforcement principal priority of payments and other than in respect of amounts provided for in items (c)(ii) and (c)(iii) below) approved in writing by the issuer security trustee and of which the issuer cash manager has notice prior to the relevant issuer payment date, 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);
 - (ii) to set aside an amount by way of an accrual for the payment of any liability of the issuer for United Kingdom corporation tax in respect of income, profits or gains arising to it during the issuer interest period ending immediately prior to the issuer payment date; and
 - (iii) to pay and discharge any liability of the issuer for tax in respect of income, profits or gains arising to it in any issuer interest period but only to the extent that an accrual for this liability has not been made at item (c)(ii) on this or any previous issuer payment date;
- (d) *fourth, pro rata and pari passu*, in payment of amounts:
 - (i) due and payable to the issuer cash manager or to become due and payable to the issuer cash manager during the following issuer interest period, in accordance with and pursuant to the terms of the issuer cash management agreement;
 - (ii) due and payable to the issuer account bank or to become due and payable to the issuer account bank during the following issuer interest period, in accordance with and pursuant to the terms of the issuer account bank agreement; and

- (iii) due and payable to the issuer corporate services provider or to become due and payable to the issuer corporate services provider during the following issuer interest period, in accordance with and pursuant to the terms of the issuer corporate services agreement;
- (e) *fifth, pro rata and pari passu*, in payment of amounts:
- (i) due and payable (other than in respect of principal), if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class A notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer pre-enforcement revenue priority of payments); and
 - (ii) due or overdue and payable on such issuer payment date (other than in respect of principal) on each series of class A notes;
- (f) *sixth, pro rata and pari passu*, in payment of amounts:
- (i) due and payable (other than in respect of principal), if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class B notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer pre-enforcement revenue priority of payments); and
 - (ii) due or overdue and payable on such issuer payment date (other than in respect of principal) on each series of class B notes;
- (g) *seventh, pro rata and pari passu*, in payment of amounts:
- (i) due and payable (other than in respect of principal), if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class C notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer pre-enforcement revenue priority of payments); and
 - (ii) due or overdue and payable on such issuer payment date (other than in respect of principal) on each series of class C notes;
- (h) *eighth, pro rata and pari passu*, in payment of amounts:
- (i) due and payable (other than in respect of principal), if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class D notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer pre-enforcement revenue priority of payments); and

- (ii) due or overdue and payable on such issuer payment date (other than in respect of principal) on each series of class D notes;
- (i) *ninth, pro rata and pari passu*, in payment of amounts:
 - (i) due and payable (other than in respect of principal), if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class E notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer pre-enforcement revenue priority of payments); and
 - (ii) due or overdue and payable on such issuer payment date (other than in respect of principal) on each series of class E notes;
- (j) *tenth, pro rata and pari passu*, in payment of amounts:
 - (i) due and payable (other than in respect of principal), if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class F notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer pre-enforcement revenue priority of payments); and
 - (ii) due or overdue and payable on such issuer payment date (other than in respect of principal) on each series of class F notes;
- (k) *eleventh, pro rata and pari passu*, to pay to any holder of series of class RF notes the aggregate amounts of interest (and any other amounts other than in respect of principal) due or overdue and immediately payable on such issuer payment date in each series of class RF notes;
- (l) *twelfth, pro rata and pari passu*, to pay to each relevant issuer swap provider, any termination payment due and payable to such issuer swap provider following an issuer swap provider default by such issuer swap provider (to the extent that such payment is not satisfied under any of items (e), (f), (g), (h), (i) or (j) above);
- (m) *thirteenth*, to retain an amount equal to the issuer margin for such issuer interest period (less any amount set aside at item (c)(ii) above for corporation tax in respect of that issuer interest period), which amount may be distributed by the issuer at its election to its shareholders by way of dividend payment; and
- (n) *fourteenth*, to pay any amount remaining following the application of issuer available revenue receipts set forth in items (a) through (m) to funding as deferred subscription price.

In the event that any payment is to be made from issuer available revenue receipts by the issuer under the issuer pre-enforcement revenue priority of payments and the amount of the issuer available revenue receipts does not comprise a sufficient amount in the relevant currency in which such payment is to be made, the issuer shall convert any remaining amounts comprised in the issuer available revenue receipts into such currency at the then prevailing spot rate of exchange as may be required in order to be applied in or towards such payment.

Where any payment is to be made from the issuer available revenue receipts on an issuer payment date by the issuer to an issuer swap provider under the issuer pre-enforcement revenue priority of payments, the issuer available revenue receipts shall exclude the corresponding payment received from such issuer swap provider pursuant to the terms of the relevant issuer swap agreement on or before that issuer payment date in exchange for such payment to be made by the issuer.

Distribution of issuer available principal receipts

(A) Relevant definitions

References in this base prospectus to:

"**issuer available principal receipts**" means the amount (calculated by the issuer cash manager on behalf of the issuer (or, following the enforcement of the issuer security, on behalf of the issuer security trustee) on the trust calculation date immediately preceding that issuer payment date) equal to:

- (a) prior to the enforcement of the issuer security, the sum of:
 - (i) all principal amounts repaid by funding to the issuer under each loan note tranche during the period from (but excluding) the immediately preceding funding payment date to (and including) that funding payment date; and
 - (ii) all amounts in respect of principal (if any) to be received by the issuer on the relevant issuer payment date under or in accordance with the issuer swap agreements (excluding amounts standing to the credit of the issuer swap collateral accounts (which shall be applied in accordance with the relevant issuer swap credit support document) or early termination amounts applied or to be applied by the issuer in the purchase of one or more replacement swaps); and
- (b) following the enforcement of the issuer security, the amount to be repaid by funding to the issuer under each loan note tranche during the relevant issuer interest period and/or any amounts otherwise paid to or recovered by the issuer security trustee except for amounts standing to the credit of the issuer swap collateral accounts (which shall be applied in accordance with the relevant issuer swap credit support document) (or the receiver appointed on its behalf) representing principal on each series of notes in that period.

(B) Distribution of issuer available principal receipts prior to enforcement of the issuer security and/ or the funding security

On each issuer payment date prior to the enforcement of the issuer security and/or the funding security, the issuer, or the issuer cash manager on its behalf will apply any issuer available principal receipts in the following order of priority (the "**issuer pre-enforcement principal priority of payments**"):

- (a) *first, pro rata and pari passu*:
 - (i) prior to the occurrence of a trigger event, in priority from the series of class A notes with the earliest final maturity date to the series of class A notes with the latest final maturity date:
 - (A) *pro rata and pari passu* in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of such series of class A notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); then
 - (B) *pro rata and pari passu* to pay amounts of principal due or overdue and payable on such issuer payment date on such series of class A notes, save that the maximum amount payable in respect of any such series of class A notes on such issuer payment date is limited to the product of: (a) the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and (b) the relevant currency swap rate (if any, and if applicable as specified in the relevant final terms) of the applicable issuer swap for such series of class A notes;

- (ii) following the occurrence of a non-asset trigger event, in priority from the series of class A notes with the earliest final maturity date to the series of class A notes with the latest final maturity date:
 - (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any such series of class A notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); then
 - (B) *pro rata* and *pari passu*, in repaying each such series of class A notes until such series of class A notes has been repaid in full;
- (iii) following the occurrence of an asset trigger event, in priority:
 - (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class A notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); then
 - (B) *pro rata* and *pari passu*, in repaying each series of class A notes until such series of class A notes has been repaid in full;
- (b) *second, pro rata* and *pari passu*:
 - (i) prior to the occurrence of a trigger event, in priority:
 - (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class B notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and
 - (B) *pro rata* and *pari passu*, to pay amounts of principal due or overdue and payable on such issuer payment date on each series of class B notes, save that the maximum amount payable in respect of any series of class B notes on such issuer payment date is limited to the product of: (a) the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and (b) the relevant currency swap rate (if any, and if applicable as specified in the relevant final terms) of the applicable issuer swap for such series of class B notes;
 - (ii) following the occurrence of a trigger event, in priority:
 - (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class B notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and
 - (B) *pro rata* and *pari passu*, in repaying each series of class B notes until such series of class B notes has been repaid in full;

- (c) *third, pro rata and pari passu:*
- (i) prior to the occurrence of a trigger event, in priority:
 - (A) *pro rata and pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class C notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and
 - (B) *pro rata and pari passu*, to pay amounts of principal due or overdue and payable on such issuer payment date on each series of class C notes, save that the maximum amount payable in respect of any series of class C notes on such issuer payment date is limited to the product of: (a) the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and (b) the relevant currency swap rate (if any, and if applicable as specified in the relevant final terms) of the applicable issuer swap for such series of class C notes;
 - (ii) following the occurrence of a trigger event, in priority:
 - (A) *pro rata and pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class C notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and
 - (B) *pro rata and pari passu*, in repaying each series of class C notes until such series of class C notes has been repaid in full;
- (d) *fourth, pro rata and pari passu:*
- (i) prior to the occurrence of a trigger event, in priority:
 - (A) *pro rata and pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class D notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and
 - (B) *pro rata and pari passu*, to pay amounts of principal due or overdue and payable on such issuer payment date on each series of class D notes, save that the maximum amount payable in respect of any series of class D notes on such issuer payment date is limited to the product of: (a) the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and (b) the relevant currency swap rate (if any, and if applicable as specified in the relevant final terms) of the applicable issuer swap for such series of class D notes;
 - (ii) following the occurrence of a trigger event, in priority:
 - (A) *pro rata and pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class D notes, in accordance with and

pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and

- (B) *pro rata* and *pari passu*, in repaying each series of class D notes until such series of class D notes has been repaid in full;

(e) *fifth, pro rata and pari passu:*

- (i) prior to the occurrence of a trigger event, in priority:

- (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class E notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and

- (B) *pro rata* and *pari passu*, to pay amounts of principal due or overdue and payable on such issuer payment date on each series of class E notes, save that the maximum amount payable in respect of any series of class E notes on such issuer payment date is limited to the product of: (a) the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and (b) the relevant currency swap rate (if any, and if applicable as specified in the relevant final terms) of the applicable issuer swap for such series of class E notes;

- (ii) following the occurrence of a trigger event, in priority:

- (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class E notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and

- (B) *pro rata* and *pari passu*, in repaying each series of class E notes until such series of class E notes has been repaid in full;

(f) *sixth, pro rata and pari passu:*

- (i) prior to the occurrence of a trigger event, in priority:

- (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class F notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and

- (B) *pro rata* and *pari passu*, to pay amounts of principal due or overdue and payable on such issuer payment date on each series of class F notes, save that the maximum amount payable in respect of any series of class F notes on such issuer payment date is limited to the product of: (a) the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and (b) the relevant currency swap rate (if any, and if applicable as

specified in the relevant final terms) of the applicable issuer swap for such series of class F notes;

- (ii) following the occurrence of a trigger event, in priority:
 - (A) *pro rata* and *pari passu*, in payment of amounts due and payable and in respect of principal, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class F notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider whether as a result of an issuer swap provider default or an issuer swap default); and
 - (B) *pro rata* and *pari passu*, in repaying each series of class F notes until such series of class F notes has been repaid in full; and

(g) *seventh, pro rata* and *pari passu*:

- (i) prior to the occurrence of a trigger event *pro rata* and *pari passu* to pay amounts of principal due and payable on such issuer payment date on each series of class RF notes, save that the maximum amount payable in respect of any series of class RF notes on such issuer payment date is limited to the then principal amount received by the issuer from funding on such funding payment date as repayment of principal amounts then due and payable under the corresponding loan note tranche; and
- (ii) following the occurrence of a trigger event *pro rata* and *pari passu* in repaying each series of class RF notes until such series of class RF notes has been repaid in full.

Distribution of issuer available principal receipts and issuer available revenue receipts following enforcement of the issuer security and/or the funding security

On each money market note exclusive payment date, following the enforcement of the funding security under the funding security trust deed and/or the issuer security under the issuer security trust deed, the issuer cash manager will, on behalf of the issuer, apply issuer available revenue receipts then received in payment of interest then due or overdue and payable on any money market notes to the holders of such money market notes.

On each issuer payment date following enforcement of the issuer security and/or the funding security, the issuer cash manager (on behalf of the issuer security trustee) will apply amounts received or recovered by the issuer security trustee (or any receiver appointed on its behalf) (except for amounts standing to the credit of the issuer swap collateral account) in accordance with the following order of priority (the "**issuer post-enforcement priority of payments**" and together with the issuer pre-enforcement revenue priority of payments and the issuer pre-enforcement principal priority of payments, the "**issuer priorities of payments**"):

- (a) *first, pro rata* and *pari passu*, in payment of amounts due and payable to the issuer security trustee or to become due and payable to the issuer security trustee during the following issuer interest period in accordance with and pursuant to the terms of the transaction documents;
- (b) *second, pro rata* and *pari passu*, in payment of amounts:
 - (i) due and payable to the agent bank or to become due and payable to the agent bank during the following issuer interest period;
 - (ii) due and payable to each paying agent or to become due and payable to each paying agent during the following issuer interest period;
 - (iii) due and payable to the transfer agent or to become due and payable to the transfer agent during the following issuer interest period; and
 - (iv) due and payable to the registrar or to become due and payable to the registrar during the following issuer interest period,

each in accordance with and pursuant to the terms of the agency agreement;

(c) *third, pro rata and pari passu*, in payment of amounts:

- (i) due and payable to the issuer cash manager or to become due and payable to the issuer cash manager during the following issuer interest period, in accordance with and pursuant to the terms of the issuer cash management agreement;
- (ii) due and payable to the issuer account bank or to become due and payable to the issuer account bank during the following issuer interest period, in accordance with and pursuant to the terms of the issuer account bank agreement; and
- (iii) due and payable to the issuer corporate services provider or to become due and payable to the issuer corporate services provider during the following issuer interest period, in accordance with and pursuant to the terms of the issuer corporate services agreement;

(d) *fourth, pro rata and pari passu*:

- (i) in payment of amounts due and payable, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class A notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer post-enforcement revenue priority of payments); and
- (ii) to pay interest due or overdue and payable and to repay principal due and payable in respect of each series of class A notes until such series of class A notes has been repaid in full;

(e) *fifth, pro rata and pari passu*:

- (i) in payment of amounts due and payable, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class B notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer post-enforcement revenue priority of payments); and
- (ii) to pay interest due or overdue and payable and to repay principal due and payable in respect of each series of class B notes until such series of class B notes has been repaid in full;

(f) *sixth, pro rata and pari passu*:

- (i) in payment of amounts due and payable, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class C notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer post-enforcement revenue priority of payments); and

- (ii) to pay interest due or overdue and payable and to repay principal due and payable in respect of each series of class C notes until such series of class C notes has been repaid in full;
- (g) *seventh, pro rata and pari passu:*
 - (i) in payment of amounts due and payable, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class D notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer post-enforcement revenue priority of payments); and
 - (ii) to pay interest due or overdue and payable and to repay principal due and payable in respect of each series of class D notes until such series of class D notes has been repaid in full;
- (h) *eighth, pro rata and pari passu:*
 - (i) in payment of amounts due and payable, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class E notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer post-enforcement revenue priority of payments); and
 - (ii) to pay interest due or overdue and payable and to repay principal due and payable in respect of each series of class E notes until such series of class E notes has been repaid in full;
- (i) *ninth, pro rata and pari passu:*
 - (i) in payment of amounts due and payable, if any, to each issuer swap provider in relation to any swap transaction in respect of any series of class F notes, in accordance with and pursuant to the terms of the relevant issuer swap agreement (except for any termination payment or any part thereof due and payable to an issuer swap provider as a result of an issuer swap provider default by such issuer swap provider, save to the extent such termination payment may be satisfied by any payment received by the issuer from a replacement swap provider made to the issuer following a downgrade termination event in respect of such issuer swap as applied in accordance with this issuer post-enforcement revenue priority of payments); and
 - (ii) to pay interest due or overdue and payable and to repay principal due and payable in respect of each series of class F notes until such series of class F notes has been repaid in full;
- (j) *tenth, pro rata and pari passu,* to pay to each relevant issuer swap provider, any termination payment due and payable to such issuer swap provider following an issuer swap provider default by such issuer swap provider (to the extent that such payment is not satisfied under any of items (d)(i), (e)(i), (f)(i), (g)(i), (h)(i) or (i)(i) above);
- (k) *eleventh, pro rata and pari passu,* to pay to any holder of a series of class RF notes the aggregate amounts of interest and principal (and any other amounts) due or overdue and immediately payable on such issuer payment date in respect of each series of class RF notes until such series of class RF notes has been repaid in full;

- (l) *twelfth*, to pay any amount remaining following the application of principal and revenue set forth in paragraphs (a) through (k) above, to funding as deferred subscription price.

THE BASIS RATE SWAP AGREEMENT

General

The mortgage loans in the mortgage loan portfolio pay: (i) variable rates of interest that track the seller's standard variable rate; (ii) variable rates of interest that track the Barclays base rate; (iii) variable rates of interest that track the Bank of England's base rate; or (iv) a fixed rate of interest for a fixed period (after which they usually revert to a variable rate of interest linked to the seller's standard variable rate, Barclays base rate or the Bank of England's base rate). In addition, mortgage loans which may be included in the mortgage loan portfolio in the future may pay a variable rate of interest linked to other indices.

The MRCLN pays a variable rate of interest currently linked to the seller's standard variable rate and potentially, in whole or in part, to Barclays base rate.

The amount of mortgages trust revenue receipts that funding receives will fluctuate according to the interest rates applicable to the mortgage loans in the mortgages trust and to the interest rate applicable to the MRCLN. However, funding will be required to pay interest on the loan note tranches based on LIBOR for three-month sterling deposits.

The basis rate swap

To protect against the possible variance between the amount of mortgages trust revenue receipts it receives and the amount of interest it is required to pay under the loan note tranches, funding has entered into interest rate hedging arrangements (the "**basis rate swap**") with the basis rate swap provider pursuant to the terms of a 1992 ISDA Master Agreement (Multicurrency-Cross Border) (as published by ISDA) dated the mortgages trust establishment date (together with the schedule and confirmation and any amendment agreements thereto, the "**basis rate swap agreement**") between funding, the funding security trustee and the basis rate swap provider.

As noted in the section "*The Assignment of the Mortgage Loan and Related Security – The issue date mortgage loan portfolio*" the initial purchase price of a new mortgage loan portfolio shall be equal to the principal par value of the mortgage loans in such new mortgage loan portfolio. However, on any assignment date, certain fixed rate mortgage loans will have a market value that is less than the principal par value and accordingly, the seller shall, pursuant to the terms of the mortgage sale agreement and in addition to assigning the relevant fixed rate mortgage loans, on such assignment date or on any other date agreed by the mortgages trustee and the beneficiaries (such date in any event to be no later than the end of the then trust calculation period), pay to the mortgages trustee the mortgage purchase inducement fee for purchasing such fixed rate mortgage loans at their then principal par value. The mortgage purchase inducement fee shall be allocated between the beneficiaries according to their respective shares of the trust property as of the applicable assignment date but after also taking into consideration the then addition of such mortgage loans to the trust property and, to the extent to which the mortgages trustee is aware at such time, of any then or future contributions to be made by the beneficiaries during such trust collection period (see "*The Mortgages Trust – Mortgages trust revenue priority of payments*"). As consideration for entering into the relevant basis rate swap agreement that relates to such fixed rate mortgage loans (and on each assignment date potentially taking on an increased position), the basis rate swap provider may, pursuant to the terms of such basis rate swap agreement, charge funding at such time a premium equal to the funding basis rate swap premium amount and such amount shall be payable by funding on each such date on which funding receives a distribution from the mortgages trustee relating to any associated mortgage purchase inducement fee.

In addition, funding may from time to time enter into additional swap arrangements or add additional features to the swap arrangement described above in order to hedge against interest rate risks that may arise in connection with new mortgage products that the seller sells to the mortgages trustee at a later date.

Under the basis rate swap, Barclays (in its capacity as calculation agent) will calculate on the trust calculation date immediately preceding each funding payment date, in respect of each such funding payment date:

- (a) the swap provider amount; and
- (b) the funding amount.

The "**swap provider amount**" is calculated by applying LIBOR for three-month sterling deposits to the notional amount of the basis rate swap agreement.

The "**funding amount**" is calculated by applying the mortgage asset weighted average rate to the notional amount of the basis rate swap agreement.

Where:

- (i) "**fixed rate mortgage loan balance**" means, in respect of a trust calculation period, an amount equal to the aggregate of the current balances of the fixed rate mortgage loans in the mortgage loan portfolio as at the start of business on the first day of such trust calculation period or, if applicable, interim calculation periods;
- (ii) "**tracker rate mortgage account balance**" means, in respect of trust calculation period, an amount equal to the aggregate of the current balances of the tracker rate mortgage loans in the mortgage loan portfolio as at the start of business on the first day of such trust calculation period or, if applicable, interim calculation periods plus, to the extent that the interest rate on the whole or part of the reference mortgage reserves at such time is linked to the then Barclays base rate, the portion of the principal amount outstanding on the MRCLN at such time which represents the part of the reference mortgage reserves so linked;
- (iii) "**standard variable rate mortgage account balance**" means, in respect of a trust calculation period, an amount equal to the aggregate of the current balances of the standard variable rate mortgage loans in the mortgage loan portfolio as at the start of the business on the first day of such trust calculation period or, if applicable, interim calculation periods plus, to the extent that the interest rate on the reference mortgage reserves at such time is linked to the then Barclays base rate, the principal amount outstanding on the MRCLN at such time which represents the part of the reference mortgage reserves so linked;
- (iv) "**mortgage asset weighted average rate**" will be determined by dividing the sum of (a), (b) and (c) below by the sum of the aggregate mortgage loan balance and MRCLN principal amount outstanding as of the beginning of the immediately preceding trust calculation period or, if applicable, interim calculation periods:
 - (a) the average of the standard variable mortgage rates or their equivalent charged to existing borrowers on residential mortgage loans for the relevant trust calculation period or, if applicable interim calculation periods, after excluding the highest and lowest rate, of Abbey National plc, Alliance & Leicester plc, HBOS plc, Cheltenham & Gloucester plc, Nationwide Building Society, The Royal Bank of Scotland PLC and Northern Rock plc (and where those banks have more than one standard variable rate, the highest of those rates) plus a margin multiplied by the standard variable rate mortgage account balance;
 - (b) a blended rate multiplied by the fixed rate mortgage loan balance for the relevant trust calculation period, or if applicable, interim calculation periods; and
 - (c) the Bank of England Base Rate as of the beginning of the immediately preceding trust calculation period or, if applicable interim calculation periods, plus a margin multiplied by the tracker rate mortgage account balance; and
- (v) "**notional amount of the basis rate swap agreement**" on each trust calculation date means the sum of the aggregate mortgage loan balance and MRCLN principal amount outstanding as of the beginning of the immediately preceding trust calculation period or, if applicable, interim calculation periods times the funding share percentage applicable to such trust calculation period or interim calculation periods.

After the swap provider amount and the funding amount are calculated in relation to a funding payment date, the following payment, if any, will be made on that funding payment date:

- (a) if the swap provider amount is greater than the funding amount, then the basis rate swap provider will pay the difference to funding;

- (b) if the funding amount is greater than the swap provider amount, then funding will pay the difference to the basis rate swap provider; and
- (c) if the swap provider amount is equal to the funding amount, neither party will make any payment to the other party.

If a payment is to be made by the basis rate swap provider, once received by funding that payment will be included in the funding available revenue receipts and will be applied on the relevant funding payment date according to the relevant funding priority of payments. If a payment is to be made by funding, it will be made according to the relevant funding priority of payments.

Ratings downgrade of the basis rate swap provider

Pursuant to the terms of the basis rate swap agreement and in the event that the relevant ratings of the basis rate swap provider (or its respective guarantor, as applicable) is or are, downgraded by a rating agency below the required ratings specified in the basis rate swap agreement, and, where applicable, as a result of such downgrade, the then current ratings of any then existing notes to be issued by a loan note tranche holder would be adversely affected, the basis rate swap provider will, in accordance with and pursuant to the terms of the basis rate swap agreement, be required to take certain remedial measures which may include one or more of the following:

- (a) providing collateral for its obligations under the basis rate swap;
- (b) arranging for its obligations under the basis rate swap agreement to be transferred to a replacement basis rate swap provider with the ratings required by the rating agencies (as specified in the basis rate swap agreement);
- (c) procuring another entity with the ratings required by the relevant rating agency (as specified in the basis rate swap agreement) to become co-obligor in respect of its obligations under the basis rate swap; and/or
- (d) taking such other actions as the basis rate swap provider may agree with the relevant rating agency.

A failure to take such steps will allow funding to terminate the basis rate swap agreement.

Termination of the basis rate swap

The basis rate swap will terminate on the earlier of (i) the funding payment date falling in November 2056 or such other date as the basis rate swap provider, funding and the funding security trustee shall agree and (ii) the date on which all loan note tranches are repaid in full.

Other circumstances in which the basis rate swap may terminate include, *inter alia*, the following (each a "**basis rate swap early termination event**"):

- (a) if there is a failure by either party to pay any amounts due in accordance with the terms of the basis rate swap agreement and any applicable grace period has expired;
- (b) if certain insolvency events occur with respect to either party;
- (c) if a breach of a provision of the basis rate swap agreement by the basis rate swap provider is not remedied within the applicable grace period;
- (d) if a change of law results in the obligations of one of the parties becoming illegal;
- (e) in certain circumstances, if a deduction or withholding for or on account of taxes is imposed on payments under the basis rate swap, or if certain tax representations by either the issuer or the basis rate swap provider prove to have been incorrect or misleading in any material respect;
- (f) if the basis rate swap provider is downgraded and fails to comply with the requirements of the rating agencies' downgrade provisions contained in the basis rate swap agreement;

- (g) if the funding security trust deed or loan note tranche conditions are amended without the consent of the basis rate swap provider; and
- (h) if there is a redemption of any loan note tranche due to an optional early redemption of any corresponding series for regulatory or taxation reasons pursuant to conditions 7(d) and 7(e).

Upon the occurrence of a basis rate swap early termination event, funding or the basis rate swap provider may be liable to make a termination payment to the other. This termination payment will be calculated and made in sterling. The amount of any termination payment will be calculated by reference to market quotations (or loss in the event that a market quotation cannot be obtained in accordance with the basis rate swap agreement or would produce a commercially unreasonable result) for entering into a replacement swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties under the basis rate swap but for the occurrence of the relevant early termination date. Any such termination payment could be substantial.

Any termination payment to be made by funding to the basis rate swap provider will be made in accordance with the then relevant funding priority of payments. The application by funding of termination payments due to the basis rate swap provider may affect the funds available to pay amounts due to the loan note tranche holders (and thus to the holders of any notes to be issued

by the loan note tranche holders) (see "*Risk Factors – Effect of the obligation to pay termination payments on the basis rate swap agreement*" above).

In the event that the basis rate swap is terminated other than as a result of the service of loan note tranche enforcement notice or the redemption in full of loan note tranches, the funding cash manager shall use its best endeavours to enter into a replacement basis rate swap on terms acceptable to the rating agencies and the funding security trustee and with a swap provider whom the rating agencies have previously confirmed in writing to funding and the funding security trustee will not cause the then current ratings of any notes to be issued by any loan note tranche holder to be downgraded, withdrawn or qualified.

Taxation

All payments to be made by either party under the basis rate swap agreement are to be made without deduction or withholding for or on account of any tax unless such deduction or withholding is required by applicable law (as modified by the practice of any relevant governmental tax authority).

If funding is required to make such a deduction or withholding from any payment to be made by it under the basis rate swap agreement, funding is not obliged to make any additional payment to the basis rate swap provider in respect of any amounts so deducted or withheld.

If the basis rate swap provider is required to make such a deduction or withholding from any payment to be made by it under the basis rate swap agreement, the sum to be paid by the basis rate swap provider to funding will be increased to the extent necessary to ensure that, after any such deduction or withholding is made, the amount received by funding is equal to the amount that it would have received had such deduction or withholding not been made.

Governing law

The basis rate swap agreement is governed by English law.

THE ISSUER SWAPS

General

To protect the issuer against certain interest rate and/or currency risks in respect of amounts received from funding pursuant to the terms of the relevant loan note tranche and amounts payable by the issuer under a corresponding series of notes the issuer will on each issue date for a series (but only where it is required to hedge against any such interest rate and/or currency risks) enter into one or more swaps (each an "issuer swap") pursuant to the terms of one or more swap agreements (each, an "issuer swap agreement") with the relevant issuer swap provider(s) for such series (as identified in the applicable final terms).

(a) *Issuer swap*

Under each issuer swap to the extent received by the issuer, the issuer will pay to the relevant issuer swap provider:

- (i) on the applicable issue date and where a series of notes has been issued in a specified currency other than sterling, an amount in such specified currency equal to the gross proceeds of the issue of such series of notes; and
- (ii) on each issuer payment date and in accordance with the relevant issuer priority of payments:
 - (A) where a series of notes has been issued in a specified currency other than sterling, an amount in sterling equal to the principal payment (in the specified currency) to be made on the notes of such series on such issuer payment date, such amount to be calculated by reference to the relevant specified currency swap rate for such issuer swap; and/or
 - (B) an amount in sterling calculated by applying three month sterling LIBOR (or the relevant interpolated sterling LIBOR rate, as applicable) to the principal amount outstanding of the notes of such series; and

(b) *The relevant issuer swap provider will pay to the issuer:*

- (i) on the applicable issue date and where a series of notes has been issued in a specified currency other than sterling an amount in sterling equal to the gross proceeds of the issue of such notes, converted from the specified currency into sterling at the specified currency rate for such issuer swap; and/or
- (ii) on each issuer payment date and where a series of notes has been issued in a specified currency other than sterling, an amount in the specified currency equal to the principal payments to be made on such notes; and/or
- (iii) in the case of notes which are not also money market notes, on each issuer payment date an amount in the specified currency equal to the interest to be paid in the specified currency on such notes; and/or
- (iv) in the case of money market notes, on each money market note payment date an amount in the specified currency equal to the interest to be paid in the specified currency on such money market notes.

In the event the issuer fails to pay an amount (in part or in full) to a relevant swap provider pursuant to the relevant issuer swap agreement on any issuer payment date, the issuer swap provider will be entitled to reduce the amount it is required to pay to the issuer on such date in the same proportion as the proportion of the amount which the issuer has failed to pay.

(c) *Ratings downgrade of an issuer swap provider*

Pursuant to the terms of each issuer swap agreement and in the event that the relevant ratings of the applicable issuer swap provider or its credit support provider, as applicable, is or are

downgraded by a rating agency below the required ratings specified in the relevant issuer swap agreement, such issuer swap provider will, in accordance with and pursuant to the terms of the relevant issuer swap agreement, be required to take certain remedial measures which may include one or more of the following:

- (i) providing collateral for its obligations under the relevant issuer swap in accordance with the relevant issuer swap agreement and the issuer swap credit support document;
- (ii) arranging for its obligations under the relevant issuer swap agreement to be transferred to a replacement swap provider with the ratings required by the relevant rating agencies (as specified in the relevant issuer swap agreement);
- (iii) procuring another entity with the ratings required by the relevant rating agency (as specified in the relevant issuer swap agreement) to become guarantor or co-obligor in respect of its obligations under the relevant issuer swap in accordance with the relevant issuer swap agreement; and/or
- (iv) taking such other actions as such issuer swap provider may agree with the relevant rating agency.

A failure to take such steps will allow the issuer to terminate such issuer swap agreement.

(d) *Issuer swap credit support document*

If at any time an issuer swap provider is required to provide collateral in respect of any of its obligations under an issuer swap agreement it will do so under the terms of a 1995 ISDA Credit Support Annex (Bilateral Form – Transfer) entered into on or about the issue date between the issuer and such issuer swap provider with respect to the relevant issuer swap agreement (an "**issuer swap credit support document**"). Any such issuer swap credit support document will supplement, form part of and be governed by the relevant issuer swap agreement. The issuer swap credit support document will provide that, from time to time, subject to the conditions specified in the applicable issuer swap credit support document, the relevant issuer swap provider will make transfers of collateral to the issuer in support of its obligations under the relevant swap and the issuer will be obliged to return such collateral in accordance with the terms of the issuer swap credit support document.

Collateral amounts that may be required to be posted by the relevant issuer swap provider pursuant to the terms of the issuer swap credit support document may be delivered in the form of cash or securities ("**issuer swap collateral**"). Cash amounts will be paid into an account (an "**issuer swap collateral cash account**") and securities will be transferred to a securities account (an "**issuer swap collateral custody account**" and together with the issuer swap collateral cash account, the "**issuer swap collateral accounts**").

(e) *Termination of an issuer swap*

An issuer swap will terminate on the earlier of the issuer payment date specified in the relevant issuer swap agreement and the date on which all of the applicable notes are redeemed in full.

Other circumstances in which an issuer swap may terminate include, *inter alia*, the following (each an "**issuer swap early termination event**"):

- (i) if there is a failure by the issuer swap provider to pay any amounts due and payable in accordance with the terms of the relevant issuer swap agreement;
- (ii) if the issuer serves a notice of redemption pursuant to the applicable optional redemption provisions set out in the conditions of the notes;
- (iii) upon the occurrence of certain bankruptcy-related events (as provided in the relevant issuer swap agreement) of one of the parties or the merger of such issuer swap provider without an assumption of the obligations under the relevant issuer swap, or changes in law resulting in the obligations of one of the parties becoming illegal; and

- (iv) if such issuer swap provider is downgraded and fails to comply with the requirements of the ratings agencies' downgrade provisions contained in the relevant issuer swap agreement (as more particularly described above under "*Ratings downgrade of an issuer swap provider*").

Upon the occurrence of an issuer swap early termination event, the issuer or the relevant issuer swap provider may be liable to make a termination payment to the other party. The termination payment will be calculated and made in sterling. The amount of any termination payment will be calculated by reference to market quotations (or loss in the event that a market quotation cannot be obtained in accordance with the relevant issuer swap agreement or would produce a commercially unreasonable result) for entering into a replacement swap with the same terms and conditions that would have the effect of preserving the respective full payment obligations of the parties but for the occurrence of the relevant early termination date.

If any termination payment is due by the issuer to an issuer swap provider, then pursuant to its obligations under the relevant loan note tranche, funding shall pay to the issuer by way of fee an amount equal to the amount required by the issuer to pay such termination payment. Any termination payment will be made by the issuer in accordance with the relevant issuer 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 "*Risk Factors – Effect of the obligation to pay termination payments on the issuer swap agreements*").

If the issuer receives a termination payment from an issuer swap provider, then the issuer shall, where appropriate, use those funds towards meeting its costs in effecting currency exchanges at the spot rate of exchange until a new currency swap is entered into and/or to acquire a new currency swap. 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.

In the event that an issuer swap agreement is terminated other than as a result of the service of an enforcement notice or redemption in full of the relevant series of notes, the issuer shall use its best efforts to enter into a replacement swap in respect of the series of notes in order to provide the relevant hedging protection. Any replacement swap must be entered into on terms acceptable to the rating agencies, the issuer and the issuer security trustee and with a replacement swap provider that the rating agencies have previously confirmed in writing to the issuer and the issuer security trustee will not cause the then current ratings of any series of notes to be downgraded, withdrawn or qualified.

Taxation

All payments to be made by either party under an issuer swap agreement are to be made without deduction or withholding for or on account of any tax unless such deduction or withholding is required by applicable law (as modified by the practice of any relevant governmental tax authority).

If the issuer is required to make such a deduction or withholding from any payment to be made by it under an issuer swap agreement, the issuer is not obliged to make any additional payment to the relevant issuer swap provider in respect of any amounts so deducted or withheld.

If an issuer swap provider is required to make such a deduction or withholding from any payment to be made by it under the relevant issuer swap agreement, the sum to be paid by such issuer swap provider to the issuer will be increased to the extent necessary to ensure that, after any such deduction or withholding is made, the amount received by the issuer is equal to the amount that it would have received had such deduction or withholding not been made.

Transfer of an issuer swap agreement

An issuer swap provider will be entitled, as its option, to transfer its interest and obligations under the relevant issuer swap agreement to any other entity. Any such transfer will be subject to certain conditions including, among other things (i) that the transferee has the rating(s) required by the relevant rating agencies as specified in the relevant issuer swap agreement, or the transferee's performance under the relevant issuer swap agreement will be guaranteed by an entity with equivalent ratings, (ii) that the transfer must not cause an event of default or a termination event under the relevant issuer swap

agreement and (iii) if the transferee entity is located in a different legal jurisdiction to both the issuer and such issuer swap provider, that the ratings test has been satisfied in respect of the relevant series of notes.

Governing Law

Any issuer swap agreement and any issuer swap credit support document will be governed by English law.

THE FUNDING SECURITY AND FUNDING SECURITY TRUST DEED

Funding has granted security for its obligations under the global loan note and any related supplement to global loan note and the other transaction documents to which it is a party, in favour of the funding secured creditors on the mortgages trust establishment date. A summary of the material terms of the funding security trust deed is set out below. The summary does not purport to be complete and is subject to the provisions of the funding security trust deed.

The funding security trust deed has the following functions:

- (a) it sets out the covenants made by funding in favour of the funding security trustee (on behalf of the funding secured creditors);
- (b) it creates funding security in favour of the funding security trustee which the funding security trustee then holds on trust for each of the funding secured creditors (including any funding secured creditors that accede to the funding security interests in connection with loan note tranches in the future);
- (c) it sets out the enforcement procedures relating to a default by funding on its covenants under the transaction documents (including, without limitation, provisions relating to the appointment of a receiver);
- (d) it sets out the appointment of the funding security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- (e) it sets out how new creditors of funding can accede to the terms of the funding security trust deed.

Covenants of funding

The covenants made by funding under the funding security trust deed include, without limitation, that funding will pay all amounts due to each of the funding secured creditors as they become due (subject to limited recourse provisions) and that it will comply with its other obligations under the transaction documents.

Funding security

Under the funding security trust deed, funding has granted, *inter alia*, the following security interests in favour of the funding security trustee for itself and the other secured creditors (the "**funding security**") in respect of its obligations under the global loan note and any related supplement to the global loan note and the other transaction documents to which it is a party:

- (a) an assignment (which is likely to take effect as a floating charge) of the funding share of the trust property;
- (b) an assignment (which is likely to take effect as a floating charge) of all of its right, benefit and interest in the transaction documents to which funding is a party from time to time;
- (c) a first ranking fixed charge (which is likely to take effect as a floating charge) over all of the right, title, interest and benefit of funding in the funding GIC account, the funding transaction account, all amounts standing to the credit of those accounts from time to time and all authorised investments purchased from those accounts including all monies and income payable under them; and
- (d) a first floating charge over all of the property, assets and undertaking of funding not otherwise secured by any fixed security interest detailed above.

Enforcement

The funding security trust deed sets out the general procedures by which the funding security trustee may take steps to enforce the security created by funding so that the funding security trustee can protect the interests of each of the funding secured creditors.

The funding security trust deed provides that, when exercising its powers, trusts, authorities, duties and discretions, the funding security trustee shall act only at the request or direction of the issuer security trustee. The authority of the issuer security trustee to direct the funding security trustee derives from the issuer's assignment to the issuer security trustee of its rights under the funding security trust deed. The funding security trustee will only act if it is indemnified and/or secured to its satisfaction.

The funding security will become enforceable upon the occurrence of a loan note event of default under the relevant global loan note and related supplement to global loan note, **provided that**, if the funding security has become enforceable otherwise than by reason of a default in payment of any amount due in respect of the then most senior loan note tranche, the security trustee will not be entitled to dispose of all or part of the assets comprised in the funding security unless either:

- (a) a sufficient amount would be realised to allow a full and immediate discharge of all amounts owing in respect of all class A loan note tranches and all prior ranking amounts due by funding; or
- (b) the funding security trustee is of the sole opinion that the cashflow expected to be received by funding 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, to discharge in full over time all amounts owing in respect of all class A loan note tranches and all prior ranking amounts due by funding.

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

Funding post-enforcement priority of payments

Following service of a loan note tranche enforcement notice, the applicable funding priority of payments shall be the funding post-enforcement priority of payments in relation to amounts received or recovered by the funding security trustee or a receiver appointed on its behalf. This is set out in the funding cash management agreement (see "*The Loan Note Tranches and Funding Cashflows – Use of funding available principal receipts and funding available revenue receipts following enforcement of funding security*").

New issuers

If any new issuers are established to issue series of notes and accordingly to subscribe for loan note tranches from funding, such new issuers and other applicable creditors of funding will enter into deeds of accession or supplemental deeds in relation to the funding security trust deed which may, depending on the type of notes to be issued, require amendments, amongst other things, to any of the funding pre-enforcement revenue priority of payments, the funding pre-enforcement principal priority of payments and the funding post-enforcement priority of payments. Any such new issuers which accede to the funding security trust deed will share in the funding security granted by funding. Consent of existing funding secured creditors and issuer secured creditors will not be sought in relation to the accession of a new issuer or other relevant new funding secured creditor.

Appointment, powers, responsibilities and liabilities of the funding security trustee

The funding security trustee is appointed to act as trustee on behalf of the funding secured creditors on the terms and conditions of the funding security trust deed. It holds the benefit of the funding security created by the funding security trust deed on trust for each of the funding secured creditors in accordance with the terms and conditions of the funding security trust deed.

The funding security trustee may, without the consent or sanction of funding's secured creditors, concur with any person in making or sanctioning any modifications to the transaction documents:

- (a) which in the sole opinion of the funding security trustee it may be expedient to make, **provided that** the funding security trustee is of the opinion acting reasonably that such modification will not be materially prejudicial to the interests of the funding secured creditors or, if it is not of that

opinion in relation to any funding secured creditor, such funding secured creditor has given its consent to such modification; or

- (b) which in the opinion of the funding security trustee is made to correct a manifest error or an error established as such to the satisfaction of the funding security trustee or is of a formal, minor or technical nature.

The funding security 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 would not be adversely affected by such exercise.

In addition, the funding security trustee will give its consent to any modifications to the mortgage sale agreement, the administration agreement, the funding cash management agreement, the funding security trust deed (other than a basic terms modification as defined in the funding security trust deed), the basis rate swap agreement, a global loan note and related global loan note supplement, the funding account bank agreement and the master definitions schedule, that are requested by funding or the funding cash manager, **provided that** funding or the funding cash manager certifies to the funding security trustee that such modifications are required in order to accommodate, *inter alia*:

- (i) the entry by funding into new global loan notes or supplements to global loan notes, and/or the issue of new types of notes by new issuers and/or the addition of other relevant creditors to the transaction;
- (ii) the sale of new types of mortgage loans or related security to the mortgages trustee or the including of new types of mortgage reserves as reference mortgage reserves;
- (iii) changes to be made to the common funding reserve required amount, and/or the manner in which the common funding reserve fund is funded;
- (iv) changes to be made to any segregated funding reserve required amount, and/or the manner in which the segregated funding reserve fund is funded;
- (v) changes to be made to the funding liquidity reserve required amount, and/or the manner in which the funding liquidity reserve fund is funded; and
- (vi) changes to be made to the definitions of asset trigger event and non-asset trigger event,

and **provided further that**:

- (vii) in respect of the matter listed in paragraph (ii), the conditions precedent to the sale of new mortgage loans to the mortgages trustee, have been satisfied; and
- (viii) in respect of the matters listed in paragraphs (i) to (v) the funding security trustee has received written confirmation that the ratings test has been satisfied in relation to each series of notes then outstanding.

Funding security trustee's fees and expenses

Funding shall reimburse the funding security trustee for all its costs and expenses properly incurred in acting as funding security trustee. The funding security trustee shall be entitled to a fee payable quarterly in the amount agreed from time to time by the funding security trustee and funding. Funding has agreed to indemnify the funding 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:

- (a) the transaction documents; or
- (b) the funding security trustee's engagement as funding security trustee,

which it or any of its officers, employees or advisers may suffer as a result of funding failing to perform any of its obligations.

Funding will not be responsible under the funding security trust deed for any liabilities, losses, damages, costs or expenses resulting from fraud, negligence or wilful default by the security trustee or any of its officers, employees or advisers.

Retirement and removal

Subject to the appointment of a successor funding security trustee, the funding security trustee may retire after giving three months' notice in writing to funding. In order to be eligible to act as funding security trustee, such successor funding security trustee must agree to be bound by the terms of the funding security trust deed and must meet the applicable eligibility requirements under the funding security trust deed, 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, as amended. If within 60 days of having given notice of its intention to retire, funding has failed to appoint a replacement funding security trustee, the outgoing funding security trustee will be entitled to appoint its successor (**provided that** such successor is acceptable to the rating agencies and agrees to be bound by the terms of the funding security trust deed, and further **provided that** such rating agencies confirm that the current ratings of the notes shall not be either downgraded, reviewed or withdrawn as a result of such appointment).

Funding may remove the funding security trustee at any time **provided that** it has the consent, which must not be unreasonably withheld or delayed, of the issuer security trustee to the removal.

In addition, the funding security trustee may, subject to conditions specified in the funding security trust deed, appoint a co-trustee to act jointly with it.

Additional provisions of the funding security trust deed

The funding security trust deed contains a range of provisions regulating the scope of the funding security trustee's duties and liabilities. These include the following:

- (a) the funding security trustee is not responsible for the adequacy or enforceability of the funding security trust deed or the funding security interests created thereby or any other transaction document;
- (b) the funding security trustee is not required to exercise its powers under the funding security trust deed without being directed to do so by the issuer security trustee;
- (c) the funding security trustee may rely (without investigation or further inquiry) on documents provided by the mortgages trustee, funding and the funding 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;
- (d) the funding security trustee is not required to monitor compliance by funding with the transaction documents or whether a loan note event of default has occurred (and will be taken not to have knowledge of the occurrence thereof unless notified by a funding secured creditor in accordance with the funding security trust deed);
- (e) the funding security trustee will be taken not to have knowledge of the occurrence of a loan note event of default unless the funding security trustee has received written notice from a funding secured creditor stating that a loan note event of default has occurred and describing that loan note event of default;
- (f) any action taken by the funding security trustee under the funding security trust deed or any transaction document binds all of the funding secured creditors;
- (g) each funding secured creditor must make its own independent investigations without reliance on the funding security trustee, as to the affairs of funding;
- (h) the funding security trustee generally has no liability under or in connection with the funding security trust deed or any other transaction document, whether to a funding secured creditor or otherwise, other than to the extent to which (1) the liability is able to be satisfied in accordance

with the funding security trust deed out of the property held by it on trust under the funding security trust deed, and (2) it is actually indemnified for the liability; and

- (i) the funding security trustee is not responsible for any deficiency which may arise because it is liable to tax in respect of the proceeds of the funding security.

The funding security trustee has had no involvement in the preparation of any part of this base prospectus, other than any particular reference to the funding security trustee. The funding security trustee expressly disclaims and takes no responsibility for any other part of this prospectus. The funding 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 security trustee does not guarantee the performance of the notes or the payment of principal or interest on the notes.

Governing law

The funding security trust deed is governed by English law.

THE ISSUER SECURITY AND ISSUER SECURITY TRUST DEED

The issuer has granted issuer security in favour of the issuer secured creditors in respect of its obligations under the issuer security trust deed and any other transaction document to which it is a party, by entering into the issuer security trust deed with the issuer secured creditors.

The following section contains a summary of the material terms of the issuer security trust deed. The summary does not purport to be complete and is subject to the provisions of the issuer security trust deed. See also "*Risk Factors – Nature of security – fixed charges*" and "*Risk Factors – Nature of security – floating charges*" as a general description of certain risk factors relating to fixed and floating security.

The issuer security trust deed has the following primary functions:

- (a) it sets out the covenants made by the issuer in favour of the issuer security trustee (on behalf of the issuer secured creditors);
- (b) 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 (including any issuer secured creditors that accede to the issuer security interests in connection with any issue of notes);
- (c) it sets out the enforcement procedures relating to a default by the issuer of its covenants under the transaction documents (including, without limitation, provisions relating to the appointment of a receiver);
- (d) it sets out the appointment of the issuer security trustee, its powers and responsibilities and the limitations on those responsibilities; and
- (e) it sets out how new creditors of the issuer can accede to the terms of the issuer security trust deed.

Covenants of the issuer

The issuer security trust deed contains 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. The main covenants are that the issuer will pay all amounts due to each of the issuer secured creditors as they become due and that it will comply with its other obligations under the transaction documents.

Issuer security

Under the issuer security trust deed, the issuer has granted, *inter alia*, 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:

- (a) an assignment by way of first fixed security of the issuer's right, title, interest and benefit in and to the related loan note tranche for that series under the funding security trust deed and the related supplement to the global loan note for the related loan note tranche for that series;
- (b) an assignment by way of first fixed security of all of the issuer's right, title, interest and benefit in, to and under the transaction documents (except in relation to any issuer swap agreements, such assignment will be subject to any netting and set-off provisions contained therein);
- (c) a first fixed charge over all of the issuer's right, title, interest and benefit in and to all moneys now or at any time hereafter standing to the credit of the issuer accounts and any applicable swap collateral accounts, and any other account of the issuer from time to time, and all amounts standing to the credit of such accounts (including all interest accruing thereon from time to time) (which security may however take effect as a floating charge);
- (d) a first fixed charge over all of the issuer's right, title, interest and benefit in and to all authorised investments made by or on behalf of the issuer (including all moneys, income, other distributions and proceeds payable in respect of such authorised investments from time to time) (which security may however take effect as a floating charge); and

- (e) a first floating charge over the whole of the issuer's undertaking and all its property, assets and rights whatsoever and wheresoever, present and future, which will rank in point of priority behind all fixed security granted in favour of the issuer security trustee pursuant to the terms of the issuer security trust deed and any issuer security trust deed supplement (which, for the avoidance of doubt, will extend over all the assets and undertaking of the issuer situated in Scotland or governed by Scots law).

Enforcement

The issuer security trust deed sets out the general procedures by which the issuer security trustee may take steps to enforce the security created by the issuer so that the issuer security trustee can protect the interests of each of the issuer secured creditors.

The issuer security trust deed requires the issuer security trustee to consider the interests of each of the issuer secured creditors as to the exercise of its powers, trusts, authorities, duties and discretions, but requires the issuer security trustee in the event of a conflict between the interests of the noteholders and the interests of any other issuer secured creditor, to consider only, unless stated otherwise, the interests of the noteholders. (In relation to which see "*Risk Factors – Conflicts of interest – Between the class A notes, the class B notes, the class C notes, the class D notes, the class E notes, the class F notes and the class RF notes*").

The issuer security will become enforceable at any time following the occurrence of an issuer event of default 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 the issuer security has become enforceable otherwise than by reason of 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) 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 C notes or if the class C notes have been fully repaid, the class D notes or, if the class D notes have been fully repaid, the class E notes, or, if the class E notes have been fully repaid, the class F notes or if the class F notes have been fully repaid, the class RF notes; or
- (b) 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 C notes, or if the class C notes have been fully repaid, the class D notes or, if the class D notes have been fully repaid, the class E notes, or, if the class E notes have been fully repaid, the class F notes or if the class F notes have been fully repaid, the class RF notes.

Each of the issuer secured creditors (other than the noteholders, and the issuer security trustee) will agree under the issuer security trust deed 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.

The security interests expressed to be created by the issuer under the issuer security trust deed are binding on the creditors and a liquidator or an administrator of the issuer. Accordingly, in a liquidation or administration of the issuer, neither the issuer nor any of its creditors nor a liquidator or administrator of the issuer would be able to contest successfully the validity of such security, although that security may be subject to restrictions on enforcement. The issuer's and the issuer security trustee's (as trustee for the issuer secured creditors) respective interests may, however, be or become subject to prior third party rights, claims or interests. Neither a creditor of the issuer nor its liquidator or administrator would be able to challenge successfully the priority of the application of payments on enforcement of the issuer security trust deed.

Issuer post-enforcement priority of payments

Following service of an enforcement notice in relation to a series of notes the applicable issuer priority of payments shall be the issuer post-enforcement priority of payments in relation to amounts received or recovered by the issuer security trustee or a receiver appointed on its behalf. This is set out in the Issuer cash management agreement (see "*Issuer Cashflows – Distribution of issuer available principal receipts and issuer available revenue receipts following enforcement of the issuer security and/or the funding security*").

Appointment, powers, responsibilities and liabilities of the issuer security trustee

The issuer security trustee is appointed to act as trustee on behalf of the issuer secured creditors on the terms and conditions of the issuer security trust deed. It holds the benefit of the security created by the issuer security trust deed on trust for each of the issuer secured creditors in accordance with the terms and conditions of the issuer security trust deed.

The issuer security trustee may, without the consent or sanction of the issuer secured creditors, concur with any person in making or sanctioning any modifications to the transaction documents:

- (a) which in the opinion of the issuer security trustee it may be expedient to make, **provided that** the issuer security trustee is of the opinion that such modification will not be materially prejudicial to the interests of the issuer secured creditors or, if it is not of that opinion in relation to any issuer secured creditor, such issuer secured creditor has given its written consent to such modification; or
- (b) which in the opinion of the issuer security trustee is made to correct a manifest or proven error or an error established as such to the satisfaction of the issuer security trustee or is of a formal, minor or technical nature.

In addition, the issuer security trustee will give its consent to any modifications to the issuer security trust deed, any issuer swap agreement, any global loan note and any supplement to global loan note and any other transaction document to which the issuer is a party, that are requested by the issuer or the issuer cash manager, **provided that** the issuer or the issuer cash manager certifies to the issuer security trustee in writing that such modifications are required in order to accommodate, *inter alia*:

- (i) the entry by issuer into new global loan notes or any supplements to global loan notes and/ or the addition of other relevant creditors to the transaction documents;
- (ii) the issue (directly or indirectly) of a new series of notes;
- (iii) the sale of new types of mortgage loans or related security to the mortgages trustee or the including of new types of mortgage reserves as reference mortgage reserves; and
- (iv) changes to be made to the definitions of asset trigger event and non-asset trigger event,

and **provided further that**:

- (v) in respect of the matter listed in paragraph (iii), the conditions precedent to the sale of new mortgage loans to the mortgages trustee, have been satisfied; and
- (vi) in respect of the matters listed in paragraphs (i) to (v), the issuer security trustee has received written confirmation from each of the rating agencies the ratings test in relation to any series of notes then outstanding are satisfied.

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 quarterly 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:

- (a) the transaction documents; or
- (b) the issuer security trustee's engagement as security trustee,

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 security trust deed 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 security trust deed.

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 security trustee, such successor security trustee must agree to be bound by the terms of the issuer security trust deed and must meet the applicable eligibility requirements under the issuer security trust deed, 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, as amended. 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 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 security trust deed, and further **provided that** rating agencies confirm that the current ratings of the notes shall not be either downgraded, reviewed or withdrawn 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 each of the issuer secured creditors to the removal.

In addition, the issuer security trustee may, subject to the conditions specified in the issuer security trust deed, appoint a co-trustee to act jointly with it.

Additional provisions of the issuer security trust deed

The issuer security trust deed contains a range of provisions regulating the scope of the issuer security trustee's duties and liability. These include the following:

- (a) 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);
- (b) the issuer security trustee is not responsible for the adequacy or enforceability of the issuer security trust deed or the security interests created thereby or any other transaction document;
- (c) the issuer security trustee is not required to exercise its powers under the issuer security trust deed without being directed or requested to do so by an extraordinary resolution of the noteholders or in writing by the holders of at least 25 per cent. of the aggregate principal amount outstanding of the notes then outstanding or by any other issuer secured creditor (and then only to the extent that it is indemnified and/or secured to its satisfaction) **provided that:**
 - (i) the issuer security trustee will not act at the direction or request of the class B noteholders unless either so to do would not, in its sole opinion, be materially prejudicial

- to the interests of the class A noteholders or the action is sanctioned by an extraordinary resolution of the class A noteholders;
- (ii) the issuer security trustee will not act at the direction or request of the class C noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders and/or the class B noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders and/or the class B noteholders, as the case may be;
 - (iii) the issuer security trustee will not act at the direction or request of the class D noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders, the class B noteholders and/or the class C noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders, the class B noteholders and/or the class C noteholders, as the case may be;
 - (iv) the issuer security trustee will not act at the direction or request of the class E noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders, the class B noteholders, the class C noteholders and/or the class D noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders, the class B noteholders, the class C noteholders and/or the class D noteholders, as the case may be;
 - (v) the issuer security trustee will not act at the direction or request of the class F noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders and/or the class E noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders and/or the class E noteholders, as the case may be;
 - (vi) the issuer security trustee will not act at the direction or request of the RF noteholders unless either so to do would not, in its sole opinion, be materially prejudicial to the interests of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and/or the class F noteholders or the action is sanctioned by extraordinary resolutions of the class A noteholders, the class B noteholders, the class C noteholders, the class D noteholders, the class E noteholders and/or the class F noteholders, as the case may be; and
 - (vii) the issuer security trustee will not act at the direction or request of any other issuer secured creditor unless so to do would not, in its sole opinion, be materially prejudicial to the interests of the noteholders or the action is sanctioned by extraordinary resolutions of the noteholders and each of the other relevant secured creditors that ranks ahead of that issuer secured creditor (in issuer post-enforcement priority of payments) also consents to that action,
- (d) 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 transfer agent, the issuer account bank, the 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;
 - (e) the issuer security trustee is not required to monitor whether an issuer event of default has occurred or compliance by the issuer with the transaction documents;
 - (f) the issuer security trustee will be taken not to have knowledge of the occurrence of an issuer event of default unless the issuer security trustee has received written notice from an issuer secured creditor stating that an issuer event of default has occurred and describing that issuer event of default;
 - (g) the issuer security trustee may rely (without investigation or further inquiry) on any instructions or directions given to it by the issuer security trustee as being given on behalf of the relevant

class of noteholders without inquiry about compliance with the trust deed and shall not be liable for any loss or damage arising as a result of such reliance;

- (h) the issuer security trustee has no duties or responsibilities except those expressly set out in the issuer security trust deed or the transaction documents;
- (i) any action taken by the issuer security trustee under the issuer security trust deed or any of the transaction documents binds all of the issuer secured creditors;
- (j) each issuer secured creditor must make its own independent investigations, without reliance on the security trustee, as to the affairs of issuer and whether or not to request that the security trustee take any particular course of action under any transaction document;
- (k) 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;
- (l) 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;
- (m) the issuer security trustee has no liability under or in connection with the issuer security trust deed 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 security trust deed out of the property held by it on trust under the issuer security trust deed and (2) it is actually indemnified for the liability. This limitation of liability does not apply to a liability of the issuer security trustee to the extent that it is not satisfied because there is a reduction in the extent of the issuer security trustee's indemnification as a result of its fraud, negligence, wilful misconduct or breach of the terms of the issuer security trust deed; and
- (n) 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 enforcement.

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.

Trust indenture act prevails

The issuer security trust deed contains a provision that, if any other provision of the issuer security trust deed limits, qualifies or conflicts with another provision which is required to be included in the issuer security trust deed by, and is not subject to contractual waiver under, the US Trust Indenture Act of 1939, as amended, then the required provision of that Act will prevail.

Governing law

The issuer security trust deed is governed by English law.

THE ADMINISTRATOR AND THE ADMINISTRATION AGREEMENT

The administrator

The mortgages trustee and the seller, pursuant to the terms of an administration agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**administration agreement**"), appointed Barclays Bank PLC as the initial administrator of the mortgage accounts in the mortgage account portfolio. The administrator performs the day-to-day servicing of the mortgage accounts from its mortgage service centres and telephone banking and operations centres. The administrator will continue to administer other mortgage accounts in addition to those mortgage accounts in the mortgage account portfolio.

The administrator is continually reviewing the way in which it conducts its mortgage account administration business in order to ensure that it remains up-to-date and cost effective in a competitive market, and the administrator may therefore change its administration processes from time to time.

Administration of mortgage loans

Administration procedures include monitoring compliance with and administering the mortgage account features and facilities applicable to the mortgage accounts in the mortgage account portfolio, responding to customer inquiries and management of mortgage accounts in arrears. See "*The administration agreement*".

Under the mortgage loan conditions of the mortgage loans, borrowers generally must pay the monthly payment required under the mortgage loan conditions of the mortgage loans on each monthly payment date. Interest accrues in accordance with the mortgage loan conditions of each mortgage loan and is collected from borrowers monthly.

Under the mortgage reserve conditions of the mortgage reserves, borrowers generally are not required to repay the mortgage reserve account balance (including in respect of any mortgage reserve interest) unless the failure to pay any amount would cause the mortgage reserve account balance to exceed the then agreed mortgage reserve credit limit in relation to the relevant mortgage reserve. Interest on the mortgage reserves accrues in accordance with the mortgage reserve conditions of each mortgage reserve.

Determination of interest rates

In the case of variable rate mortgage loans, the seller determines the variable rate and the base rate from time to time. In the case of the variable rate mortgage loans and tracker rate mortgage loans which are sold to the mortgages trustee, except in certain limited circumstances, the seller, in its capacity as the administrator, will continue to determine the variable rate and the base rate applicable to such mortgage loans on behalf of the mortgages trustee, funding and/or the funding security trustee, funding (no. 2) and/or any funding (no. 2) security trustee (if appointed).

The administrator will take all necessary steps under the mortgage loans to notify borrowers of any change in the interest rates applicable to the mortgage loans (whether or not due to a change in the standard variable rate) and will continue to notify borrowers of any such change under the terms of the administration agreement.

Payments of interest and, in the case of repayment mortgage loans, repayments of principal, are payable monthly on the 16th day of each month with respect to such monthly period. Where a borrower defaults in the payment of interest and/or a repayment of principal under a mortgage loan, the administrator will follow the usual arrears procedures described in "*Arrears and default procedures*" below.

The administrator collects all payments due under or in connection with mortgage accounts in the mortgage account portfolio in accordance with its administration procedures in force from time to time, but having regard to the circumstances of the relevant borrower in each case.

Arrears practice in respect of the mortgage loans

In accordance with standard market practice in the UK mortgage loan servicing business, the administrator identifies a mortgage loan as being "**in arrears**" when, on any due date, the overdue amounts which were due on previous due dates equal, in the aggregate, one or more full monthly

payments. In making an arrear determination, the administrator calculates as of the date of determination the difference between:

- (a) the sum of all monthly payments that were due and payable by a borrower on any due date up to that date of determination; and
- (b) the sum of all payments actually made by that borrower up to that date of determination.

The administrator will determine that a mortgage loan is in arrears if the result arrived at by dividing that difference (if any) by the amount of the required monthly payment equals or exceeds 1. A mortgage loan will continue to be in arrears for each calendar month in which the result of the foregoing arrears calculation equals or exceeds 1, which result means that the borrower has missed payments that in the aggregate equal or exceed one monthly payment, and subsequent payments by that borrower (if any) have not reduced the amount of missed payments to less than one monthly payment. As the administrator determines its arrears classification based upon the number of full monthly payments that have been missed by a borrower, a borrower that has missed payments that in the aggregate equal or exceed 1 monthly payment (but for which the aggregate of missed payments is less than 2 monthly payments) would be classified by the administrator as being between 1-2 months in arrears, and so on. For example, if a borrower has made four monthly payments (either in consecutive months or throughout any period of time) each in an amount less than the required monthly amount, and the difference, for the purposes of arrears calculation, between the sum of the payments due and payable by that borrower and the sum of the payments actually made by that borrower (that difference then divided by that borrower's required monthly payment) is less than 1, then the administrator would not classify that borrower as being in arrears. However, if that borrower makes another payment (as an example, on the payment date in June 2006) that is less than the required monthly amount and which deficient payment, when aggregated with that borrower's prior deficient payments, results in the foregoing arrears calculation equalling or exceeding 1, then that borrower would be classified as being one month in arrears as of 1 July 2006. Furthermore, if the result of the foregoing arrears calculation continues to equal or exceed 1 (but remains less than 2) until September 2006, that borrower will continue to be classified as being between 1-2 month in arrears during that time period. The administrator will not classify the borrower as being two months in arrears until the beginning of the month following the monthly payment date in which the result of the arrears calculation equals or exceeds 2.

The formula that the administrator uses to determine arrears means therefore that there may be mortgage loans in the mortgage loan portfolio on which borrowers have paid less than the monthly payment due, but which have not been classified as being in arrears, as the aggregate of the amount of deficient payments does not equal or exceed one monthly payment. This also means that there may be a significant period of time between the due date on which a borrower pays less than the monthly payment due on that due date and the date that the aggregate amount of those deficient payments equals or exceeds one monthly payment, at which time the administrator will classify that mortgage loan as being in arrears. In addition, there may be a significant period of time between the classification of a borrower as being, for example, one month in arrears, and (assuming the borrower continues to make deficient monthly payments) the time at which those deficient payments in the aggregate result in the administrator classifying the borrower as being two months in arrears.

The arrears, as of the month end of each calendar month, are reported to the seller's credit committee. After a borrower has been classified as being in arrears, the administrator will contact the relevant borrower and ask for payment of the arrears. Unless such arrears are paid following the administrator's first notice to the borrower, the administrator will continue to contact the borrower asking for payment of the arrears. The administrator classifies a mortgage loan that is in arrears as "**non-performing**" (a "**non-performing mortgage loan**") if the arrears are more than the amount of the current monthly payment then due.

From time to time, based upon specific individual circumstances following previous unpaid arrears, the administrator may capitalise any outstanding amounts in arrears. In those circumstances, the administrator will set the arrears tracking balance to zero and the related mortgage loan will no longer be considered to be in arrears. The outstanding balance on the mortgage loan will be required to be repaid over the remaining term of such mortgage loan.

Arrears practice in respect of the mortgage reserves

In accordance with standard market practice in the UK banking sector, the administrator identifies a mortgage reserve as being "in arrears" when the mortgage reserve account balance is at any time £50 greater than the then mortgage reserve credit limit for such mortgage reserve.

Consequence of a borrower being in arrears

In seeking to control and manage arrears, the administrator from time to time enters into arrangements with borrowers regarding the arrears, including:

- (a) arrangements to make each monthly payment as it falls due plus an additional amount to pay the arrears over a period of time;
- (b) arrangements to pay only a portion of each monthly payment as it falls due; and
- (c) a deferment for a period of time of all payments, including interest and principal or parts of any of them.

The administrator may vary any of these arrangements from time to time at its discretion, the primary aim being to rehabilitate the borrower and recover the arrears.

Legal proceedings do not usually commence until the mortgage loan arrears are equal to at least three times the monthly payment then due. For mortgage reserve accounts, legal proceedings do not usually commence until the balance is £500 or more in excess of the mortgage reserve credit limit and where it has remained so for a period of six consecutive weeks. If both the mortgage loan and mortgage reserve are in arrears, legal proceedings would usually commence at whichever meets the criteria first. However, in many cases legal proceedings may commence later than this. Once legal proceedings have commenced, the administrator may send further letters to the borrower encouraging the borrower to enter into discussions to pay the arrears. The administrator may still enter into an arrangement with a borrower at any time prior to a court hearing, or it may adjourn a court hearing. If the administrator applies to the court for an order for possession following a default of the borrower, the court has discretion as to whether it will grant the order requiring the borrower to vacate the mortgaged property, and discretion as to the terms upon which the order is granted. If after the possession order has been granted the borrower does not voluntarily vacate the property, then the administrator will be required to request a warrant for execution by a court officer of the possession order. On average, the equivalent of 9 monthly payments may have been missed prior to the administrator obtaining possession, assuming no imposition of defences. Where a court order for possession is deferred to allow time for payment and the borrower subsequently defaults in making the payment, the administrator may take any action it considers appropriate, including entering into an arrangement with the borrower. In all cases, the administrator has a duty of care to the borrower to act reasonably.

The administrator has discretion to deviate from these arrears procedures.

After the administrator has been granted possession, the administrator may take any action it considers appropriate, subject to any fiduciary duties which the administrator may owe to the borrower, including but not limited to:

- (a) securing, maintaining or protecting the property and putting it into a suitable condition for sale;
- (b) creating (other than in Scotland) any estate or interest on the property, including a leasehold;
- (c) disposing of the property (in whole or in parts) or of any interest in the property, by auction, private sale or otherwise, for the best available price in the then current market conditions; and
- (d) letting the property for any period of time.

Subject as provided above, the administrator has discretion as to the timing of any of these actions, including whether to postpone the action for any period of time. The administrator may also carry out works on the property as it considers appropriate, including the demolition of the whole or any part of it.

The period between the administrator obtaining possession and sale of a mortgaged property is generally between four and six months. However, prospective noteholders should note that the administrator's ability to exercise its power of sale in respect of a mortgaged property is dependent upon mandatory legal restrictions as to notice requirements. In addition, there may be factors outside the administrator's control, such as whether the borrower contests the sale and the market conditions at the time of sale, that may affect the length of time between the administrator's decision to exercise its power of sale and final completion of the sale.

The administrator will apply the net proceeds of sale of the mortgaged property against the sums owed by the borrower, including any accumulated fees and interest to the extent necessary to discharge the mortgage as to the date of completion of such a sale. Where the funds arising from application of these procedures are insufficient to pay all amounts owing in respect of a mortgage account, the funds are applied first in paying interest and costs, and secondly in paying principal and costs. It is the policy of the administrator not to release the relevant title deeds held by the administrator and not to issue the relevant discharge documents in relation to a mortgaged property until the amounts owing under a mortgage account have been redeemed in full.

In relation to the mortgage account, the settlement monies are applied to amounts owed under the mortgage reserve in priority to the associated mortgage loan.

At this point the administrator will close the borrower's mortgage account. However, the borrower remains liable for any deficit remaining after the mortgaged property is sold. The administrator may pursue the borrower to the extent of any deficiency resulting from the sale if the administrator deems it appropriate to do so.

These arrears and security enforcement procedures may change over time as a result of a change in the administrator's business practices, legislative or regulatory changes or business codes of practice.

Arrears experience of the seller

Selected information in the applicable final terms

For each series, selected information about the then seller's overall mortgage account portfolio, the seller's experience in administering mortgage accounts in arrears and its repossession experience for residential mortgage accounts that were originated by the seller as at on or about the time of the relevant issue of such series of notes will be set out in the applicable final terms.

There can be no assurance that the arrears and repossession experience with respect to the mortgage loans comprising the trust property will correspond to the experience of Barclays overall mortgage account portfolio. Any stated statistics in the relevant final terms represent only the arrears and repossession experience for the years and interim period presented, whereas the arrears and repossession experience in relation to the mortgage loans in the trust property will depend on results obtained over the life of the mortgage loans in the trust property and in addition such statistics may include mortgage loans with a variety of payment type, product type and other characteristics that may not correspond to those of the mortgage loans in the trust property. Moreover, if the property market experiences an overall decline in property values so that the value of the properties in the mortgages trust falls below the current balances of the mortgage loans comprising the overall pool, the actual rates of arrears and repossessions could be significantly higher than those previously experienced by the administrator. In addition, other adverse economic conditions, whether or not they affect property values, may nonetheless affect the timely payment by borrowers of principal and interest and accordingly, the rates of arrears, repossessions and losses with respect to the relevant mortgage accounts. Investors should note that the United Kingdom has recently experienced relatively low and stable interest rates. If interest rates were to rise, it is likely that the rate of arrears and repossessions likewise would rise.

House price inflation has indirectly contributed to the improved arrears situation by enabling borrowers to sell at a profit if they encounter financial hardship. Recently, house price inflation has broken through its historical upward trend line and is expected to moderate. If it does not, then there is potential for a "boom-bust" situation similar to that which occurred in the period from 1988 to 1990, where housing prices rose substantially faster than inflation as housing turnover increased to record levels. At that time, the UK 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 tightened subsequently (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 mortgage.

The performance of new business of the seller and the arrears profiles are monitored monthly against various triggers. Whenever arrears rise and a trigger is exceeded the cause is reviewed and acted upon. In a continuing effort to reduce the level of mortgage arrears and to improve collection performance, the seller has developed behavioural scoring systems to target differing groups of customers in arrears according to risk.

The administration agreement

Appointment

Each of the mortgages trustee and the seller have appointed Barclays Bank PLC pursuant to the terms of the administration agreement to be their agent to exercise their respective rights, powers and discretions in relation to the mortgage accounts in the mortgage account portfolio and their related security and to perform their respective duties in relation to the mortgage accounts in the mortgage account portfolio and their related security.

In particular, pursuant to the terms of the administration agreement, the then administrator agreed with the mortgages trustee and the seller to:

- (a) on behalf of the mortgages trustee, to perform certain administrative functions in respect of the mortgage loans in the mortgage loan portfolio, including collecting payments under the mortgage loans and taking steps to recover arrears; and
- (b) on behalf of Barclays, to perform (unless Barclays is at such time insolvent) certain administrative functions in respect of the reference mortgage reserves, including collecting payments from borrowers and taking steps to recover arrears.

Funding, funding (no. 2), the funding security trustee and the funding (no. 2) security trustee (if appointed) are each a party to the administration agreement and consent to the appointment.

The administrator will continue to administer mortgage accounts which are not subject to this transaction. The administrator will agree to administer the mortgage accounts the subject of the transaction in the same manner as it administers mortgage accounts which are not subject to this transaction but remain on the books of the seller.

Subject to the provisions of the administration agreement, the mortgage accounts, the mortgage sale agreement, the mortgages trust deed, the MRCLN note purchase facility agreement and the other transaction documents, the administrator shall have the power to do or cause to be done any and all things which it reasonably considers necessary, convenient or incidental to the administration of the mortgage accounts in the mortgage account portfolio and their related security or the exercise of such rights, powers and discretions.

The administrator has agreed to comply with any reasonable directions, orders and instructions which any of the mortgages trustee or the seller may from time to time give to it in accordance with the provisions of the administration agreement (and, in the event of any conflict, those of the mortgages trustee shall prevail).

The administrator has agreed to administer and service the mortgage accounts and their related security in accordance with:

- (a) in respect of the mortgage loans, the mortgage loan conditions and the mortgages from time to time in force;

- (b) in respect of the reference mortgage reserves, the mortgage reserve conditions and the mortgages from time to time in force;
- (c) the administrator's administration procedures. The administrator's "**administration procedures**" are the administration, arrears and enforcement policies and procedures from time to time pursuant to which the administrator administers and enforces mortgage accounts and their related security which are beneficially owned by the seller; and
- (d) the terms and provisions of the administration agreement.

Undertakings by the administrator

Under the administration agreement, the administrator has been granted the full right, liberty and authority to determine and set the interest rates applicable to the mortgage loans which have been sold to the mortgages trustee, except in the limited circumstances set out in the administration agreement when (i) the mortgages trustee; and (ii) funding and/or the funding security trustee; or (iii) funding (no. 2) and/or any funding (no. 2) security trustee (if appointed) will be entitled to do so. The administrator may not at any time, without the prior written consent of (i) the mortgages trustee; and (ii) funding and the funding security trustee; or (iii) funding (no. 2) and any funding (no. 2) security trustee (if appointed), set or maintain the standard variable rate or the base rate (plus applicable margin above such base rate) for mortgage loans which form part of the mortgages trust at a rate which is higher than the then prevailing Barclays standard variable rate or, as applicable, Barclays base rate (plus applicable margin above such base rate).

Any of (i) the mortgages trustee; (ii) funding and the funding security trustee; or (iii) funding (no. 2) and any funding (no. 2) security trustee (if appointed), may terminate the authority of the administrator to set the standard variable rate and other discretionary rates applicable to mortgage loans included in the mortgages trust in certain limited circumstances set out in the administration agreement including upon the occurrence of any administrator termination event (as described below).

Pursuant to the terms of the administration agreement, the administrator has undertaken, *inter alia*, to:

- (a) determine on the trust calculation date immediately preceding each payment date, having regard to the aggregate of:
 - (i) the income which funding and funding (no. 2) would expect to receive during the next succeeding interest period;
 - (ii) the variable rate for mortgage loans forming part of the mortgages trust and the variable mortgage rates in respect of such mortgage loans which the administrator proposes to set under the administration agreement;
 - (iii) any funding revenue allocated yield supplement amount which funding is at such relevant time entitled to; and
 - (iv) all other resources available to funding and funding (no. 2) including the common funding reserve fund, any segregated funding reserve fund and the reserve fund of funding (no. 2) and, if established, the funding liquidity reserve fund and any liquidity reserve fund of funding (no. 2),

whether funding and funding (no. 2) would receive an amount of income during that related interest period which is less than the amount which is the aggregate of:

- (i) the amount of interest which will be payable by funding in order to fund (whether by payment to a swap provider or otherwise) the amount of interest payable in respect of the class A loan note tranches and all amounts ranking higher in priority to such amounts on the payment date falling at the end of that loan interest period;
- (ii) all other amounts payable by funding which rank equally with or in priority to interest due on any class A loan note tranches;

- (iii) the amount of interest which will be payable by funding (no. 2) in order to fund (whether by payment to a swap provider or otherwise) the amount of interest payable in respect of the highest rated tranche of any funding (no. 2) debt and all amounts ranking higher in priority to such amounts on the payment date falling at the end of that loan interest period; and
- (iv) all other amounts payable by funding (no. 2) which rank equally with or in priority to interest due on the highest rated tranche of any funding (no. 2) debt.

If the administrator determines that there will be a revenue shortfall in the foregoing amounts, it will give written notice to the mortgages trustee, funding, funding (no. 2), the funding security trustee and any funding (no. 2) security trustee (if appointed), within one business day of such determination, of the amount of such shortfall and recommend the variable rate and other discretionary rates which would, in the administrator's opinion, need to be set in relation to the mortgage loans within the mortgages trust in order for no such shortfall to arise, having regard to the obligations of funding and funding (no. 2) and having due regard to all legal and regulatory requirements from time to time in force including (without limitation) the principles of treating customers fairly and of responsible lending. If (i) the mortgages trustee; (ii) funding and the funding security trustee; or (iii) funding (no. 2) and any funding (no. 2) security trustee (if appointed), notify the administrator that, having regard to the obligations of funding and funding (no. 2), the variable rate and other discretionary rates for mortgage loans within the mortgages trust should be increased, the administrator will take all steps which are necessary, including publishing any notice required under the mortgage conditions, to effect such increase;

- (b) take all steps necessary under the mortgage loan conditions and the mortgage reserve conditions and applicable law to notify borrowers of each change in interest rates, whether due to a change in the variable rate and other discretionary rates (including any such change effected at the request of (i) the mortgages trustee, (ii) funding and/or the funding security trustee or (iii) funding (no. 2) and/or any funding (no. 2) security trustee (if appointed)). The administrator will also notify the mortgages trustee, funding, funding (no. 2), the funding security trustee and any funding (no. 2) security trustee (if appointed) of any change in the variable rate or any other discretionary rate;
- (c) maintain such records as are necessary to enforce each mortgage account and its related security and to keep and maintain, on a loan by loan basis, records and accounts on behalf of the mortgages trustee in relation to the mortgage loans;
- (d) keep or cause to be kept the mortgage account files and title deeds in safe custody (including if applicable in electronic form) and to the order of the mortgages trustee and in such a manner that they are readily identifiable and accessible;
- (e) provide the mortgages trustee and its agents and employees with access to the mortgage account files, and the mortgages trustee access to the title deeds, at all reasonable times;
- (f) assist the mortgages trustee cash manager, funding cash manager and issuer cash manager in the preparation of a quarterly report substantially in the form set out in the mortgages trustee cash management agreement, funding cash management agreement and (as applicable) issuer cash management agreement on, among other things, arrears. The administrator will regularly give to the mortgages trustee and the beneficiaries written details of mortgage loans that are in arrears;
- (g) take all reasonable steps to collect and recover payments due under or in respect of the mortgage loans and the related security, including instituting proceedings and enforcing any relevant mortgage loan, mortgage or any other related security in accordance with the administrator's administration procedures but having regard to the circumstances of the relevant borrower in each case; and
- (h) not knowingly fail to comply with any legal requirements in the performance of its obligations under the administration agreement.

Collection of payments

The administrator will undertake to ensure that all payments due under the mortgage loans which are included in the trust property will be made by the relevant borrower by direct debit, standing order, cheque or in cash into accounts in the name of the administrator held at Barclays Bank PLC (in such capacity the "**collection bank**") and other accounts (each a "**collection account**") which the administrator may utilise from time to time in accordance with and pursuant to the terms of the administration agreement, all of which will be held on trust by the seller for the mortgages trustee in accordance with an English law declaration of trust (the "**collection account declaration of trust**") dated the first transaction date between the seller, the mortgages trustee and Barclays Bank PLC.

Barclays, in its capacities as both seller and administrator, agrees to use its reasonable endeavours to credit any monthly payment made by a borrower to the relevant collection account within the following time limits:

- (a) in the case of any direct debit payment, by close of business on the London business day which immediately follows the day on which such amounts are received;
- (b) in the case of any payment by cash into a branch, within three London business days after the funds are received by such branch;
- (c) in the case of any payment by cheque where reference to the relevant borrower is provided, within two London business days following the day after such cheque is received by Barclays mortgage administration unit;
- (d) in the case of any payment by cheque where reference to the relevant borrower is not provided, by close of business on the next London business day after notification from the relevant bank of the identity of the relevant borrower;
- (e) in the case of any payment via a standing order or funds transfer from another bank account, including if any such payments have been effected via internet banking, within three London business days from the day the funds are remitted; and
- (f) in the case of any payment by cash, transfer payment from another account of the seller or cheque where reference to the relevant borrower is provided by close of business on the London business day which immediately follows the day on which such amounts are received by Barclays mortgage administration unit;
- (g) in the case of any payment by debit card or credit card (accepted in the case where a mortgage is in arrears), within two London business days following the day when such funds are requested.

In addition, any payments towards a mortgage reserve are credited the day that such payments are collected by Barclays.

Payments from borrowers under mortgage loans originated by the seller which are not intended to be sold to the mortgages trustee are also paid into and flow through the collection accounts.

Amounts paid into the collection accounts will be held on trust by the seller for the relevant beneficiaries (including the mortgages trustee). The trusts in favour of the mortgages trustee are in respect of all amounts credited to the collection accounts which represent receipts in respect of mortgage loans which are sold to the mortgages trustee and included in the trust property.

Amounts standing to the credit of the collection accounts will be transferred within three working days by the administrator to the mortgages trustee transaction account.

If Barclays Bank PLC in its capacity as collection account bank ceases to have a short-term rating by S&P of at least A-2 or a long-term rating by Moody's of at least Baa3, the collection account bank shall, at its own cost and expense, either: (i) find a suitably rated replacement collection account bank that shall enter into a declaration of trust on substantially the same terms as the seller collection account declaration of trust made on 7 November 2006, or (ii) obtain a guarantee of its obligations (in accordance with S&P criteria) in relation to the collection account from a financial institution having appropriately rated short-term unsecured and unsubordinated debt obligations, or (iii) take such other remedial measures provided

that the issuer receives confirmation from the rating agencies (other than Fitch) that such measures will not adversely affect the then current ratings of the notes, in each case or in any event within thirty (30) days of any loss of such ratings, and the issuer will notify Fitch of any such remedial measures.

Amounts standing to the credit of the mortgages trustee transaction account will be transferred (subject to retaining a minimum balance of £1 in such account) on a weekly basis by the funding cash manager to the mortgages trustee GIC account.

In the case of monthly payments which are made by direct debit, the administrator initially credits the applicable collection account with the full amount of the direct debit. If an unpaid direct debit is returned in circumstances where the administrator has credited to the mortgages trustee transaction account the amount of the monthly payment, the administrator will be permitted to reclaim from the mortgages trustee transaction account the corresponding amounts previously credited.

Redemption

Under the administration agreement, the administrator will be responsible for handling the procedures connected with the redemption of mortgage accounts and will be authorised to release the relevant title deeds to the person or persons entitled thereto upon redemption.

Fees

The administrator will be entitled to receive a fee for servicing the mortgage loans. On each distribution date, the mortgages trustee will pay to the administrator an administration fee of 0.08 per cent. per annum (inclusive of any VAT) on the amount equal to the sum of:

- (i) "H" (as defined in "*The Mortgages Trust – Funding share of trust property (trust determination date recalculation)*") as at the then immediately preceding trust determination date multiplied by the then funding share percentage (or, as applicable, weighted average funding share percentage); and
- (ii) "H" (as defined in "*The Mortgages Trust – Funding (no. 2) share of trust property (trust determination date recalculation)*") as at the then immediately preceding trust determination date multiplied by the then funding (no. 2) share percentage (or as applicable weighted average funding (no. 2) share percentage),

but only to the extent that the mortgages trustee has sufficient funds to pay such amount in accordance with the mortgages trustee's allocation of revenue receipts. The unpaid balance (if any) is carried forward until the next succeeding distribution date and, if not paid before such time, is payable on the latest occurring final maturity date of the loan note tranches or funding (no. 2) debt, or on their earlier repayment in full by funding and funding (no. 2) (as applicable). The administration agreement also provides for the administrator to be reimbursed for all reasonable out-of-pocket expenses and charges properly incurred by the administrator in the performance of its services under the administration agreement.

Removal or resignation of the administrator

The appointment of the administrator may be terminated by funding or funding (no. 2) and/or the seller (in its capacity as a beneficiary, but in the case of the seller only with the prior written consent of the funding security trustee or any funding (no. 2) security trustee (if appointed)) immediately upon written notice to the administrator, on the occurrence of certain events (each an "**administrator termination event**") including:

- (a) the administrator fails to pay any amount due and payable by it and such failure is not remedied for a period of 5 London business days after the administrator becomes aware of the default;
- (b) subject as **provided further** in the transaction documents, the administrator fails to comply with any of its other obligations under the administration agreement which is materially prejudicial to the interests of the holders of the notes and any new notes and such failure is not remedied for a period of 20 days after the administrator becomes aware of the default;

- (c) if at any time required under any UK mortgage regulatory regime the administrator fails to obtain the necessary licence or regulatory approval enabling it to continue administering mortgage loans; or
- (d) the occurrence of an insolvency event in relation to the administrator.

Upon termination of the appointment of the administrator, funding or funding (no. 2) and/or the seller (in its capacity as a beneficiary, but in the case of the seller only with the prior written consent of the funding security trustee or any funding (no. 2) security trustee (if appointed)) will agree to use its or their reasonable endeavours to appoint a substitute administrator.

In addition, subject to the fulfilment of certain conditions including, without limitation, that a substitute administrator has been appointed by funding or funding (no. 2) and/or the seller (in its capacity as a beneficiary, but in the case of the seller only with the prior written consent of the funding security trustee or any funding (no. 2) security trustee (if appointed)) (and in the event of failure to agree, by the funding security trustee or any funding (no. 2) security trustee (if appointed)), the administrator may voluntarily resign by giving not less than twelve months' notice of termination to the mortgages trustee and the beneficiaries.

Any such substitute administrator (whether appointed upon a termination of the appointment of, or the resignation of, the administrator) is required to:

- (a) if possible, have experience administering mortgage loans secured on residential mortgaged properties in England, Wales, Northern Ireland and Scotland; and
- (b) enter into a deed on substantially the same terms as the provisions of the administration agreement.

It should be noted that if Barclays is at such time insolvent any substitute administrator will, pursuant to the terms of the administration agreement, only be required to continue to administer the mortgage loans in the mortgage loan portfolio and not, on behalf of Barclays, to perform any administrative functions in relation to the mortgage reserves.

In addition, the then current ratings (if any) of any notes may not adversely be affected as a result of the appointment of the substitute administrator, unless otherwise agreed by an extraordinary resolution of the holders of the relevant class of the notes.

Forthwith upon termination of the appointment of the administrator, the administrator must deliver the title deeds, the mortgage loan files and all books of account and other records maintained by the administrator relating to the mortgage loans and/or the related security to, or at the direction of, the mortgages trustee.

The administration agreement will terminate automatically upon a termination of the mortgages trust when funding and funding (no. 2) no longer have any interest in the trust property.

Delegation by the administrator

The administrator may, in some circumstances including with the prior written consent of the mortgages trustee and after consultation with funding, funding no. 2, the funding security trustee and any funding (no. 2) security trustee (if appointed) as applicable, delegate or subcontract the performance of any of its obligations or duties under the administration agreement. Upon the appointment of any such delegate or sub-contractor the administrator will nevertheless remain responsible for the performance of those duties to funding, funding (no. 2), the mortgages trustee, the funding security trustee and any funding (no. 2) security trustee (if appointed).

Barclays currently delegates, and will continue to do so in relation to its role as administrator certain administrative functions to Intelenet Global Services Private Limited.

In addition, any substitute administrator will at all times be able to delegate its role in servicing the reference mortgage reserves to Barclays (and if Barclays is at such time insolvent such administrator will no longer have any duty to service the reference mortgage reserves).

Use of third party software by the administrator

The administrator (as licensee) is currently party to a software licensing agreement (the "**software licensing agreement**") between, *inter alios*, Barclays and Countrywide JV Technology Holdings Limited (as licensor). Pursuant to the terms of the software licensing agreement, the administrator is permitted to use a number of software applications (in relation to both core and non-core systems) and the licensor is required to supply certain development and support services to the administrator in relation to such software. The current software licensing agreement is due to expire on 30 April 2010. The administrator has yet to determine as to whether it shall seek a renewal of such agreement and/or the purchase or development of other software packages from either an internal or third party source. Pursuant to the terms of the administration agreement, the administrator is required to maintain and have in place all necessary software and other facilities required to be able to carry out its role as administrator of the mortgage accounts.

Governing law

The administration agreement is governed by English law.

CASH MANAGEMENT FOR THE MORTGAGES TRUSTEE

General

Pursuant to the terms of a cash management agreement dated on the mortgages trust establishment date (as amended from time to time) (the "**mortgages trustee cash management agreement**") between the mortgages trustee and Barclays in its capacity as the mortgages trustee cash manager, the mortgages trustee cash manager has been appointed to provide cash management services to the mortgages trustee.

Cash management services provided in relation to the mortgages trust

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

- (a) determining the current shares and share percentages of funding, funding (no. 2) and the seller in the trust property (including the relevant weighted average funding share percentage, the relevant weighted average funding (no. 2) share percentage and the relevant weighted average seller share percentage, as applicable) in accordance with the terms of the mortgages trust deed;
- (b) determining the amount of losses incurred on the mortgage loans;
- (c) determining the amount of mortgage reserve principal loss reductions incurred on the MRCLN;
- (d) maintaining, *inter alia*, the following ledgers:
 - (i) ledgers which records the current shares of the seller, funding and funding (no. 2) in the trust property (the "**seller share ledger**", the "**funding share ledger**" and the "**funding (no. 2) share ledger**" respectively);
 - (ii) a ledger which records losses on the mortgage loans in the mortgage loan portfolio (the "**losses ledger**");
 - (iii) a ledger which records mortgage reserve principal loss reductions on the principal amount outstanding under the MRCLN (the "**mortgage reserve principal loss reduction ledger**");
 - (iv) a ledger which records mortgages trust principal receipts on the mortgage loans in the mortgage loan portfolio and on the MRCLN, payments of principal from the mortgages trustee GIC account to funding, funding (no. 2) and the seller (the "**principal ledger**");
 - (v) a ledger which records mortgage loan principal receipts on the mortgage loans in the mortgage loan portfolio (the "**mortgage loan principal ledger**");
 - (vi) a ledger which records MRCLN principal receipts on the MRCLN (the "**MRCLN principal ledger**");
 - (vii) a ledger which records mortgages trust revenue receipts on the mortgage loans in the mortgage loan portfolio and on the MRCLN, and payments of interest on the mortgages trustee GIC account and the mortgages trustee transaction account (the "**revenue ledger**");
 - (viii) a ledger which records mortgage loan revenue receipts on the mortgage loans in the mortgage loan portfolio (the "**mortgage loan revenue ledger**");
 - (ix) a ledger which records MRCLN revenue receipts on the MRCLN (the "**MRCLN revenue ledger**");
 - (x) a ledger which records increases and decreases to the principal amount outstanding on the MRCLN from time to time (the "**MRCLN ledger**");
 - (xi) a ledger which records additional MRCLN advances in relation to the MRCLN (the "**additional MRCLN advances ledger**"); and

- (xii) a ledger which records any contributions made to the mortgages trustee by any of the beneficiaries (a "**contributions ledger**"), divided into further sub-ledgers which record any initial contributions (an "**initial contributions ledger**"), further contributions (a "**further contributions ledger**"), MRCLN contributions (a "**MRCLN contributions ledger**") and purchase contributions (a "**purchase contributions ledger**") made to the mortgages trustee,
- (e) procuring the administrator to provide it with the information it requires to carry out its duties in relation to the mortgages trustee, including (without limitation) information relating to the mortgage loan principal receipts, mortgage loan revenue receipts, MRCLN principal receipts and MRCLN revenue receipts and information relating to the amounts which the beneficiaries need to contribute to the mortgages trustee for the mortgages trustee to make further payments to the seller under the mortgage sale agreement or to make additional MRCLN advances to the seller under the MRCLN note purchase facility agreement;
- (f) calculating and distributing the mortgages trustee available revenue receipts and the mortgages trustee available principal receipts to funding, funding (no. 2) and the seller in accordance with the terms of the mortgages trust deed;
- (g) providing the mortgages trustee, funding, funding (no. 2), the funding security trustee, any funding (no. 2) security trustee (if appointed) and the rating agencies with a regular report in relation to the mortgages trustee;
- (h) providing the mortgages trustee, funding and funding (no. 2) with regular management accounts; and
- (i) operating the mortgages trustee transaction account and the mortgages trustee GIC account.

Compensation of the mortgages trustee cash manager

The mortgages trustee cash manager is paid an annual fee of £100,000 for its services which is paid in twelve equal instalments monthly in arrear on each distribution date. The fee is inclusive of any VAT.

In addition, the mortgages trustee cash manager is entitled to be indemnified for any expenses or other amounts properly incurred by it in carrying out its duties. The mortgages trustee cash manager is paid by the mortgages trustee in accordance with and subject to the terms of the mortgages trust deed.

Resignation of the mortgages trustee cash manager

The mortgages trustee cash manager may resign only on giving twelve months' notice to the mortgages trustee and provided the mortgages trustee consents in writing to the mortgages trustee cash manager's resignation and **provided further that**:

- (a) a substitute mortgages trustee cash manager has been appointed and a new mortgages trustee cash management agreement is entered into on terms satisfactory to the mortgages trustee; and
- (b) the then current ratings of each outstanding series of notes and any outstanding funding (no. 2) associated debt would not be adversely affected as a result of that replacement.

Termination of appointment of the mortgages trustee cash manager

Funding, funding (no. 2) and/or the seller (in its capacity as a beneficiary of the mortgages trust, but in the case of the seller only with the prior written consent of the funding security trustee or any funding (no. 2) security trustee (if appointed)) may, upon written notice to the mortgages trustee cash manager, terminate the mortgages trustee cash manager's rights and obligations immediately if any of the following events occurs:

- (a) the mortgages trustee cash manager defaults in the payment of any amount due and fails to remedy such default for a period of five London business days after the earlier of becoming aware of the default and receiving a written notice from the funding security trustee or any funding (no. 2) security trustee (if appointed);

- (b) the mortgages trustee cash manager fails to comply with any of its other obligations under the mortgages trustee cash management agreement which the funding security trustee or any funding (no. 2) security trustee (if appointed) determines to be materially prejudicial to the holders of any series of notes or the holders of any debt to be issued by any person holding any debt of funding (no. 2) and does not remedy that failure within 20 days after the earlier of becoming aware of the failure and receiving written notice from the funding security trustee or any funding (no. 2) security trustee (if appointed); or
- (c) the mortgages trustee cash manager suffers an insolvency event.

Upon termination of the appointment of the mortgages trustee cash manager, the mortgages trustee will agree to use its reasonable endeavours to appoint a substitute mortgages trustee cash manager. Any such substitute mortgages trustee cash manager will be required to enter into a mortgages trustee cash management agreement on substantially the same terms as the provisions of the mortgages trustee cash management agreement and the appointment of such substitute mortgages trustee cash manager and all other documentation is conditional upon the prior satisfaction of the ratings test in respect of each series of notes and any funding (no. 2) associated debt.

If the appointment of the mortgages trustee cash manager is terminated or it resigns, the mortgages trustee cash manager must deliver its books of account and other documentation relating to the mortgage loans and the MRCLN and any monies held on behalf of the mortgages trustee, funding, funding (no. 2), the funding security trustee or any funding (no. 2) security trustee (if appointed) to or at the direction of the mortgages trustee, funding, funding (no. 2), the funding security trustee or any funding (no. 2) security trustee (if appointed), as the case may be. The mortgages trustee cash management agreement will terminate automatically when funding and funding (no. 2) have no further interest in the trust property and all loan note tranches or funding (no. 2) debt which have been issued have been repaid or otherwise discharged.

Governing law

The mortgages trustee cash management agreement is governed by English law.

CASH MANAGEMENT FOR FUNDING

General

Pursuant to the terms of a cash management agreement dated on the first issue date (as amended from time to time) (the "**funding cash management agreement**") between funding and Barclays in its capacity as the funding cash manager, the funding cash manager has been appointed to provide cash management services in relation to funding.

Cash management services provided to funding

The funding cash manager's duties in relation to funding include, but are not limited to:

- (a) determining no later than the trust calculation date immediately preceding the relevant funding payment date:
 - (i) the amount of funding available revenue receipts to be applied to pay interest and fees in relation to any loan note tranche on that relevant funding payment date;
 - (ii) the amount of funding available principal receipts to be applied to repay any loan note tranche on that relevant funding payment date;
 - (iii) the accumulation period with respect to any bullet pay loan note tranche;
 - (iv) the controlled deposit amount to be deposited to the principal funding ledger for any bullet pay loan note tranche during its accumulation period; and
 - (v) the amount of funding available revenue receipts to be applied to pay, in accordance with and pursuant to the terms of the basis rate swap agreement, interest amounts to the basis rate swap provider on the relevant funding payment date,
- (b) maintaining, *inter alia*, the following ledgers on behalf of funding:
 - (i) the common funding reserve ledger, which records the amount credited to the common funding reserve fund and any subsequent withdrawals and deposits;
 - (ii) any segregated funding reserve ledger required to be established, which will record the amount credited to any segregated funding reserve fund and any subsequent withdrawals and deposits;
 - (iii) a yield supplement support ledger in relation to each yield supplement supported mortgage loan, which records the amount credited to and any subsequent withdrawals and deposits from the yield supplement account in relation to each such yield supplement supported mortgage loan;
 - (iv) any principal funding ledger required to be established for a bullet pay loan note tranche, which will record any controlled deposit amounts accumulated in respect of the redemption of such bullet pay loan note tranche and any debits or credits to be made to such principal funding ledger on a funding payment date;
 - (v) the excess principal ledger, which records any excess funding available principal receipts available calculated on any funding payment date;
 - (vi) if required to be established, the funding liquidity reserve ledger, which will record the amount credited to the funding liquidity reserve fund and any subsequent withdrawals and deposits;
 - (vii) a ledger which records the amount of mortgages trust principal receipts received by funding on each distribution date (the "**funding principal ledger**");
 - (viii) a ledger which records all other amounts other than mortgages trust principal receipts received by funding on each distribution date (the "**funding revenue ledger**");

- (ix) ledgers which record payments of interest and repayments of principal made under any loan note tranche (each a "**loan note tranche ledger**");
 - (x) ledgers which records the initial principal amount for each loan note tranche (each an "**initial principal amount ledger**");
 - (xi) ledgers which records the outstanding principal amount for each loan note tranche (each an "**outstanding principal amount ledger**") in respect of each funding payment date;
 - (xii) ledgers which records the adjusted outstanding principal amount for each loan note tranche (each an "**adjusted outstanding principal amount ledger**") in respect of each funding payment date;
 - (xiii) a ledger which records the nominal liquidation amount for each loan note tranche (each a "**nominal liquidation amount ledger**") in respect of each funding payment date;
 - (xiv) the funding principal deficiency ledger (which will consist of sub-ledgers as set out in the section "*The Loan Note Tranches and Funding Cashflows – Funding principal deficiency ledgers*"), which will record certain principal deficiencies in relation to the loan note tranches; and
 - (xv) a ledger which will record the basis swap collateral amount of any global loan note no. 1 from time to time (a "**basis swap collateral ledger**"),
- (c) investing sums standing to the credit of the funding GIC account and funding transaction account in short-term authorised investments on behalf of funding or the funding security trustee (as the case may be);
 - (d) making withdrawals from the common funding reserve fund as and when required;
 - (e) making any required withdrawals from, if established, any segregated funding reserve fund;
 - (f) depositing amounts to the principal funding ledger of any bullet pay loan note tranche during its accumulation period and any subsequent withdrawals and deposits on any funding payment date;
 - (g) operating the funding accounts;
 - (h) making any required withdrawals from and credits to, if established, the funding liquidity reserve fund;
 - (i) applying the funding available revenue receipts and funding available principal receipts in accordance with the relevant funding priority of payments;
 - (j) providing funding, each loan note tranche holder, the funding security trustee and the rating agencies with a quarterly report in relation to funding;
 - (k) making all returns and filings, giving all notices and making all registrations necessary in relation to funding and providing or procuring the provision of company secretarial and administration services to them;
 - (l) maintaining the funding principal deficiency ledger (including any appropriate principal deficiency sub-ledger with respect to a loan note tranche), which records principal deficiencies arising from losses on the mortgage loans in the mortgage loan portfolio and mortgage reserve principal loss reduction on the MRCLN which have been allocated to funding, the use of funding available principal receipts to meet any revenue shortfall and the use of funding available principal receipts to fund, if established, the funding liquidity reserve fund; and
 - (m) arranging for the payment of all sums (including costs and expenses) required or permitted to be paid by funding under any of the transaction documents.

Compensation of the funding cash manager

The funding cash manager is paid an annual fee of £100,000 for its services which is paid in four equal instalments quarterly in arrear on each funding payment date. The fee is inclusive of any VAT.

In addition, the funding cash manager is entitled to be indemnified for any expenses or other amounts properly incurred by it in carrying out its duties. The funding cash manager is paid by funding in accordance with and subject to the terms of the funding cash management agreement.

Resignation of the funding cash manager

The funding cash manager may resign only on giving twelve months' notice to funding and the funding security trustee and **provided that** funding and the funding security trustee consent in writing to the funding cash manager's resignation and **provided further that**:

- (a) a substitute funding cash manager has been appointed and a new funding cash management agreement is entered into on terms satisfactory to funding and the funding security trustee; and
- (b) the then current ratings of each outstanding series of notes would not be adversely affected as a result of that replacement.

Termination of appointment of the funding cash manager

Funding may, with the consent of the funding security trustee, terminate the funding cash manager's rights and obligations immediately if any of the following events occurs:

- (a) the funding cash manager defaults in the payment of any amount due and fails to remedy such default for a period of 5 London business days after the earlier of becoming aware of the default and receiving a written notice from the funding security trustee;
- (b) the funding cash manager fails to comply with any of its other obligations under the funding cash management agreement which the funding security trustee determines to be materially prejudicial to the holders of any series of notes and does not remedy that failure within 20 days after the earlier of becoming aware of the failure and receiving written notice from the funding security trustee; or
- (c) the funding cash manager suffers an insolvency event.

Upon termination of the appointment of the funding cash manager, funding will agree to use its reasonable endeavours to appoint a substitute funding cash manager. Any such substitute funding cash manager will be required to enter into a funding cash management agreement on substantially the same terms as the provisions of the funding cash management agreement and the appointment of such substitute funding cash manager and all other documentation is conditional upon the prior satisfaction of the ratings test in respect of each outstanding series of notes.

If the appointment of the funding cash manager is terminated or it resigns, the funding cash manager must deliver its books of account and other documentation relating to funding and any monies held on behalf of funding or the funding security trustee funding to or at the direction of funding or the funding security trustee, as the case may be. The funding cash management agreement will terminate automatically when funding all loan note tranches which have been issued by funding have been repaid or otherwise discharged.

Governing law

The funding cash management agreement is governed by English law.

CASH MANAGEMENT FOR THE ISSUER

General

Pursuant to the terms of a cash management agreement dated on the first issue date (as amended from time to time) (the "**issuer cash management agreement**") between the issuer, the issuer security trustee and Barclays in its capacity as the issuer cash manager, Barclays has been appointed to provide cash management services to the issuer.

Cash management services provided to the issuer

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

- (a) determining no later than the trust calculation date immediately preceding the relevant issuer payment date:
 - (i) the issuer available revenue receipts to be applied to pay interest on each series of notes on that relevant issuer payment date (and as applicable any money market note exclusive payment date) to the then issuer swap providers or to the noteholders, as applicable, and to pay amounts due to other creditors of the issuer;
 - (ii) the issuer available principal receipts to be applied to repay principal on each series of notes on that relevant issuer payment date; and
 - (iii) such other amounts as are expressed to be calculations and determinations made by the issuer cash manager in accordance with the conditions of each series of notes,
- (b) applying issuer available revenue receipts and issuer available principal receipts in accordance with the relevant issuer priority of payments;
- (c) providing the issuer, the issuer security trustee and the rating agencies with quarterly reports in relation to the issuer;
- (d) operating the issuer accounts and ensuring that payments are made into and from such accounts in accordance with the issuer cash management agreement and any other relevant issuer transaction document;
- (e) making all returns and filings required of the issuer and procuring the provision of company secretarial and administration services to the issuer;
- (f) arranging payment of all fees to the London Stock Exchange or, as applicable, the UK Listing Authority;
- (g) performing, if necessary, all currency and interest rate conversions free of charge, cost or expense at the relevant exchange rate, whether it be a conversion from, *inter alia* (i) sterling to dollars or vice versa; (ii) sterling to euro or vice versa; or (iii) floating rates of interest to fixed rates of interest or vice versa;
- (h) investing amounts standing to the credit of the issuer accounts in short-term authorised investments; and
- (i) maintaining, *inter alia*, the issuer revenue ledger, the issuer principal ledger and any issuer swap collateral ledger.

Compensation of the issuer cash manager

The issuer cash manager will be paid for its services an annual fee of £100,000 which will be paid in four equal instalments quarterly in arrear on each issuer payment date. The fee will be inclusive of any VAT.

In addition, the issuer cash manager will be entitled to reimbursement for any expenses or other amounts properly incurred by it in carrying out its duties. The issuer cash manager will be paid in accordance with the then relevant issuer priority of payments, by the issuer prior to amounts due on a series of notes.

Resignation of the issuer cash manager

The issuer cash manager may resign only on giving twelve months' notice to the issuer security trustee and the issuer **provided that** the issuer and the issuer security trustee consent in writing to the issuer cash manager's resignation and **provided that**:

- (a) a substitute issuer cash manager has been appointed and an issuer cash management agreement is entered into on terms satisfactory to the issuer security trustee and the issuer; and
- (b) the replacement of the issuer cash manager would not adversely affect the then current ratings of each series of notes.

Termination of appointment of the 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:

- (a) the issuer cash manager defaults in the payment of any amount due and fails to remedy such default for a period of 5 London business days after the earlier of becoming aware of the default and receiving written notice from the issuer or the issuer security trustee;
- (b) the issuer cash manager fails to comply with any of its other obligations under the issuer cash management agreement which in the opinion of the issuer security trustee is materially prejudicial to the noteholders and does not remedy that failure within 20 days after the earlier of becoming aware of the failure and receiving a notice from the issuer security trustee; or
- (c) 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 a substitute issuer cash manager and all other documentation is conditional upon the prior satisfaction of the ratings test in respect of each series of notes.

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

Governing law

The issuer cash management agreement is governed by English law.

THE NOTES AND THE GLOBAL NOTES

The issue of all series of notes under the programme has been authorised by a resolution of the board of directors of the issuer passed on 31 October 2006 prior to the date of the first issue of notes. Each series of notes will be constituted by a supplement to the issuer security trust deed (each an "**issuer security trust deed supplement**") to be dated on or about the relevant issue date, between the issuer and the issuer security trustee, as trustee for, among others, the holders for the time being of the notes. The issuer security trust deed includes provisions which enable it to be modified or supplemented and any reference to the issuer security trust deed is a reference also to the document as modified or supplemented in accordance with its terms.

The statements set out below include summaries of, and are subject to, the detailed provisions of the issuer security trust deed and the relevant issuer security trust deed supplement for a series, which will contain the forms of the global certificates and the individual note certificates. The issuer has entered into, for the benefit of the programme, an agency agreement (the "**agency agreement**") dated on the first issue date as amended from time to time and between the issuer and The Bank of New York Mellon, acting through its London Branch, as principal paying agent, registrar, transfer agent and agent bank which regulates how payments will be made on all series of notes and how determinations and notifications will be made.

Noteholders will be entitled to the benefit of, will be bound by and will be deemed to have notice of, all the provisions of the issuer security trust deed, the relevant issuer security trust deed supplement and the agency agreement. Noteholders can see copies of these agreements at the principal office for the time being of the issuer security trustee (which is, as of the date of this base prospectus, The Bank of New York Mellon, acting through its London Branch, One Canada Square, 40th Floor, Canary Wharf, London E14 5AL) and at the office for the time being of the issuer principal paying agent (which is, as of the date of this base prospectus, The Bank of New York Mellon, acting through its London Branch, One Canada Square, 40th Floor, Canary Wharf, London E14 5AL).

Form of the notes

The notes of each series sold in reliance on Regulation S under the Securities Act, as specified in the relevant final terms, will be represented on issue by one or more global certificates of such class in fully registered form without interest coupons or principal receipts attached (each a "**Regulation S global certificate**") which will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Beneficial interests in a Regulation S global certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. See "*Book-Entry Clearance Procedures*".

The notes of each series sold in reliance on Rule 144A under the Securities Act, as specified in the relevant final terms, will be represented on issue by one or more permanent global certificates of such class, in fully registered form without interest coupons or principal receipts attached (each a "**Rule 144A global certificate**") which, in the case of any Rule 144A EC global certificates, will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or, the case of any Rule 144A DTC global certificates, will be deposited with The Bank of New York Mellon, acting through its London Branch, as custodian for, and registered in the name of, Cede & Co. as nominee of, DTC. Beneficial interests in a Rule 144A global certificate may only be held through Euroclear, Clearstream, Luxembourg (in the case of Rule 144A EC global certificates) or DTC (in the case of Rule 144A DTC global certificates) or their participants at any time. See "*Book-Entry Clearance Procedures*". Beneficial interests in a Rule 144A global certificate may only be held by persons who are QIBs that are QPs, holding their interests for their own account or for the account of one or more QIBs each of which is also a QP. By acquisition of a beneficial interest in a Rule 144A global certificate, the purchaser thereof will be deemed to represent, among other things, that it is a QIB that is a QP 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 certificate. See "*Plan of Distribution*" in the relevant final terms.

The Regulation S global certificates and the Rule 144A global certificates are referred to herein as "**global certificates**". Beneficial interests in global certificates will be subject to certain restrictions on transfer set out therein and in the agency agreement, and such global certificates will bear the applicable legends regarding the restrictions set out under "*Plan of Distribution*" in the relevant final terms. No beneficial interest in a Regulation S global certificate may be transferred to a person who takes delivery in

the form of a beneficial interest in a Rule 144A global certificate unless (i) the transfer is to a person that is both a QIB and a QP, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the registrar with a written certification substantially in the form set out in the agency agreement. No beneficial interest in the Rule 144A global certificates may be transferred to a person who takes delivery in the form of a beneficial interest in a Regulation S global certificate unless a corresponding Regulation S global certificate is also issued in respect of such series (as stated in the relevant final terms), and in such case only if the transfer is to a person who is neither a U.S. Person nor a U.S. Resident, and is conducted in an offshore transaction in reliance on Regulation S and the transferor provides the registrar with a written certification substantially in the form set out in the agency agreement.

Any beneficial interest in a Regulation S global certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A global certificate, which is possible only if a corresponding Rule 144A global certificate is also issued in respect of such series (as stated in the relevant final terms), will upon transfer, cease to be an interest in such Regulation S global certificate and become an interest in the Rule 144A global certificate, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Rule 144A global certificate for as long as it remains such an interest. Any beneficial interest in a Rule 144A global certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S global certificate, which is possible only if a corresponding Regulation S global certificate is also issued in respect of such series (as stated in the relevant final terms), will upon transfer, cease to be an interest in a Rule 144A global certificate and become an interest in the Regulation S global certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in a Regulation S global certificate for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of notes, but the issuer security trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Except in the limited circumstances described below, owners of beneficial interests in global certificates will not be entitled to receive physical delivery of certificated notes. The notes are not issued in bearer form.

Amendments to conditions

In addition, the global certificates will contain provisions which modify the conditions of the each series of notes as they apply to the global certificates. The following is a summary of certain of those provisions:

Payments: Payments of principal and interest in respect of notes represented by a global certificate will be made against presentation for endorsement and, if no further payment falls to be made in respect of the relevant notes, surrender of such global certificates to or to the order of the registrar or such other transfer agent as shall have been notified to the relevant noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant global certificate, which endorsement will be *prima facie* evidence that such payment has been made in respect of the relevant global certificates. See also "*Book-Entry Clearance Procedures*".

Notices: Notwithstanding Condition 16 (*Notices and provision of information*) of the notes, while all the notes are represented by global certificates which are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg or, as the case may be, deposited with The Bank of New York Mellon, acting through its London Branch, as custodian for, and registered in the name of Cede & Co. as nominee of, DTC, notices to noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg or DTC (as applicable) rather than by publication in accordance with Condition 16 (*Notices and provision of information*) of the notes, for so long as the notes are listed on the London Stock Exchange, and the rules of the London Stock Exchange so permit. Such notices shall be deemed to have been given to the noteholders in accordance with Condition 16 (*Notices and provision of information*) of the notes on the date of delivery to Euroclear and Clearstream, Luxembourg or DTC (as applicable).

Meetings: The holder of a global certificate will be deemed to be two persons for the purpose of forming a quorum at a meeting of noteholders.

Purchase and Cancellation: For so long as any notes are represented by a global certificate, such notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg or DTC, as appropriate.

Exchange for individual certificates

Exchange

Each Rule 144A global certificate will be exchangeable, free of charge to the holder, on or after its individual exchange date (as defined below), in whole but not in part, for certificates in individual certificate form ("**Rule 144A individual certificates**") and each Regulation S global certificate will be exchangeable, free of charge to the holder, on or after its individual exchange date (as defined below), in whole but not in part, for certificates in individual certificate form ("**Regulation S individual certificates**"):

- (a) if a global certificate is held (directly or indirectly) on behalf of Euroclear and/or Clearstream, Luxembourg or an alternative clearing system and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so; or
- (b) if a global certificate is held on behalf of DTC and DTC notifies the issuer that it is no longer willing to discharge properly its responsibilities as depositary with respect to the relevant global certificate or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such, and the issuer is unable to locate a qualified successor within 90 days of receiving notice of such ineligibility on the part of DTC; or
- (c) if the issuer or any issuer paying agent or any other person is or will be required to make any withholding or deduction from any payment in respect of the notes for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature or the issuer suffers or will suffer any other disadvantage as a result of such change, which withholding or deduction would not be required or other disadvantage would not be suffered (as the case may be) if the notes were in individual certificate form.

The registrar will not register the transfer of, or exchange of interests in, a global certificate for individual certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the notes.

If only one of the global certificates (the "**exchanged global certificate**") becomes exchangeable for individual certificates in accordance with the above paragraphs, transfers of notes may not take place between, on the one hand, persons holding individual certificates issued in exchange for beneficial interests in the exchanged global certificate and on the other hand, persons wishing to purchase beneficial interests in the other global certificate.

"**individual exchange date**" means a day falling not less than 30 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the registrar and any transfer agent is located.

Delivery

In such circumstances, the relevant global certificate shall be exchanged in full for individual certificates and the issuer will, at the cost of the issuer (but against such indemnity as the registrar or any relevant transfer agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient individual certificates to be executed and delivered to the registrar for completion, authentication and dispatch to the relevant noteholders. A person having an interest in a global certificate must provide the registrar with (a) a written order containing instructions and such other information as the issuer and the registrar may require to complete, execute and deliver such individual certificates and (b) in the case of the Rule 144A global certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB that is a QP. Individual certificates issued in

exchange for a beneficial interest in the Rule 144A global certificate shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Plan of Distribution*" in the relevant final terms.

Legends and transfers

The holder of an individual certificate may transfer the notes represented thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the registrar or any transfer agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of an individual certificate bearing the legend referred to under "*Transfer Restrictions*" or upon specific request for removal of the legend on an individual certificate, the issuer will deliver only individual certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the issuer and the registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the issuer that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Individual certificates for each class of notes for the Rule 144A notes will bear the same legend as the legend for the Rule 144A global certificates for such classes set out under "*Transfer Restrictions*". The Rule 144A individual certificates may not at any time be held by or on behalf of U.S. persons that are not QIBs that are QPs. Before any Rule 144A individual certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Regulation S individual certificate (which is permissible only if a corresponding Regulation S individual certificate is also capable of being issued in respect of such series (as stated in the relevant final terms)), the transferor and/or transferee, as applicable, will be required to provide the registrar with a written certification substantially in the form set out in the agency agreement. Individual certificates for each class of notes for the Regulation S notes will bear the same legend as the legend for the Regulation S global certificates for such classes set out under "*Transfer Restrictions*". Before any Regulation S individual certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of a Rule 144A individual certificate (which is permissible only if a corresponding Rule 144A individual certificate is also capable of being issued in respect of such series (as stated in the relevant final terms)), the transferor and/or transferee, as applicable, will be required to provide the registrar with a written certification substantially in the form set out in the agency agreement.

BOOK-ENTRY CLEARANCE PROCEDURES

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**clearing systems**") currently in effect. The issuer accepts responsibility for the accurate reproduction of such information from publicly available information. As far as the issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The information in this section concerning the clearing systems has been obtained from sources that the issuer believes to be reliable, but none of the issuer, the note trustee nor any dealer takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the issuer nor any other party to the agency agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the notes held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Euroclear, Clearstream, Luxembourg and DTC

Custodial and depositary links have been established between Euroclear and Clearstream, Luxembourg and DTC to facilitate the initial issue of each series 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 certificates 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 is a limited purpose trust company organised under the laws of the State of New York, 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 certificate 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 (including, without limitation, the presentation of certificates for exchange as described under "*The Notes*

and The Global Notes – Exchange for individual certificates" above) only at the direction of one or more participants in whose accounts with DTC interests in global certificates are credited and only in respect of such portion of the aggregate principal amount of the relevant global certificates as to which such participant or participants has or have given such direction. However, in the circumstances described under "The Notes and The Global Notes – Exchange for individual certificates" above, DTC will surrender the relevant Rule 144A DTC global certificates for exchange for individual certificates (which will bear the legend applicable to transfers pursuant to Rule 144A or Reg S (as applicable)).

Book-entry ownership

Euroclear and Clearstream, Luxembourg

Each Regulation S global certificate and Rule 144A EC global certificate will have an ISIN and a common code and will be registered in the name of The Bank of New York Mellon, acting through its London Branch, as common depository on behalf of, Euroclear and Clearstream, Luxembourg.

DTC

Each Rule 144A DTC global certificate will have a CUSIP number and will be deposited with The Bank of New York Mellon, acting through its London Branch, as custodian (the "**custodian**") for, and registered in the name of Cede & Co. as nominee of, DTC. The custodian and DTC will electronically record the principal amount of the 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 certificate must look solely to Euroclear, Clearstream, Luxembourg or DTC (as the case may be) for his share of each payment made by the issuer to the holder of such global certificate save in the case of payments other than in U.S. dollars in respect of the Rule 144A DTC global certificates referred to below and in relation to all other rights arising under the global certificate, 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 certificate, 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 the Rule 144A DTC global certificates) 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 certificate 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 certificate 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 certificate and the obligations of the issuer will be discharged by payment to the registered holder, as the case may be, of such global certificate in respect of each amount so paid. None of the arranger, the dealers, Barclays, funding, the mortgages trustee, the funding security trustee, the issuer security trustee, any issuer paying agent, the agent bank, the issuer swap providers or any 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 certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

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 direct and indirect 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 or 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 certificates representing their ownership interests in such

notes, unless and until interests in any global certificate held within a clearing system are exchanged for individual certificates.

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

The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a global certificate to such persons may be limited. DTC can only act on behalf of direct participants, who in turn act on behalf of indirect participants, so the ability of a person having an interest in a global certificate 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 and U.S. dollar denominated bonds.

Trading between DTC participants

Secondary market sales of book-entry interests in the notes between DTC participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's same-day funds settlement ("**SDFS**") system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in notes are capable of being transferred (as specified in the relevant final terms) from the account of a DTC participant holding a beneficial interest in a global certificate to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in that global certificate (subject to the certification procedures provided in the agency agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, the custodian of the global certificate will instruct the registrar to (i) decrease the amount of notes registered in the name of Cede & Co, and evidenced by the relevant global certificate and (ii) increase the amount of notes registered in the name of the nominee of the common depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global certificate. 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 capable of being transferred (as specified in the relevant final terms) 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 certificate (subject to the certification procedures provided in the issuer security trust deed and any issuer security trust deed supplement), the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7.45 p.m., Brussels or Luxembourg

time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depository 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 depository for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the global certificate 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 depository for Euroclear and Clearstream, Luxembourg and evidenced by the relevant global certificate and (ii) increase the amount of notes registered in the name of Cede & Co. and evidenced by the relevant global certificate.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in applicable global certificates 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 arranger, the dealers, Barclays, funding, funding (no. 2), the mortgages trustee, the funding security trustee, any funding (no. 2) security trustee (if appointed), the issuer security trustee, any issuer paying agent, the agent bank, the issuer swap providers or any 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 therefore on each issue 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 issue date of a series 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 issue date should consult their own adviser.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion and as supplemented, amended and/or replaced in accordance with the provisions of the relevant issuer security trust deed supplement and as reflected in the relevant final terms, will be endorsed on each note certificate in definitive form issued under the programme. The terms and conditions applicable to any note in global form will differ from those terms and conditions which would apply to the note were it in definitive form to the extent described under "*Summary of provisions relating to the notes while in global form*" below. References in these terms and conditions (the "**conditions**") to "notes" are to the notes of a particular series only and not to all notes that may be issued under the programme.

1. Introduction

- (a) *Programme:* Gracechurch Mortgage Financing PLC (the "**issuer**") has established a medium term note programme (the "**programme**") for the issuance of up to £25,000,000,000 in aggregate principal amount of notes (the "**notes**"). The notes are constituted and secured by an issuer security trust deed dated on the first issue date (the "**issuer security trust deed**") between the issuer and The Bank of New York Mellon, acting through its London Branch, (the "**issuer security trustee**"), (which expression includes the trustee or trustees for the time being of the issuer security trust deed) and a supplement to the issuer security trust deed (an "**issuer security trust deed supplement**") in respect of notes issued in each series. References to the issuer security trust deed include reference to the relevant issuer security trust deed supplement where the context admits.
- (b) *Final terms:* Notes issued under the programme are issued in series (each a "**series**") and each series comprises only one class of notes. A series will be assigned a class designation as set out in the relevant final terms. Each series is the subject of a final terms (the "**final terms**") which supplements these terms and conditions (the "**conditions**"). The terms and conditions applicable to any particular series are these conditions as supplemented, amended and/or replaced by the relevant final terms. In the event of any inconsistency between these conditions and the relevant final terms, the relevant final terms shall prevail.
- (c) *Agency agreement:* The notes are the subject of an agency agreement dated on the first issue date (as amended from time to time) (the "**agency agreement**") between (*inter alios*) the issuer, The Bank of New York Mellon, acting through its London Branch, as principal paying agent (the "**principal paying agent**", the paying agents named in the agency agreement (the "**paying agents**") and the agent bank named in the agency agreement (the "**agent bank**") and in each case, the expression "**principal paying agent**" and the "**paying agents**" includes any successor to such person in such capacity.
- (d) *The notes:* All subsequent references in these conditions to "notes" are to the notes which are the subject of the relevant final terms. Copies of the relevant final terms are available for inspection by the noteholders during normal business hours at the specified office of the principal paying agent, the initial specified office of which is set out below.
- (e) *Summaries:* Certain provisions of these conditions are summaries of the issuer security trust deed and the agency agreement and are subject to their detailed provisions. The holders of the notes (the "**noteholders**") are bound by, and are deemed to have notice of, all the provisions of the issuer security trust deed, the issuer security trust deed supplement, the final terms, the agency agreement and the post-enforcement call option agreement (the "**post-enforcement call option agreement**") applicable to them. Copies of the issuer security trust deed, the final terms, the post-enforcement call option agreement and the agency agreement are available for inspection by noteholders during normal business hours at the specified offices of each of the paying agents, the initial specified offices of which are set out below.

2. Interpretation

Definitions: In these conditions the following expressions have the following meanings:

"**account bank agreement**" means the issuer transaction account bank agreement;

"**accumulation period commencement date**" has the meaning given in the relevant final terms;

"**accumulation period**" means for any series, for the purposes of these note conditions, unless an amortisation period has earlier commenced, the period commencing on the close of business on the accumulation period commencement date for that series or such later date as is determined in accordance with the provisions of the loan note tranche supplement for the related loan note tranche and ending (for the purposes of these conditions) on the first to occur of (a) the commencement of an amortisation period for that series; and (b) the day the outstanding principal amount of the related loan note tranche is reduced to zero;

"**additional business centre(s)**" means the city or cities specified as such in the relevant final terms;

"**additional financial centre(s)**" means the city or cities specified as such in the relevant final terms;

"**amortisation period**" means the asset trigger amortisation period or the non-asset trigger amortisation period or such other period specified as an amortisation period in the relevant final terms;

"**authorised investments**" means investments that are (a) sterling gilt-edged securities; or (b) sterling demand or time deposits, certificates of deposit and short-term debt obligations (including commercial paper) (which may include deposits into any account which earns a rate of interest related to LIBOR) **provided that** in all cases (i) these investments have a maturity date of 90 days or less and mature on or before the next following issuer payment date, money market note payment date or funding payment date (as applicable) or, in relation to any mortgages trustee bank accounts, the next following distribution date ; (ii) these investments are rated at least equal to A-1+ by S&P; and (iii) 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 a qualified institution) are rated at least equal to A-1+ by S&P, P-1 by Moody's and F1+ by Fitch and whose long term unsecured, unguaranteed and unsubordinated debt obligations are rated at least AA- by Fitch and the yield from such investments is at least equal to the GIC rate, or which are otherwise acceptable to the rating agencies to maintain the then current rating of the notes;

"**basic terms modification**" means any change to any date fixed for payment of principal or interest in respect of the notes, to reduce the amount of principal or interest payable on any date in respect of the notes, to alter the method of calculating the amount of any payment in respect of the notes or the date for any such payment (except in accordance with the terms and conditions of the notes and the issuer security trust deed) to effect the exchange, conversion or substitution of the notes for, or the conversion of such notes into, shares, bonds or other obligations or securities of the issuer or any other person or body corporate formed or to be formed, to alter any of the issuer priorities of payment in respect of the notes, to change the currency of any payment under the notes or to change the quorum requirements relating to meetings or the majority required to pass an extraordinary resolution or to amend this definition;

"**business day**" means a day other than (i) a Saturday, a Sunday; or (ii) a day on which banking institutions in London, England; Jersey, Channel Islands; New York, New York and each (if any) additional business centre are authorised or obliged by law or executive order to be closed or (iii) a day that is not a TARGET settlement day;

"**business day convention**", in relation to any particular date, has the meaning given in the relevant final terms and, if so specified in the relevant final terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

- (i) "**following business day convention**" means that the relevant date shall be postponed to the first following day that is a business day;
- (ii) "**modified following business day convention**" or "**modified business day convention**" means that the relevant date shall be postponed to the first following day that is a business day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a business day;
- (iii) "**preceding business day convention**" means that the relevant date shall be brought forward to the first preceding day that is a business day; and
- (iv) "**no adjustment**" means that the relevant date shall not be adjusted in accordance with any business day convention;

"**calculation agent**" means the agent bank or such other person specified in the relevant final terms as the party responsible for calculating the rate(s) of interest and interest amount(s) and/or such other amount(s) as may be specified in the relevant final terms;

"**day count fraction**" means, in respect of the calculation of an amount for any period of time (the "**calculation period**"), such day count fraction as may be specified in these conditions or the relevant final terms and:

- (i) if "**actual/actual (ISMA)**" is so specified, means:
 - (a) where the calculation period is equal to or shorter than the regular period during which it falls, the actual number of days in the calculation period divided by the product of (1) the actual number of days in such regular period and (2) the number of regular periods in any year; and
 - (b) where the calculation period is longer than one regular period, the sum of:
 - (A) the actual number of days in such calculation period falling in the regular period in which it begins divided by the product of (1) the actual number of days in such regular period and (2) the number of regular periods in any year; and
 - (B) the actual number of days in such calculation period falling in the next regular period divided by the product of (a) the actual number of days in such regular period and (2) the number of regular periods in any year;
- (ii) if "**actual/365**" or "**actual/actual (ISDA)**" is so specified, means the actual number of days in the calculation period divided by 365 (or, if any portion of the calculation period falls in a leap year, the sum of (A) the actual number of days in that portion of the calculation period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the calculation period falling in a non-leap year divided by 365);
- (iii) if "**actual/365 (fixed)**" is so specified, means the actual number of days in the calculation period divided by 365;
- (iv) if "**actual/365 (Sterling)**" is so specified, means the actual number of days in the calculation period divided by 365 or, in the case of a regular payment date falling in a leap year, 366;

- (v) if "**actual/360**" is so specified, means the actual number of days in the calculation period divided by 360; and
- (vi) if "**30/360**" is so specified, means the number of days in the calculation period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months (unless (i) the last day of the calculation period is the 31st day of a month but the first day of the calculation 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 (ii) the last day of the calculation 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));

"**dealer agreement**" means the agreement between the issuer, the arranger and certain dealers (as named therein) concerning the subscription and purchase of notes to be issued pursuant to the programme (as amended from time to time) or any restatement thereof for the time being in force;

"**distribution date**" means the London business day which falls a day prior to the 20th day of each calendar month (other than in respect of the first distribution date which will be the London business day immediately prior to the 20th of January 2007);

"**extraordinary resolution**" has the meaning given in the issuer security trust deed;

"**final maturity date**" means the date specified as such in, or determined in accordance with the provisions of, the relevant final terms, and where the final maturity date is not a business day, as the same may be adjusted in accordance with the relevant business day convention;

"**first issuer payment date**" means:

- (i) in respect of notes (other than money market notes) the date specified as such in, or determined in accordance with the provisions of, the relevant final terms, or
- (ii) in respect of money market notes, the first money market note payment date,

and in either case where such date is not a business day as the same may be adjusted in accordance with the relevant business day convention;

"**first money market note payment date**" means the date specified as such in, or determined in accordance with the provisions of, the relevant final terms, and where the first money market note payment date is not a business day, as the same may be adjusted in accordance with the relevant business day convention;

"**indebtedness**" means any indebtedness of any person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (i) amounts raised by acceptance under any acceptance credit facility;
- (ii) amounts raised under any note purchase facility;
- (iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**initial rate**" has the meaning given in the relevant final terms;

"**interest amount**" means, in relation to a note and an issuer interest period, the amount of interest payable in respect of that note for that interest period;

"**interest commencement date**" means the issue date of the notes or the money market notes or such other date as may be specified as the interest commencement date in the relevant final terms;

"**interest determination date**" has the meaning given in the relevant final terms;

"**interest period**" means in respect of notes (other than money market notes), each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date; or in respect of money market notes, the money market note interest period;

"**ISDA definitions**" means the 2000 ISDA definitions (as amended and updated as at the date of issue of the first notes of the relevant series (as specified in the relevant final terms) as published by the International Swaps and Derivatives Association, Inc.);

"**issue date**" has the meaning given in the relevant final terms for a series;

"**issuer bank account**" means the issuer transaction account;

"**issuer transaction account**" means the accounts at Barclays Bank PLC at its branch located at 1 Churchill Place, London E14 5HP or with another bank which meets rating agency approval opened pursuant to the issuer transaction account bank agreement in relation to all notes issued by the issuer;

"**loan note tranche**" means each notional tranche of global loan note no. 1 created pursuant to a loan note tranche supplement;

"**loan note tranche holder fee amounts**" means 0.01 per cent. of the aggregate interest received by the issuer (other than in respect of further interest) on each loan note tranche);

"**loan note tranche supplement**" means the relevant supplement to global loan note no. 1 creating a loan note tranche certain details of which are set out in the relevant final terms to these conditions;

"**margin**" has the meaning given in the relevant final terms;

"**minimum specified denomination(s)**" has the meaning given in the relevant final terms;

"**money market note**" means any class A note which is specified as a "money market note" in the final terms;

"**money market note interest period**" means each interest period from (and including) a money market note payment date and ending on (but excluding) the next money market payment date and in relation to the first money market note interest period, the period from (and including) the relevant issue date and ending on (but excluding) the first money market note payment date;

"**money market note payment date**" means the payment date(s) specified as such in, or determined in accordance with the provisions of the relevant final terms, and where such date is not a business day, as the same may be adjusted in accordance with the relevant business day convention;

"**notices**" means any notices that are required to be given under the terms and conditions of the notes;

"**participating member state**" means a member state of the European Communities which adopts the euro as its lawful currency in accordance with the Treaty;

"**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**principal amount outstanding**" means, in relation to a note on any date, the principal amount of that note on the issue date less the aggregate amount of all principal payments in respect of that note that have become due and payable by the issuer to the noteholder concerned by virtue of the issuer having received funds in respect thereof from funding as described in condition 7 (*Redemption, purchase and cancellation*) (whether or not such principal payments have been paid to such noteholder) prior to such date in accordance with the conditions of the loan note tranches; **provided, however, that** solely for the purpose of calculating the principal amount outstanding under condition 6 (*Interest*), condition 7 (*Redemption purchase and cancellation*), condition 11 (*Events of default*) and condition 12 (*Enforcement*), all such principal payments due and unpaid on or prior to such date shall also be taken into account as forming part of such principal amount outstanding;

"**principal financial centre**" means, in relation to sterling, London, in relation to dollars, New York, and in relation to euro, it means the principal financial centre of such member state of the European Community as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the calculation agent or in the case of any other currency, it means the principal financial centre specified in the relevant final terms;

"**qualified institution**" means a bank (i) which is a bank for the purposes of section 878 of the Income Tax Act 2007 (as defined in section 991 of that Act) and which pays any relevant interest in the ordinary course of its business and (ii) whose short-term, unsecured and unsubordinated debt obligations are rated at least A-1 from S&P, P-1 from Moody's and F-1 by Fitch;"

"**rate of interest**" means the rate or rates (expressed as a percentage per year) of interest payable in respect of the notes specified in the relevant final terms or calculated or determined in accordance with the provisions of these conditions and/or the relevant final terms;

"**reference banks**" means the principal London office of each of five major banks engaged in the London Interbank Market selected by the agent bank with the approval of the issuer security trustee or any duly appointed substitute reference bank(s) as may be appointed by the issuer to provide the agent bank with its offered quotation to leading banks in the London interbank market;

"**regular payment dates**" means:

- (i) in respect of notes (other than money market notes) the issuer payment dates specified as such in, or determined in accordance with the provisions of, the relevant final terms, or
- (ii) in respect of money market notes, the money market payment dates or the money market note exclusive payment dates,

and in either case where such date is not a business day, as the same may be adjusted in accordance with the relevant business day convention;

"**regular period**" means unless specified otherwise in a condition containing a specific provision or the relevant final terms:

- (i) in the case of notes where interest is scheduled to be paid only by means of regular payments, each period from and including the interest commencement date to but excluding the first issuer payment date and each successive period

from and including one issuer payment date to but excluding the next issuer payment date;

- (ii) in the case of notes where, apart from the first issuer period, interest is scheduled to be paid only by means of regular payments, each period from and including a regular date falling in any year to but excluding the next regular date, where "**regular date**" means the day and month (but not the year) on which any issuer payment date falls; and
- (iii) in the case of notes where, apart from one issuer interest period other than the first issuer interest period, interest is scheduled to be paid only by means of regular payments, each period from and including a regular date falling in any year to but excluding the next regular date, where "**regular date**" means the day and month (but not the year) on which any issuer payment date falls other than the issuer interest payment date falling at the end of the irregular issuer period,

"**related loan note tranche**" means, for any series, the loan note tranche specified in the relevant final terms as the loan note tranche the subject of first fixed security to collateralise that series;

"**relevant date**" means in relation to any payment whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the principal paying agent or the issuer security trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the noteholders in accordance with condition 16 (*Notices and provision of information*);

"**relevant indebtedness**" means any indebtedness which is in the form of or represented by any bond, note, debenture, debenture stock, loan stock, certificate or other instrument which is, or is capable of being, listed, quoted or traded on any stock exchange or in any securities market (including, without limitation, any over-the-counter market);

"**relevant screen page**" means the page of the Reuters screen or such other medium for the electronic display of data as may be approved by the issuer security trustee and notified to the noteholders of a relevant series;

"**scheduled redemption date**" has the meaning given in the relevant final terms;

"**security interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**series**" means those notes of the same class and with the same terms and conditions issued in accordance with a particular final terms;

"**series ledger**" means a ledger within the issuer transaction account in relation to a specific series of notes;

"**specified currency**" has the meaning given in the relevant final terms;

"**specified office**" has the meaning given in the agency agreement;

"**subsidiary**" means, in relation to any person (the "**first person**") at any particular time, any other person (the "**second person**");

- (i) whose affairs and policies the first person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or
- (ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person;

"TARGET settlement day" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) system is open; and

"Treaty" means the Treaty establishing the European Communities, as amended.

- (a) *Interpretation:* In these conditions:
- (i) any reference to principal shall be deemed to include the redemption amount, any premium (excluding interest) payable to the holder in respect of a note and any other amount in the nature of principal payable pursuant to these conditions;
 - (ii) any reference to interest shall be deemed to include any other amount in the nature of interest payable pursuant to these conditions;
 - (iii) references to notes being "**outstanding**" shall be construed in accordance with the agency agreement and the issuer security trust deed;
 - (iv) if an expression is stated in condition 2(a) (*Interpretation – Definitions*) to have the meaning given in the relevant final terms, but the relevant final terms gives no such meaning or specifies that such expression is "**not applicable**" then such expression is not applicable to the notes; and
 - (v) any reference to the agency agreement and the issuer security trust deed shall be construed with respect to any series of notes as a reference to the agency agreement or the issuer security trust deed, as the case may be, as amended and/or supplemented up to and including the issue date of the notes of that series.

3. **Form, denomination, title and transfer**

Unless otherwise specified in the relevant issuer security trust deed supplement, the notes will be issued in registered form ("**registered notes**"), in a minimum specified denomination (as specified in the relevant final terms) or an integral multiple thereof **provided that** in the case of any notes which are to be admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which require the publication of a prospectus under the Prospectus Directive, the minimum denomination shall be €50,000 (or, in the case of any note with a maturity of less than 1 year, £100,000) (or such amount as shall be at least equal to its equivalent in any other currency as at the date of issue of those notes as specified in the relevant final terms). If notes are issued that are not in registered form, they will be sold in compliance with the U.S. tax rules applicable to the sale of notes that are not in registered form (the "**TEFRA rules**").

(a) *Register*

The registrar will maintain a register (the "**register**") in respect of the notes in accordance with the provisions of the agency agreement. 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) and "**noteholder**" shall be construed accordingly.

(b) *Title*

The holder of each note shall (except as otherwise required by law) be treated as the absolute owner of such note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the note certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such note certificate) and no person shall be liable for so treating such holder.

(c) *Transfers*

Subject to paragraphs (g) (*Closed periods*) and (h) (*Regulations concerning transfers and registration*) below, a note may be transferred upon surrender of the relevant note

certificate, with the endorsed form of transfer duly completed, at the specified office of the registrar or any 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 seller and the authority of the individuals who have executed the form of transfer; **provided, however, that** a note may not be transferred unless the principal amount of notes transferred and (where not all of the notes held by a holder are being transferred) the principal amount of the balance of notes not transferred are an authorised denomination or multiple thereof. Where not all the notes represented by the surrendered note certificate are the subject of the transfer, a new note certificate in respect of the balance of the notes will be issued to the seller.

(d) *Tradeable amount*

So long as the notes are represented by a global certificate and the relevant clearing system(s) so permit, the notes shall be tradeable only in principal amounts of at least €50,000 (or, in the case on any note with a maturity of less than one year, £100,000) (or such amount as shall be at least equal to its equivalent in any other currency as at the date of issue of those notes as specified in the relevant final terms) and integral multiples of the tradeable amount as specified in the relevant final terms.

(e) *Registration and delivery of note certificates*

Within five business days of the surrender of a note certificate in accordance with paragraph (c) (Transfers) above, the registrar will register the transfer in question and deliver a new note certificate of a like principal amount to the notes transferred to each relevant holder at its specified office or (as the case may be) the specified office of any transfer agent or (at the request and risk of any such relevant holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant holder.

(f) *No charge*

The transfer of a note will be effected without charge by or on behalf of issuer, the registrar or any transfer agent but against such indemnity as the registrar or (as the case may be) such transfer agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(g) *Closed periods*

Noteholders may not require transfers 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.

(h) *Regulations concerning transfers and registration*

All transfers of notes and entries on the register are subject to the detailed regulations concerning the transfer of notes scheduled to the agency agreement. The regulations may be changed by the issuer with the prior written approval of the issuer security 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.

4. **Status, security and priority of payments**

(a) *Status*

The notes of each series are direct, secured and unconditional obligations of the issuer which will at all times rank *pari passu* and *pro rata* without preference or priority amongst themselves.

In these conditions, the "**most senior class**" means a series of class A notes while they remain outstanding; thereafter a series of class B notes where they remain outstanding; thereafter a series of class C notes while they remain outstanding; thereafter a series of

class D notes while they remain outstanding; thereafter a series of class E notes while they remain outstanding; thereafter a series of class F notes while they remain outstanding; thereafter a series of class RF notes while they remain outstanding.

The issuer security trust deed contains provisions requiring the issuer security trustee to have regard to the interests of all series equally as regards all rights, powers, trusts, authorities, duties and discretions of the issuer security trustee (except where expressly provided otherwise) but where there is, in the issuer security trustee's opinion, a conflict among the interests of the series, the issuer security trustee is required to have regard only to the series of notes belonging to most senior class or classes of notes then outstanding.

Each series will rank *pari passu* with each other series with respect to the cashflows available to that series secured by first fixed security both prior to and following enforcement but otherwise a series of class A notes will rank in priority to a series of class B notes, a series of class C notes, a series of class D notes, a series of class E notes, a series of class F notes and a series of class RF notes. A series of class B notes will rank in priority to a series of class C notes, a series of class D notes, a series of class E notes, a series of class F notes and a series of class RF notes. A series of class C notes will rank in priority to a series of class D notes, a series of class E notes, a series of class F notes and a series of class RF notes. A series of class D notes will rank in priority to a series of class E notes, a series of class F notes and a series of class RF notes. A series of class E notes will rank in priority to a series of class F notes and a series of class RF notes. A series of class F notes will rank in priority to a series of class RF notes. Each series of notes of a class will rank *pari passu* without preference or priority amongst other series of notes of the same class.

The note trust deed contains provisions limiting the powers of a series of class B notes, class C notes, class D notes, class E notes, class F notes and/or class RF notes to request or direct the issuer security trustee to take any action or to pass an extraordinary resolution which may affect the interests of each of the other series of notes belonging to classes of notes ranking equally or senior to such series. Except in certain circumstances, the note trust deed contains no such limitation on the powers of the series of notes belonging to the most senior class of notes then outstanding, the exercise of which will be binding on all other series of notes, irrespective of the effect thereof on their interests.

(b) *Security*

As security for the payment of all monies payable in respect of the notes of a series under the issuer security trust deed (including the remuneration, expenses and any other claims of the issuer security trustee and any receiver appointed under the issuer security trust deed), the issuer will pursuant to the issuer security trust deed supplement create the following security (the "**security**") in favour of the issuer security trustee for itself and on trust for, *inter alios*, the noteholders of each series:

- (i) an assignment by way of first fixed security of all of the issuer's right, title, interest and benefits in and to the related loan note tranche for that series under the funding security trust deed and the related supplement to the global loan note for the related loan note tranche for that series;
- (ii) an assignment by way of first fixed security of all of the issuer's right, title, interest and benefit in, to and under the transaction documents (except in relation to any issuer swap agreements, such assignment will be subject to any netting and set-off provisions contained therein);
- (iii) a first fixed charge over all of the issuer's right, title, interest and benefit in and to all moneys now or at any time hereafter standing to the credit of the issuer accounts, any applicable swap collateral accounts, and any other account of the issuer from time to time, and all amounts or securities standing to the credit of

such accounts (including all interest accruing thereon from time to time) (which such security may take effect as a floating charge);

- (iv) a first fixed charge over all of the issuer's rights, title, interest and benefit in and to all authorised investments made by or on behalf of the issuer (including all monies, income, other distributions and proceeds payable in respect of such authorised investments from time to time) which security may however take effect as a floating charge); and
- (v) a first ranking floating charge over the whole of the issuer's undertaking and all its property, assets and rights whatsoever and wheresoever, present and future, which will rank in point of priority behind all fixed security granted in favour of the issuer security trustee pursuant to the terms of the issuer security trust deed and any issuer security trust deed supplement (which, for the avoidance of doubt, will extend over all the assets and undertakings of the issuer situated in Scotland or governed by the laws of Scotland,

all as more particularly described in the issuer security trust deed and any issuer security trust deed supplement.

5. **Negative covenants of the issuer**

So long as any of the notes remain outstanding (as defined in the issuer security trust deed), the issuer shall not, save to the extent permitted by the related documents or with the prior written consent of the issuer security trustee:

- (a) *Negative pledge*: create or permit to subsist any security interest in respect of the whole or any part of its assets, present or future (including any uncalled capital) or its undertaking present or future;
- (b) *Restrictions on activities*: (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any of the activities in which the issuer transaction documents provide or envisage that the issuer will engage; or (ii) have or form any subsidiaries, undertakings of any nature or employees or premises;
- (c) *Disposal of assets*: transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present of future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein or agree or attempt or purport to do any of the foregoing;
- (d) *Issuance of shares*: issue any further shares or alter any rights attaching to its shares as at the date of the issuer security trust deed;
- (e) *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;
- (f) *Merger*: consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person;
- (g) *Bank accounts*: have an interest in any bank account, other than the issuer bank accounts unless such account or interest is charged in favour of the issuer security trustee so as to form part of the issuer security on terms acceptable to the issuer security trustee;
- (h) *Value added tax*: form or become part of any group of companies for VAT purposes (including, in relation to the United Kingdom, any group of companies for the purposes of sections 43 to 43D (inclusive) of the Value Added Tax Act 1994 and the Value Added

Tax (Groups: Eligibility) Order 2004) with any other company or group of companies, unless required to do so by applicable law or regulations;

- (i) *Surrender of group relief*: offer or consent to surrender to any company any amounts which are available for surrender by way of group relief within Chapter IV of Part X of the Income and Corporation Taxes Act 1988 unless the issuer first receives by way of consideration for such surrender the payment of an amount calculated by applying to the amount surrendered the rate of corporation tax applicable to the issuer at the time of surrender;
- (j) *Tax residence*: do any act or thing, the effect of which would be to make the issuer resident for tax purposes in any jurisdiction other than the United Kingdom;
- (k) *Equitable interest*: permit any person other than itself and the issuer security trustee (for itself and as trustee for 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;
- (l) *Waiver or consent*: permit any of the issuer transaction documents to which it is a party to become invalid or ineffective, or the priority of the security interests created thereby to be reduced, or consent to any variation of, or exercise any powers of consent or waiver pursuant to the terms of any of the issuer transaction documents to which it is a party, or permit any party to any of the issuer transaction documents to which it is a party or any other person whose obligations form part of the issuer secured property to be released from its respective obligations;
- (m) *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 with the United States as determined under United States income tax principles; or
- (n) *Purchase of notes*: purchase or acquire any of the notes.

6. Interest

- (a) *Specific provision: floating rate sterling notes*

This condition 6(a) is applicable to notes if the specified currency is sterling and the relevant notes are issued as floating rate notes.

Each note bears interest at a floating rate on its principal amount outstanding from (and including) the interest commencement date. Interest in respect of the notes is payable in arrear in sterling on each issuer payment date.

"issuer payment date" means the first issuer payment date and thereafter each regular payment date.

Each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date is herein called an **"issuer interest period"**. The first interest payment will be made on the first issuer payment date in respect of the issuer interest period from (and including) the interest commencement date to the first issuer payment date.

The rate of interest applicable to the notes (the **"rate of interest"**) for each issuer interest period will be determined by the calculation agent as the sum of the then margin and LIBOR for the relevant issuer interest period (or in the case of the first issuer interest period, a linear interpolation of the LIBOR rates for such periods as specified in the relevant final terms).

LIBOR shall be determined on the following basis:

- (i) on the interest commencement date in respect of the first issuer interest period and thereafter on each interest determination date, namely the first day of the issuer interest period for which the rate will apply, the calculation agent will determine the offered quotation to leading banks in the London interbank market, in respect of the first issuer interest period from (and including) the interest commencement date to (but excluding) the first issuer payment date, a linear interpolation of the rates for sterling deposits for such periods as specified in the relevant final terms and for each issuer interest period thereafter, for sterling deposits for the relevant issuer interest period, by reference to the display designated as the British Bankers Association LIBOR Rates as quoted on the Moneyline Reuters Monitor as Moneyline Reuters Screen LIBOR01 or (1) such other page as may replace Moneyline Reuters Screen LIBOR01 on that service for the purposes of displaying such information or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the issuer security trustee) as may replace the Moneyline Reuters Monitor) as at or about 11.00 a.m. (London time) on that date, (the "**screen rate**");
- (ii) if, on any interest determination date, the screen rate is unavailable, the calculation agent will:
 - (A) request the principal London office of each of five major banks in the London interbank market as may be appointed by the calculation agent (together the "**reference banks**") to provide the calculation agent with its offered quotation to leading banks in the London interbank market, in respect of the first issuer interest period from (and including) the interest commencement date to (but excluding) the first issuer payment date, a linear interpolation of the rates for such periods as specified in the relevant final terms and for each issuer interest period thereafter, for sterling deposits for the relevant issuer interest period, as at approximately 11.00 a.m. (London time) on the interest determination date in question and in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean (rounded upwards to four decimal places) of such quotations;
- (iii) if on any interest determination date the screen rate is unavailable and two or three only of the reference banks provide offered quotations, LIBOR for the relevant issuer interest period shall be determined in accordance with the provisions of paragraph (ii) on the basis of the arithmetic mean (rounded upwards to four decimal places) of the offered quotations of those Reference Banks providing the offered quotations; and
- (iv) if fewer than two such quotations are provided by the reference banks as requested, the calculation agent will determine the arithmetic mean (rounded upwards to four decimal places) of the rates quoted by major banks in London, selected by the calculation agent, at approximately 11.00 a.m. (London time) on the first day of the relevant issuer interest period for loans in sterling to leading European banks for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time,

provided that if the calculation agent is unable to determine LIBOR in accordance with the above provisions in relation to any issuer interest period, the rate of interest applicable to the notes during such issuer interest period will be the sum of the then margin in respect of the notes and LIBOR last determined in relation to the notes in respect of the preceding issuer interest period.

The calculation agent will, as soon as practicable after the interest determination date in relation to each issuer interest period, calculate the amount of interest (the "**interest amount**") payable in respect of the notes for such issuer interest period.

The interest amount in respect of the notes will be calculated by applying the relevant rate of interest for such issuer interest period to the principal amount outstanding of the notes during such issuer interest period, multiplying by the relevant day count fraction and rounding the resulting figure to the nearest penny (half a penny rounded upwards).

(b) *Specific provision: floating rate dollar notes*

This condition 6(b) is applicable to notes if the specified currency is US dollars and the relevant notes are designated as floating rate notes.

Each note bears interest at a floating rate on its principal amount outstanding from (and including) the interest commencement date. Interest in respect of the notes is payable in arrear in US dollars on each issuer payment date.

"**issuer payment date**" means the first issuer payment date and thereafter each regular payment date.

Each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date is herein called an "**issuer interest period**". The first interest payment will be made on the first issuer payment date in respect of the issuer interest period from (and including) the interest commencement date to the first issuer payment date.

The rate of interest applicable to the notes (the "**rate of interest**") for each issuer interest period will be determined by the calculation agent as the sum of the then margin and LIBOR for the relevant issuer interest period (or in the case of the first issuer interest period, a linear interpolation of the LIBOR rates for such periods as specified in the relevant final terms).

LIBOR shall be determined on the following basis:

- (i) on each quotation date the calculation agent will determine the offered quotation to leading banks in the London interbank market for one-month US dollar deposits or three-month US dollar deposits (in accordance with the relevant issuer interest period specified in the relevant final terms). In the case of the first issuer interest period the calculation agent will determine LIBOR based upon the linear interpolation of LIBOR for US dollar deposits as specified in the relevant final terms.

This will be determined by reference to the British Bankers Association LIBOR Rates display as quoted on the Bridge Reuters monitor as Reuters Screen LIBOR01. If the Reuters Screen LIBOR01 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, any page showing this information will be used. If there is more than one service displaying the information, the one approved in writing by the issuer security trustee in its sole discretion will be used.

In each case above, the determination will be made as at or about 11.00 a.m. (London time), on that date. These are called the "**screen rates**".

A "**quotation date**" means the second London business day before the first day of an Issuer interest period.

- (ii) if, on any quotation date, a screen rate is unavailable, the calculation agent will:
- (A) request the principal London office of each of the five major banks in the London interbank market as may be appointed by the calculation

agent (together the "**reference banks**") to provide the calculation agent with its offered quotation to leading banks of the equivalent of that screen rate on that quotation date in an amount that represents a single transaction in that market at that time; and

- (B) calculate the arithmetic mean rounded upwards to four decimal places, of those quotations;
- (iii) if, on any quotation date, the screen rate is unavailable and only two or three of the reference banks provide offered quotations, the rate of interest for that issuer interest period will be the arithmetic mean of the quotations provided by those two or three reference banks calculated in the manner described in (ii) above;
- (iv) if fewer than two reference banks provide quotations, the calculation agent will determine (in its absolute discretion) the arithmetic mean (rounded upwards to four decimal places) of the leading rates quoted by major banks in London, selected by the calculation agent at approximately 11.00 a.m. (London time) on the relevant quotation date, to leading European banks for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time, for loans in US dollars.

The calculation agent will, as soon as practicable after the quotation date in relation to each issuer interest period, calculate the amount of interest (the "**interest amount**") payable in respect of the notes for such issuer interest period. The interest amount in respect of the notes will be calculated by applying the relevant rate of interest for such issuer interest period to the principal amount outstanding of the notes during such issuer interest period and multiplying the product by the relevant day count fraction and rounding the resulting figure to the nearest US dollar 0.01 (half of a cent being rounded upwards).

(c) *Specific provision: floating rate euro notes*

This condition 6(c) is applicable to the notes if the specified currency is euro and the relevant notes are designated to be floating rate notes.

Each note bears interest at a floating rate on its principal amount outstanding from (and including) the interest commencement date. Interest in respect of the notes is payable in arrear in euro on each issuer payment date.

"**issuer payment date**" means the first issuer payment date and thereafter each regular payment date.

Each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date is herein called an "**issuer interest period**". The first interest payment will be made on the first issuer payment date in respect of the issuer interest period from (and including) the interest commencement date to the first issuer payment date.

The rate of interest applicable to the notes (the "**rate of interest**") for each issuer interest period will be determined by the calculation agent as the sum of the then margin and EURIBOR for the relevant issuer interest period (or in the case of the first issuer interest period, a linear interpolation of the EURIBOR rates for such periods as specified in the relevant final terms).

EURIBOR shall be determined on the following basis:

- (i) on the second TARGET business day before the interest commencement date in respect of the first issuer interest period and thereafter on each interest determination date, namely at 11.00 a.m. (Brussels time) on the second TARGET business day before the first day of the issuer interest period for which the rate will apply, the calculation agent will determine the offered quotation to prime banks in the euro-zone interbank market, in respect of the

first issuer interest period from (and including) the interest commencement date to (but excluding) the first issuer payment date, a linear interpolation of the rates for euro deposits for such periods as specified in the relevant final terms and for each issuer interest period thereafter, for euro deposits for the relevant issuer interest period, by reference to (1) on the display page designated EURIBOR01 on the Dow Jones Reuters Service (or such other page as may replace that page on that service, or such other service as may be nominated by the calculation agent as the information vendor, for the purpose of displaying comparable rates) as of the interest determination date or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the issuer security trustee) as may replace the Dow Jones Reuters Monitor as at or about 11.00 a.m. (Brussels time) on that date (the "**screen rate**");

- (ii) if, on any interest determination date, the screen rate is unavailable, the calculation agent will:
 - (A) request the principal euro-zone office of each of four major banks in the euro-zone interbank market to provide a quotation of the rate at which deposits in euro are offered by it at approximately 11.00 a.m. (Brussels time) on the interest determination date to prime banks in the euro-zone interbank market for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the calculation agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the euro-zone interbank market, selected by the calculation agent, at approximately 11.00 a.m. (Brussels time) on the interest determination date for loans in euro to leading European banks for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time,

provided that if the calculation agent is unable to determine EURIBOR in accordance with the above provisions in relation to any issuer interest period, the rate of interest applicable to the notes during such issuer interest period will be the sum of the then margin and the EURIBOR last determined in relation to such notes in respect of the preceding issuer interest period.

The calculation agent will, as soon as practicable after the interest determination date in relation to each issuer interest period, calculate the amount of interest (the "**interest amount**") payable in respect of the notes for such issuer interest period. The interest amount in respect of the notes will be calculated by applying the relevant rate of interest for such issuer interest period to the principal amount of the notes during such issuer interest period and multiplying the product by the relevant day count fraction and rounding the resulting figure to the nearest euro 0.01 (half of a cent being rounded upwards).

- (d) *Specific provision: fixed rate sterling notes*

This condition 6(d) is applicable to the notes if the specified currency is sterling and the notes are designated to be fixed rate notes.

Each note bears interest on its principal amount outstanding from (and including) the interest commencement date. Interest in respect of the notes is payable in arrear in sterling on each issuer payment date.

"issuer payment date" means the first issuer payment date and thereafter each regular payment date.

Each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date is herein called an **"issuer interest period"**. The first interest payment will be made on the first issuer payment date in respect of the issuer interest period from (and including) the interest commencement date to the first issuer payment date.

Subject to the following paragraph, each note bears interest at the initial rate on its principal amount outstanding during the period from (and including) the interest commencement date to (but excluding) the step-up date for such note (the **"initial period"**). Interest in respect of such note during the initial period is payable in arrear in sterling on each issuer payment date.

The amount of interest payable (the **"interest amount"**) in respect of each note for any issuer interest period during the initial period shall be calculated by applying the initial rate to the principal amount outstanding of such note, multiplying the resulting product by the relevant day count fraction, and rounding the resultant figure to the nearest sterling 0.01 (half of a penny being rounded upwards).

However, during the period from (and including) the step-up date for each note to (but excluding) the final maturity date (the **"floating rate period"**), each note bears interest at a floating rate on its principal amount outstanding to be determined in accordance with the provisions below, payable in arrear on each issuer payment date.

The rate of interest applicable to each note (the **"floating interest rate"**) for each issuer interest period during the floating rate period will be determined by the calculation agent as the sum of the margin and LIBOR for the relevant issuer interest period.

LIBOR shall be determined on the following basis:

- (i) on the step-up date and thereafter on each interest determination date, namely the first day of the issuer interest period during the floating rate period for which the rate will apply, the calculation agent will determine the offered quotation to leading banks in the London interbank market for sterling deposits for the relevant issuer interest period, by reference to the display designated as the British Bankers Association LIBOR Rates as quoted on the Moneyline Reuters Monitor as Moneyline Reuters Screen LIBOR01 or (1) such other page as may replace Moneyline Reuters Screen LIBOR01 on that service for the purposes of displaying such information or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the issuer security trustee) as may replace the Moneyline Reuters Monitor) as at or about 11.00 a.m. (London time) on that date, (the **"screen rate"**);
- (ii) if, on any interest determination date, the screen rate is unavailable, the calculation agent will:
 - (A) request the principal London office of each of the five major banks in the London interbank market as may be appointed by the calculation agent (together the **"reference banks"**) to provide the calculation agent with its offered quotation to leading banks in the London interbank market for sterling deposits for the relevant issuer interest period, as at approximately 11.00 a.m. (London time) on the interest determination date in question and in an amount that is representative for a single transaction in that market at that time; and
 - (B) determine the arithmetic mean (rounded upwards to four decimal places) of such quotations;

- (iii) if on any interest determination date the screen rate is unavailable and two or three only of the reference banks provide offered quotations, LIBOR for the relevant issuer interest period shall be determined in accordance with the provisions of paragraph (ii) on the basis of the arithmetic mean (rounded upwards to four decimal places) of the offered quotations of those reference banks providing the offered quotations; and
- (iv) if fewer than two such quotations are provided by the reference banks as requested, the calculation agent will determine the arithmetic mean (rounded upwards to four decimal places) of the rates quoted by major banks in London, selected by the calculation agent, at approximately 11.00 a.m. (London time) on the first day of the relevant issuer interest period for loans in sterling to leading European banks for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time,

provided that if the calculation agent is unable to determine LIBOR in accordance with the above provisions in relation to any issuer interest period during the floating rate period, the rate of interest applicable to the notes during such issuer interest period will be the sum of the then margin in respect of the notes and LIBOR last determined in relation to the notes in respect of the preceding issuer interest period.

During the floating rate period, the calculation agent will, as soon as practicable after the interest determination date in relation to each issuer interest period during the floating rate period, calculate the amount of interest (the "**interest amount**") payable in respect of each note for such issuer interest period. The interest amount will be calculated by applying the floating interest rate for such issuer interest period to the principal amount outstanding of such note during such issuer interest period and multiplying the product by the relevant day count fraction, and rounding the resulting figure to the nearest sterling 0.01 (half of a penny being rounded upwards).

- (e) *Specific provision: fixed rate dollar notes*

This condition 6(e) is applicable to the notes if the specified currency is U.S. dollars and the notes are designated to be fixed rate notes.

Each note bears interest on its principal amount outstanding from (and including) the interest commencement date. Interest in respect of the notes is payable in arrear in U.S. dollars on each issuer payment date.

"issuer payment date" means the first issuer payment date and thereafter each regular payment date.

Each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date is herein called an "**issuer interest period**". The first interest payment will be made on the first issuer payment date in respect of the issuer interest period from (and including) the interest commencement date to the first issuer payment date.

Subject to the following paragraph, each note bears interest at the initial rate on its principal amount outstanding during the period from (and including) the interest commencement date to (but excluding) the step-up date for such note (the "**initial period**"). Interest in respect of such note during the initial period is payable in arrear in sterling on each issuer payment date.

The amount of interest payable (the "**interest amount**") in respect of each note for any issuer interest period during the initial period shall be calculated by applying the initial rate to the principal amount outstanding of such note, multiplying the resulting product by the relevant day count fraction, and rounding the resultant figure to the nearest U.S. dollar 0.01 (half of a cent being rounded upwards).

However, during the period from (and including) the step-up date for each note to (but excluding) the final maturity date (the "**floating rate period**"), each note bears interest at

a floating rate on its principal amount outstanding to be determined in accordance with the provisions below, payable in arrear on each issuer payment date.

The rate of interest applicable to each note (the "**floating interest rate**") for each issuer interest period during the floating rate period will be determined by the calculation agent as the sum of the margin and LIBOR for the relevant issuer interest period.

LIBOR shall be determined on the following basis:

- (i) on each quotation date during the floating rate period the calculation agent will determine the offered quotation to leading banks in the London interbank market for three-month US dollar deposits (in accordance with the relevant issuer interest period specified in the relevant final terms).

This will be determined by reference to the British Bankers Association LIBOR Rates display as quoted on the Bridge Reuters monitor as Reuters Screen LIBOR01. If the Reuters Screen LIBOR01 stops providing these quotations, the replacement service for the purposes of displaying this information will be used. If the replacement service stops displaying the information, any page showing this information will be used. If there is more than one service displaying the information, the one approved in writing by the issuer security trustee in its sole discretion will be used.

In each case above, the determination will be made as at or about 11.00 a.m. (London time), on that date. These are called the "**screen rates**".

A "**quotation date**" means the second London business day before the first day of an issuer interest period during the floating rate period.

- (ii) if, on any quotation date, a screen rate is unavailable, the calculation agent will:
 - (A) request the principal London office of each of the five major banks in the London interbank market as may be appointed by the calculation agent (together the "**reference banks**") to provide the calculation agent with its offered quotation to leading banks of the equivalent of that screen rate on that quotation date in an amount that represents a single transaction in that market at that time; and
 - (B) calculate the arithmetic mean rounded upwards to four decimal places, of those quotations;
- (iii) if, on any quotation date, the screen rate is unavailable and only two or three of the reference banks provide offered quotations, the rate of interest for that issuer interest period will be the arithmetic mean of the quotations provided by those two or three reference banks calculated in the manner described in (ii) above;
- (iv) if fewer than two reference banks provide quotations, the calculation agent will determine (in its absolute discretion) the arithmetic mean (rounded upwards to four decimal places) of the leading rates quoted by major banks in London, selected by the calculation agent at approximately 11.00 a.m. (London time) on the relevant quotation date, to leading European banks for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time, for loans in US dollars.

During the floating rate period, the calculation agent will, as soon as practicable after the interest determination date in relation to each issuer interest period during the floating rate period, calculate the amount of interest (the "**interest amount**") payable in respect of each note for such issuer interest period. The interest amount will be calculated by applying the floating interest rate for such issuer interest period to the principal amount outstanding of such note during such issuer interest period and multiplying the product by the relevant day count fraction, and rounding the resulting figure to the nearest U.S. dollar 0.01 (half of a cent being rounded upwards).

(f) *Specific provision: fixed rate euro notes*

This condition 6(f) is applicable to the notes if the specified currency is euro and the notes are designated to be fixed rate notes.

Each note bears interest on its principal amount outstanding from (and including) the interest commencement date. Interest in respect of the notes is payable in arrear in euro on each issuer payment date.

"**issuer payment date**" means the first issuer payment date and thereafter each regular payment date.

Each period beginning on (and including) the interest commencement date or any issuer payment date and ending on (but excluding) the next issuer payment date is herein called an "**issuer interest period**". The first interest payment will be made on the first issuer payment date in respect of the issuer interest period from (and including) the interest commencement date to the first issuer payment date.

Subject to the following paragraph, each note bears interest at the initial rate on its principal amount outstanding during the period from (and including) the interest commencement date to (but excluding) the step-up date for such note (the "**initial period**"). Interest in respect of such note during the initial period is payable in arrear in sterling on each issuer payment date.

The amount of interest payable (the "**interest amount**") in respect of each note for any issuer interest period during the initial period shall be calculated by applying the initial rate to the principal amount outstanding of such note, multiplying the resulting product by the relevant day count fraction, and rounding the resultant figure to the nearest euro 0.01 (half of a cent being rounded upwards).

However, during the period from (and including) the step-up date for each note to (but excluding) the final maturity date (the "**floating rate period**"), each note bears interest at a floating rate on its principal amount outstanding to be determined in accordance with the provisions below, payable in arrear on each issuer payment date.

The rate of interest applicable to each note (the "**floating interest rate**") for each issuer interest period during the floating rate period will be determined by the calculation agent as the sum of the margin and EURIBOR for the relevant issuer interest period.

EURIBOR shall be determined on the following basis:

- (i) on the second TARGET business day before the step-up date in respect of the first issuer interest period during the floating rate period and thereafter on each interest determination date, namely 11.00 a.m. (Brussels time) on the second TARGET business day before the first day of the issuer interest period during the floating rate period for which the rate will apply, the calculation agent will determine the offered quotation to prime banks in the euro-zone interbank market for euro deposits for the relevant issuer interest period, by reference to (1) on the display page designated EURIBOR01 on the Dow Jones Reuters Service (or such other page as may replace that page on that service, or such other service as may be nominated by the calculation agent as the information vendor, for the purpose of displaying comparable rates) as of the interest determination date or (2) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the issuer security trustee) as may replace the Dow Jones Reuters Monitor as at or about 11.00 a.m. (Brussels time) on that date (the "**screen rate**");
- (ii) if, on any interest determination date, the screen rate is unavailable, the calculation agent will:

- (A) request the principal euro-zone office of each of four major banks in the euro-zone interbank market to provide a quotation of the rate at which deposits in euro are offered by it at approximately 11.00 a.m. (Brussels time) on the interest determination date to prime banks in the euro-zone interbank market for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time; and
- (B) determine the arithmetic mean (rounded, if necessary, to the nearest one hundred thousandth of a percentage point, 0.000005 being rounded upwards) of such quotations; and
- (iii) if fewer than two such quotations are provided as requested, the calculation agent will determine the arithmetic mean (rounded, if necessary, as aforesaid) of the rates quoted by major banks in the euro-zone interbank market, selected by the calculation agent, at approximately 11.00 a.m. (Brussels time) on the interest determination date for loans in euro to leading European banks for a period equal to the relevant issuer interest period and in an amount that is representative for a single transaction in that market at that time,

provided that if the calculation agent is unable to determine EURIBOR in accordance with the above provisions in relation to any issuer interest period during the floating rate period, the rate of interest applicable to the notes during such issuer interest period will be the sum of the then margin and the EURIBOR last determined in relation to such notes in respect of the preceding issuer interest period during the redemption period.

During the floating rate period, the calculation agent will, as soon as practicable after the interest determination date in relation to each issuer interest period during the floating rate period, calculate the amount of interest (the "**interest amount**") payable in respect of each note for such issuer interest period. The interest amount will be calculated by applying the floating interest rate for such issuer interest period to the principal amount outstanding of such note during such issuer interest period and multiplying the product by the relevant day count fraction, and rounding the resulting figure to the nearest euro 0.01 (half of a cent being rounded upwards).

- (g) *General provision: deferred interest and additional interest*

The notes of each series bear interest on their principal amount outstanding from (and including) the relevant interest commencement date. Each note (or, in the case of redemption in part only of a note, that part only of such note) shall cease to bear interest from its due date for redemption unless, upon due presentation, payment of the relevant amount of principal or part thereof is not paid in full or is improperly withheld or refused.

In such event, interest will continue to accrue thereon (as well after as before any judgment) at the rate from time to time applicable to the relevant note up to (but excluding) the date on which all sums due in respect of such note up to that day are received by or on behalf of the relevant noteholder, or (if earlier) the seventh day after notice is duly given by the principal paying agent to the relevant noteholder (in accordance with condition 16 (*Notices and provision of information*)), that the full amount payable is available for collection by such noteholder, **provided that** on due presentation payment is in fact made.

- (h) *General provision: calculation of interest amount*

To the extent that the funds available to the issuer to pay interest on any series of notes which is not of the then most senior class outstanding on an issuer payment date are insufficient to pay the full amount of such interest, payment of the shortfall ("**deferred interest**"), which will be borne by each note of such series in a proportion equal to the proportion that the principal amount outstanding which such note bears to the aggregate principal amount outstanding of the relevant series (in each case as determined on the

issuer payment date on which such deferred interest arises), will not then fall due but will instead be deferred until the first relevant issuer payment date thereafter on which funds are available to the issuer (after allowing for the issuer's liabilities of higher priority and subject to and in accordance with the relevant issuer priority of payment) 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 such series of notes and payment of any additional interest will also be deferred until the first relevant issuer payment date thereafter on which funds are available (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 relevant series when such amounts will become due and payable.

(i) *General provision: interest ceases to accrue*

On each issuer payment date, the calculation agent shall determine the actual amount of interest which will be paid on the notes on that issuer payment date and the amount of deferred interest (if any) on the notes in respect of the related issuer interest period and the amount of additional interest (if any) which will be paid on such issuer payment date. The amount of additional interest shall be calculated by applying the then current relevant rate of interest for the notes to the deferred interest and any additional interest from prior issuer interest periods which remains unpaid, multiplying such sum by the relevant day count fraction.

To the extent that the funds available to the issuer to pay interest on the any series of class B notes, any series of class C notes, any series of class D notes, any series of class E notes, any series of class F notes and/or any series of class RF notes on an issuer payment date are insufficient to pay the full amount of such interest, any outstanding deferred interest and any additional interest due on such issuer payment date in respect of any series of notes, such monies will be applied first to the payment of any interest amount, secondly to the payment of any outstanding deferred interest and thereafter to the payment of any additional interest in respect of the relevant series.

(j) *General provision: failure of calculation agent*

If the calculation agent fails at any time to determine a rate of interest or to calculate an interest amount or amount of deferred interest (if any) or amount of additional interest (if any), the issuer security trustee, or its appointed agent without any liability therefore, will determine such rate of interest as it considers fair and reasonable in the circumstances (having such regard as it thinks fit to the other provisions of these conditions) or (as the case may be) calculate such interest amount or amount of deferred interest (if any) or amount of additional interest (if any), in accordance with paragraph (h) (*General provision: calculation of interest amount*) above, and each such determination or calculation shall be deemed to have been made by the calculation agent.

(k) *General provision: publication*

The calculation agent will cause each rate of interest, interest amount, amount of deferred interest (if any) and amount of additional interest (if any) determined by it, together with the relevant issuer payment date, to be notified to the issuer, the paying agents, the issuer security trustee and, for so long as the respective notes are admitted to trading on the regulated market of the London Stock Exchange plc (the "**regulated market of the London Stock Exchange**"), the regulated market of the London Stock Exchange as soon as practicable after such determination but in any event not later than the seventh day thereafter or such earlier day as the regulated market of the London Stock Exchange may require and the calculation agent will cause the same to be published in accordance with condition 16 (*Notices and provision of information*) as soon as possible thereafter. The calculation agent will be entitled to recalculate any interest amount and amount of additional interest (on the basis of the foregoing

provisions) without notice in the event of an extension or shortening of the relevant issuer interest period.

(l) *General provision: notifications etc.*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this condition 6 (*Interest*), whether by the calculation agent or the issuer security trustee will (in the absence of wilful default, bad faith or manifest error) be binding on the issuer, the paying agents, the issuer security trustee, the calculation agent and the noteholders, and no liability to any such person will attach to the calculation agent or the issuer security trustee in connection with the exercise or non-exercise by them or of them of their powers, duties and discretions for such purposes.

7. **Redemption, purchase and cancellation**

(a) *Final redemption*

Unless previously redeemed in full and cancelled as provided in this condition 7 (*Redemption, purchase and cancellation*), the issuer shall (without prejudice to the provisions of condition 7(i) (*Subordination of principal*)) redeem each series of notes at its then respective principal amount outstanding together with all interest accrued thereon on the applicable final maturity date as specified in the relevant final terms.

The issuer may not redeem any series of notes in whole or in part prior to their respective final maturity dates except as provided in condition 7 (*Redemption, purchase and cancellation*) (b) (*Mandatory redemption in part*), (c) (*Note principal payments, principal amount outstanding and pool factor*), (d) (*Optional early redemption of the notes*) or (e) (*Optional redemption of notes for tax reasons*), but without prejudice to condition 11 (*Events of default*) below.

(b) *Mandatory redemption in part*

On each issuer payment date, other than an issuer payment date on which a series of notes is to be redeemed under condition 7 (*Redemption, purchase and cancellation*) (a) (*Final redemption*), (d) (*Optional early redemption of the notes*) or (e) (*Optional redemption of notes for tax reasons*), the issuer shall repay principal in respect of such series of notes in accordance with and subject to the relevant issuer priority of payments applicable to the relevant series of notes on such issuer payment date and then only to the extent of issuer available principal receipts on such issuer payment date in the manner described in and subject to the issuer cash management agreement and/or, as applicable, the issuer security trust deed or any issuer security trust deed supplement.

(c) *Note principal payments, principal amount outstanding and pool factor*

The principal amount payable in respect of each note (the "**note principal payment**") on any issuer payment date under condition 7(b) (*Redemption, purchase and cancellation – Mandatory redemption in part*) shall be a proportion of the amount required as at that issuer payment date to be applied in redemption of the relevant note on such date equal to the proportion that the principal amount outstanding of such note bears to the principal amount outstanding of all notes of the same class, rounded down to the nearest penny, or as the case may be, cent; provided always that no such note principal payment may exceed the principal amount outstanding of the relevant note.

On (or as soon as practicable after) each calculation date, the issuer shall cause the issuer cash manager to determine (i) the amount of any note principal payment due in respect of each note on the issuer payment date next following such calculation date, (ii) the principal amount outstanding of each such note and (iii) the fraction expressed as a decimal to the sixth point (the "**pool factor**"), of which the numerator is the principal amount outstanding of such note (referred to in (ii) above) and the denominator is the minimum denomination specified for such note. Each determination on behalf of the issuer of any note principal payment, the principal amount outstanding of any 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.

With respect to each series of notes, the issuer will cause each determination of a note principal payment, principal amount outstanding and pool factor to be notified by not less than three business days prior to the relevant issuer payment date to the issuer security trustee, the paying agents, the agent bank and to each stock exchange and/or competent listing authority (if any) on or by which the notes are then listed, quoted or traded, and will immediately cause notice of each determination of a note principal payment, principal amount outstanding and pool factor to be given in accordance with condition 16 (*Notices and provision of information*) by not later than two business days prior to the relevant issuer payment date. If no note principal payment is due to be made on any note on any issuer payment date a notice to this effect will be given by or on behalf of the issuer to the noteholders in accordance with condition 16 (*Notices and provision of information*).

For the avoidance of doubt, any references in this condition 7(c) (*Redemption, purchase and cancellation – Note principal payments, principal amount outstanding and pool factor*) to the principal amount outstanding of any note or (as the case may be) to a note principal payment in respect of any note shall include a reference to accrued interest on the note in question.

If the issuer does not at any time for any reason cause the issuer cash manager to determine a note principal payment, the principal amount outstanding or the pool factor in accordance with the preceding provisions of this paragraph, such note principal payment, principal amount outstanding and pool factor may be determined by the issuer security trustee (or by any person appointed by the issuer security trustee (in accordance with the terms of the issuer security trust deed and any issuer security trust deed supplement) to make such determination on its behalf) in accordance with this paragraph and each such determination or calculation shall be deemed to have been made by the issuer. Any such determination shall be binding on the issuer, the issuer cash manager and the noteholders.

(d) *Optional early redemption of the notes*

- (i) If the notes of a series are specified in the relevant final terms as being able to be redeemed by the issuer on any "step up call date", then (subject to any additional conditions (if any) specified in the relevant final terms) on any issuer payment date falling on or after the relevant step up date and upon giving not more than 60 nor less than 30 days' prior written notice to the issuer security trustee, the issuer swap providers and the noteholders (in accordance with condition 16 (*Notices and provision of information*)), the issuer may redeem all (but not some only) of the notes of such series then outstanding at their then principal amount outstanding together with accrued interest **provided that**, prior to giving any such notice, the issuer shall have provided to the issuer security trustee a certificate signed by two directors of the issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the relevant series of notes as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with such series of notes outstanding in accordance with the terms and conditions of the issuer cash management agreement and the issuer security trustee is satisfied in accordance with the terms of the issuer transaction documents that there are sufficient funds to allow the issuer to redeem the relevant series of notes.
- (ii) If the notes of a series are specified in the relevant final terms as being able to be redeemed by the issuer on any "10 per cent. call date", then (subject to any additional conditions (if any) specified in the relevant final terms) on any issuer payment date on which the aggregate principal amount outstanding of such series of notes then outstanding is less than 10 per cent. of the aggregate principal amount outstanding of the relevant series of notes on the issue date and upon giving not more than 60 nor less than 30 days' prior written notice to the

issuer security trustee, the issuer swap providers and the noteholders, the issuer may redeem all (but not some only) of the relevant series of notes at their then principal amount outstanding together with accrued interest **provided that**, prior to giving any such notice, the issuer shall have provided to the issuer security trustee a certificate signed by two directors of the issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the relevant series of notes as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with such series of notes outstanding in accordance with the terms and conditions of the issuer cash management agreement and the issuer security trustee is satisfied in accordance with the terms of the issuer transaction documents that there are sufficient funds to allow the issuer to redeem the relevant series of notes.

- (iii) If a series of notes is specified in the relevant final terms as being able to be redeemed on a "Basel call date" then (subject to any additional conditions (if any) specified in the relevant final terms), **provided that** a note enforcement notice has not been served in relation to such series, then on any issuer payment date falling on or after such date but before 1 January 2010, upon the occurrence of a regulatory call event and upon giving not more than 60 nor less than 30 days' prior written notice to the issuer security trustee, the issuer swap providers and the noteholders (in accordance with condition 16 (*Notices and provision of information*)), the issuer may redeem all (but not some only) of the notes of such series then outstanding at their then principal amount outstanding together with accrued interest **provided that**, prior to giving any such notice, the issuer shall have provided to the issuer security trustee a certificate signed by two directors of the issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the relevant series as aforesaid and to pay any amounts required to be paid in priority or *pari passu* with the relevant notes of such series in accordance with the relevant issuer priority of payments and the issuer security trustee is satisfied in accordance with the terms of the issuer transaction documents that there are sufficient funds to allow the issuer to redeem the relevant series of notes.
- (iv) In the event that due to a change in law, it has become or will become unlawful for funding to issue or allow to remain outstanding or for the issuer to hold a loan note tranche and the issuer has required funding to redeem a loan note tranche prior to the date on which it is due to be redeemed, **provided that** a note enforcement notice has not been served in relation to the notes of the series collateralised by such loan note tranche, then upon giving not more than 60 nor less than 30 days' prior written notice to the issuer security trustee, the issuer swap providers and the noteholders (in accordance with condition 16 (*Notices and provision of information*)), the issuer may redeem all (but not some only) of the relevant series of notes then outstanding at their then principal amount outstanding together with accrued interest **provided that**, prior to giving any such notice, the shall have provided to the issuer security trustee, a certificate signed by two directors of the issuer to the effect that it will have the funds, not subject to any interest of any other person, required to redeem the relevant series of notes as aforesaid and any amounts required under the issuer pre-enforcement revenue priority of payments (or as the case may be, the issuer post-enforcement priority of payments) set out in the issuer cash management agreement to be paid in priority to or *pari passu* with the relevant series of notes outstanding in accordance with the terms and conditions of the issuer cash management agreement and the issuer security trustee is satisfied in accordance with the terms of the issuer transaction documents that there are sufficient funds to allow the issuer to redeem the relevant series of notes.

(e) *Optional redemption of notes for tax reasons*

If the issuer at any time satisfies the issuer security trustee immediately prior to the giving of the notice referred to below that on the next issuer payment date either:

- (i) the issuer would be required to deduct or withhold from any payment of principal or interest or any other amount due under any series of notes any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature;
- (ii) funding would be required to deduct or withhold from any payment of amounts due under a loan note tranche any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature; or
- (iii) Barclays Bank PLC would be required to deduct or withhold from any payment of amounts due under the MRCLN any amount for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature,

and in each case such obligation of the issuer, funding or Barclays Bank PLC (as the case may be) cannot be avoided by the issuer, funding or Barclays Bank PLC (as the case may be) taking reasonable measures available to it, then the issuer shall use its reasonable endeavours to arrange the substitution of a company incorporated in another jurisdiction approved by the issuer security trustee as principal debtor under each series of notes and/or as holder of the relevant loan note tranches, as the case may be, upon (1) satisfaction of the ratings test, (2) the issuer security trustee being satisfied that such substitution will not be materially prejudicial to the noteholders, (3) the issuer security trustee being satisfied that the position of the issuer secured creditors will not thereby be adversely affected, and (4) **provided that** the issuer shall have provided to the issuer security trustee (A) a certificate signed by two directors of the issuer stating the circumstances referred to in (i) or (ii) above prevail and setting out details of such circumstances and (B) an opinion in form and substance satisfactory to the issuer security trustee of independent legal advisors of recognised standing to the effect that the issuer, funding or Barclays Bank PLC (as the case may be) has or will become obliged to make such deduction or withholding as a result of such change or amendment. The issuer security trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) or (ii) above, in which event they shall be conclusive and binding on the noteholders and the other issuer secured creditors. Only if the issuer is unable to arrange a substitution will the issuer be entitled to redeem the relevant series of notes as described in this condition 7(e) (*Redemption, purchase and cancellation – Optional redemption of notes for tax reasons*).

If the issuer is unable to arrange a substitution as described above and, as a result, one or more of the events described in (i) or (ii) above (as the case may be) is continuing, then the issuer may, having given not more than 60 nor less than 30 days' notice to the issuer security trustee, the basis rate swap provider, the issuer swap providers and the noteholders in accordance with condition 16 (*Notices and provision of information*), redeem all (but not some only) of the relevant series of notes on the immediately succeeding issuer payment date at their aggregate principal amount outstanding together with any interest accrued thereon **provided that** (in either case), prior to giving any such notice, the issuer shall have provided to the issuer security trustee (A) a certificate signed by two directors of the issuer stating the circumstances referred to in (i) or (ii) above prevail and setting out details of such circumstances and (B) an opinion in form and substance satisfactory to the issuer security trustee of independent legal advisors of recognised standing to the effect that the issuer funding, or Barclays Bank PLC (as the case may be) has or will become obliged to make such deduction or withholding as a result of such change or amendment. The issuer security trustee shall be entitled to accept such certificate and opinion as sufficient evidence of the satisfaction of the circumstances set out in (i) or (ii) above, in which event they shall be conclusive and binding on the relevant noteholders and the other issuer secured creditors. The issuer may only redeem the relevant series of notes as aforesaid if the issuer security trustee is

satisfied in accordance with the issuer transaction documents that the issuer will have the funds, not subject to the interest or any other person, required to redeem the relevant series of notes as aforesaid and any amounts required under the issuer pre-enforcement revenue priority of payments set out in the issuer cash manager agreement to be paid in priority to or *pari passu* with the relevant series of notes outstanding in accordance with the terms and conditions thereof.

(f) *Notice of redemption*

Any such notice as is referred to in condition 7 (*Redemption, purchase and cancellation*) (d) (*Optional early redemption of the notes*) or (e) (*Optional redemption of notes for tax reasons*) above shall be irrevocable and, upon the expiration of such notice, the issuer shall be bound to redeem the relevant series of notes at their then principal amount outstanding together with all accrued interest.

(g) *Cancellation*

The notes of any series redeemed pursuant to this condition 7 (*Redemption, purchase and cancellation*) (d) (*Optional early redemption of the notes*) or (e) (*Optional redemption of notes for tax reasons*) above will be cancelled upon redemption and may not be resold or re-issued.

(h) *Post-enforcement call option*

In the event that the issuer security is enforced and, after payment of all other claims ranking in priority to the notes under the issuer security trust deed and issuer security trust deed supplement, the issuer security trustee certifies that the remaining proceeds of such enforcement 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 then (i) all interests in the global certificates will be automatically exchanged for equivalent interests in an equivalent amount of notes in an equivalent principal amount outstanding in individual certificated form and such global note will be cancelled on the date of such exchange; and (ii) all of the noteholders will and the issuer security trustee will on their behalf at the request of the post-enforcement call option holder ("**PECOH**"), sell or (as the case may be) procure the sale of all of the notes to the PECOHS pursuant to the option granted to it by the issuer security trustee (as agent for the noteholders) under a post-enforcement call option agreement (the "**post-enforcement call option agreement**") dated on or about the issue date of such series and made between the post-enforcement call option holder and the issuer security trustee in consideration of the payment of £0.01 per note. Immediately upon such sale, no such former noteholder shall have any further interest in the notes of such series. Each of the noteholders acknowledges that the issuer security trustee has the authority and the power to bind the noteholders in accordance with the terms and conditions set out in the relevant post-enforcement call option agreement and each noteholder, by subscribing for or purchasing the note(s), agrees to be so bound.

(i) *Subordination of principal*

In the event that the funds available to the issuer on any issuer payment date for application in or towards the payment of principal on any series, as the case may be, on any issuer payment date, are not sufficient to satisfy in full the aggregate amount of principal which is due on such series on such issuer payment date, then notwithstanding any other provision of these conditions, there shall be paid on such issuer payment date, by way of principal on each note of such series a *pro rata* share of such funds available, calculated by reference to the ratio borne by the then sterling principal amount outstanding of such note to the then aggregate sterling principal amount outstanding of all notes of such series. In any such event, the amount by which the aggregate amount of principal paid with respect to such series on any issuer payment date in accordance with this condition falls short of the aggregate amount of principal which is due on the notes of such series at that date pursuant to this condition is referred to as the "**shortfall**" relating to the relevant series for the issuer payment date in question. Such shortfall

shall accrue interest (at the rate then applicable to such series) during each issuer interest period, and such shortfall and accrued interest thereon shall be aggregated within the amount of, and treated for the purpose of this condition and condition 6 (*Interest*) as if it were, principal payable on each note of the relevant series on the next succeeding issuer payment date. If, on the final maturity date or other date on which the notes in question fall to be redeemed in full in accordance with this condition, there remains any unpaid shortfall, such amount will become due and payable on that date (subject to any applicable provisions of the issuer security trust deed or any issuer security trust deed supplement regarding the priority of payments as between holders of the different classes of notes).

8. **Payments**

(a) *Method of payment*

Payments of principal upon final redemption in respect of each note will be made against (and, **provided that** payment is made in full) presentation and surrender (or in the case of part payment only, endorsement) of the individual certificate representing such note at the specified office of the registrar, the transfer agent or any paying agent by euro cheque drawn on a bank in Europe (in the case of the euro notes), by sterling cheque drawn on a bank in London (in the case of the sterling notes) or by U.S. dollar cheque drawn on a US bank (in the case of the dollar notes). Payments of interest on each note and prior to redemption in full thereof, principal in respect of each note, will be made by euro cheque drawn on a bank in Europe (in the case of the euro notes), by sterling cheque drawn on a bank in London (in the case of the sterling notes) and by U.S. dollar cheque drawn on a US bank (in the case of the dollar notes) and posted on the business day immediately preceding the relevant due date to the holder (or to the first named of joint holders) of the note appearing on the register at the close of business on the fifteenth day before the relevant due date (the "**record date**") at his address shown on the register on the record date. Upon application of the holder as at the applicable record date to the specified office of the registrar or transfer agent or any paying agent not less than five business days before the due date for any payment in respect of a note, the payment may be made (in the case of any final payment of principal against presentation and surrender (or, in the case of part payment only of such final payment, endorsement) of the individual certificate representing such note as provided above) by wire transfer in same day funds on the due date to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET system (in the case of the euro notes), to a sterling account maintained by the payee with a London bank (in the case of sterling notes) and to a U.S. dollar account maintained by the payee with a US bank (in the case of dollar notes).

(b) *Payments subject to fiscal laws*

Payments of principal and interest in respect of the notes are subject in all cases to any fiscal or other laws, regulations and directives applicable thereto, but without prejudice to the provisions of condition 10 (*Taxation*). No commission shall be charged to the noteholders.

(c) *Withheld interest*

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 6 (*Interest*) will be paid in accordance with this condition 8 (*Payments*).

(d) *Payments on presentation days*

A holder shall be entitled to present a note for payment only on a presentation date and shall not, except as provided in condition 6 (*Interest*), be entitled to any further interest or other payment if a presentation date is after the due date.

If a note is presented for payment at a time when, as a result of differences in time zones, it is not practicable to transfer the relevant amount to an account as referred to above for value on the relevant presentation date, the issuer shall not be obliged to do so but shall be obliged to transfer the relevant amount to the account for value on the first practicable date after the presentation date.

(e) *Registrar, transfer agent and paying agents*

The names of the initial registrar, transfer agent and principal paying agent and their initial specified offices are set out below. The issuer reserves the right at any time with the approval of the issuer security trustee to vary or terminate the appointment of the registrar, the transfer agent or the principal paying agent and to appoint additional or other paying agents (together with the principal paying agent, the "**paying agents**"), **provided that** it will at all times until final redemption of all notes maintain (i) a registrar, a transfer agent and a paying agent in London; and (ii) a paying agent in an EU member state that will not be obliged to withhold or deduct tax payments pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such directive in each case, as approved by the issuer security trustee. The registrar will cause at least 30 days' notice of any change in any paying agent, registrar or transfer agent or their specified offices to be given to the noteholders in accordance with condition 16 (*Notices and provision of information*) and to the stock exchange on which the notes are then traded.

9. **Prescription**

Claims in respect of principal and interest payable in redemption in full of the relevant notes will become void unless presentation for payment is made as required by condition 8 (*Payments*) within a period of ten years from the appropriate relevant date.

10. **Taxation**

(a) *Withholding tax*

All payments in respect of the notes will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatsoever nature unless the issuer, the issuer security trustee or any 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, the issuer security trustee or such paying agent (as the case may be) 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.

(b) *No payment of additional amounts*

None of the issuer, the issuer security trustee or any paying agent will be obliged to make any additional payments to the noteholders in respect of such withholding or deduction as is referred to in condition 10 (a) (*Taxation – Withholding tax*) above.

(c) *Tax deduction not an event of default*

Notwithstanding that the issuer, the issuer security trustee or any paying agent is required to make a withholding or deduction as is referred to in condition 10 (a) (*Taxation – Withholding tax*) above, this shall not constitute an event of default.

11. **Events of default**

This condition 11 (*Events of default*) shall have no effect if, and for so long as, any series of notes of a class ranking senior to a series the subject of this condition 11 (*Events of default*) remains outstanding. Subject thereto, the issuer security trustee in its absolute discretion may give notice to the issuer of an event of default (as defined below) in respect of a relevant series

(an "**enforcement notice**"), and shall give such notice if it is indemnified and/or secured to its satisfaction and (1) if so requested in writing by the holders of not less than 25 per cent. in aggregate of the principal amount outstanding of the relevant series of notes; or (2) if so directed by or pursuant to an extraordinary resolution passed at a meeting of the holders of the relevant series of notes outstanding, declaring (in writing) the notes of the relevant series to be immediately 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 (each an "**event of default**"):

- (a) default being made for a period of 7 business days in the payment of any amount of principal on any note of the relevant series when and as the same ought to be paid in accordance with these conditions or default being made for a period of 15 business days in the payment of any amount of interest on any note of such series when and as the same ought to be paid in accordance with these conditions;
- (b) the issuer failing duly to perform or observe any other obligation binding upon it under the relevant series of notes, the issuer security trust deed, any issuer security trust deed supplement or any other issuer transaction document and, in any such case (except where the issuer security trustee certifies that, in its opinion, such failure is incapable of remedy, in which case no notice will be required), such failure is continuing unremedied for a period of 30 days following the service by the issuer security trustee on the issuer of notice requiring the same to be remedied and the issuer security trustee has certified that the failure to perform or observe is materially prejudicial to the interests of the noteholders of the relevant series;
- (c) the issuer, otherwise than for the purpose of such amalgamation or reconstruction as is referred to in sub-paragraph (iv) below, ceases or threatens to cease to carry on its business or a substantial part of its business or the issuer is deemed unable to pay its debts within the meaning of section 123(1)(a), (b), (c) or (d) of the Insolvency Act 1986 (as that section may be amended) or becomes unable to pay its debts within the meaning of section 123(2) of the Insolvency Act 1986 (as that section may be amended);
- (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 in writing by the issuer security trustee or by an extraordinary resolution of the noteholders of the relevant series;
- (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) and (except in the case of presentation of a petition for an administration order) such proceedings are not, in the opinion of the issuer security trustee, being disputed in good faith with a reasonable prospect of success, or an administration order being granted or an administrative receiver or other receiver, liquidator or other similar official being appointed in relation to the issuer or in relation to the whole or any substantial part of the undertaking or assets of the issuer, or an encumbrancer taking possession of the whole or any substantial part of the undertaking or assets of the issuer, or a distress, execution, diligence or other process being levied or enforced upon or sued out against the whole or any substantial part of the undertaking or assets of the issuer and such possession or process (as the case may be) not being discharged or not otherwise ceasing to apply within 30 days, or the issuer initiating or consenting to judicial proceedings relating to itself under applicable liquidation, insolvency, composition, reorganisation or other similar laws or making a conveyance or assignment for the benefit of its creditors generally; or
- (f) if a loan note tranche enforcement notice is served with respect to the loan note tranche collateralising the relevant series.

12. **Enforcement**

At any time after the notes become due and repayable, without prejudice to its rights of enforcement in relation to the issuer security, the issuer security trustee may, at its absolute discretion and without notice, institute such proceedings as it thinks fit to enforce payment of the relevant series of notes (including the right to repayment of the relevant series of notes together with accrued interest thereon) and shall be bound to do so if:

- (a) in the case of security created pursuant to any issuer security trust deed supplement:
 - (i) it shall have been so directed by a written resolution of the holders of the relevant series of notes or by an extraordinary resolution of the holders of the relevant series of notes; and
 - (ii) it shall have been indemnified or provided with security to its satisfaction;
- (b) in the case of security created pursuant to the issuer security trust deed:
 - (i) it shall have been so directed by a written resolution of the holders of the notes of all series then outstanding or by an extraordinary resolution of the holders of the notes of all series then outstanding; and
 - (ii) it shall have been indemnified or provided with security to its satisfaction,

No noteholder may institute any proceedings against the issuer to enforce its rights under or in respect of the notes, or the issuer security trust deed unless (i) the issuer security trustee has become bound to institute proceedings and has failed to do so within a reasonable time; and (ii) such failure is continuing.

13. **Issuer security trustee and agents**

The issuer security trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the noteholders.

In the exercise of its powers and discretions under these conditions and the issuer security trust deed, the issuer security trustee will have regard to the interests of the noteholders as a class and will not be responsible for any consequence (including any tax consequence) for individual holders of notes as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the agency agreement, and in connection with the notes, the principal paying agent and the paying agents act solely as agents of the issuer and (to the extent provided therein) the issuer security trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the noteholders.

If in the opinion of the issuer security trustee there is a conflict between the interests of the holders of any of the classes of notes, the issuer security trustee shall in the exercise of its duties, powers and discretions, have regard solely to the interests of the most senior class of notes outstanding.

The issuer security trustee is relieved of liability for making searches or other enquiries in relation to the assets comprising the issuer security. The issuer security trustee has no responsibility in relation to the legality and the enforceability of the trust arrangements and the connected issuer security. The issuer security trustee will not be obliged to take any action which might result in its incurring personal liabilities. The issuer security trustee is not obliged to monitor the financial accounts or financial performance of the issuer or to monitor or investigate the performance of any other person under the documents relating to funding or the documents relating to the mortgages trust and shall be entitled to assume, until it has actual notice to the contrary, that all such persons are properly performing their duties.

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 the issuer security.

The issuer security trustee is not responsible for checking the calculations contained in or otherwise verifying any information coming into its possession in relation to the mortgages trust. Neither shall the issuer security trustee be responsible for monitoring or determining whether or not any or all of the issuance tests in respect of the related loan note tranche for a series are satisfied prior to or at the time of any issue of a series and its related loan note tranche or any increase of the outstanding principal amount of an existing series and its related loan note tranche by funding.

The issuer security trustee and its related companies are entitled to enter into business transactions with the issuer, Barclays Bank PLC and/or related companies of any of them without accounting for any profit resulting therefrom.

14. **Meetings of noteholders; modification and waiver**

(a) *Meetings of noteholders*

The issuer security trust deed contains provisions for convening meetings of noteholders to consider matters relating to the notes of a series or more than one series, including the modification of any provision of these conditions or the issuer security trust deed. Any such modification may be made if sanctioned by an extraordinary resolution of the relevant noteholders.

The issuer security trust deed provides that no extraordinary resolution to approve any matter including a basic terms modification shall be effective unless (i) in relation to a basic terms modification, it is approved by all series which, in the sole opinion of the issuer security trustee is or may be prejudiced by such matter, including all series of a class; and (ii) in relation to any other matter, it is approved by all series which, in the sole opinion of the issuer security trustee is or may be materially prejudiced by such matter, including all series of a class.

The quorum for any meeting convened to consider an extraordinary resolution to approve any matter other than a basic terms modification will be (i) in respect of a meeting convened in relation to a specific series, two or more persons holding or representing a clear majority of the aggregate principal amount outstanding of the relevant series of notes or at any adjourned meeting two or more persons holding or representing notes of the relevant series whatever the principal amount outstanding of notes so held or represented for the time being outstanding; and (ii) in respect of a meeting convened in relation to more than one series, two or more persons holding or representing a clear majority of the aggregate principal amount outstanding of all the relevant series or at any adjourned meeting two or more persons holding or representing notes of any series whatever the principal amount outstanding of notes of all relevant series so held or represented for the time being outstanding.

The necessary quorum for any meeting convened to consider an extraordinary resolution to approve a basic terms modification shall be (i) in respect of a meeting convened in relation to a specific series, two or more persons holding or representing in the aggregate not less than 75 per cent. of the aggregate principal amount outstanding of all the relevant series of notes, or at any adjourned meeting two or more persons holding or representing in the aggregate not less than 25 per cent. of the aggregate principal amount outstanding of each series of notes; and (ii) in respect of a meeting convened in relation to more than one series, two or more persons holding or representing in the aggregate not less than 75 per cent. of the aggregate principal amount outstanding of all the relevant series of notes or at any adjourned meeting, two or more persons holding or representing in the aggregate not less than 25 per cent. of the aggregate principal amount outstanding of notes of all relevant series.

Subject to the restrictions described in the second paragraph of this condition 14(a) (*Meetings of noteholders; modification and waiver – meetings of noteholders*), any extraordinary resolution duly passed shall be binding on all noteholders of all series (whether or not they are present at the meeting). The majority required for an extraordinary resolution shall be 75 per cent. of the votes cast on that extraordinary

resolution. The issuer security trust deed contains provisions regulating the effect of extraordinary resolutions of the noteholders.

(b) *Modification and waiver*

The issuer security trustee may agree, without the consent of the noteholders, (i) to any modification (except a basic terms modification) of, or to the waiver or authorisation of any breach or proposed breach of, the notes or any series thereof (including these conditions) or any other related document, the loan note tranches in respect of a series, the issuer security trust deed and the issuer security trust deed supplement and which is not, in the sole opinion of the issuer security trustee, materially prejudicial to the interests of any noteholders; or (ii) to any modification of any of the provisions of these conditions or any of the related documents which, in the sole opinion of the issuer security trustee, is of a formal, minor or technical nature or is to correct a manifest error. The issuer security trustee shall not waive or authorise (i) in contravention of any express direction by an extraordinary resolution (but so that no such direction or request shall affect any authorisation, waiver or determination previously given or made); or (ii) any such proposed breach or breach relating to a basic terms modification. Any such modification, authorisation or waiver shall be binding on the relevant noteholders and, unless the issuer security trustee agrees otherwise, shall be notified by the issuer to the noteholders in accordance with condition 16 (*Notices and provision of information*) as soon as practicable thereafter. Notwithstanding that none of the issuer security trustee and the noteholders may have the right of recourse against each of Standard & Poor's, Moody's and Fitch Ratings in respect of any confirmation given by them and relied upon by the issuer security trustee, where each of Standard & Poor's, Moody's and Fitch Ratings have affirmed in writing to the issuer that an action under or in relation to the notes or the issuer security trust deed or any other related document will not result in the withdrawal or reduction with respect to the current underlying rating of all relevant classes of notes, the issuer security trustee in considering whether such action is materially prejudicial to the interests of the noteholders of any class, shall be entitled but not bound to take into account such affirmation **provided that** the issuer security trustee shall continue to be entitled but not bound to take into account any other matters it considers to be relevant in considering whether such action is materially prejudicial.

(c) *Substitution*

As more fully set forth in the issuer security trust deed (and subject to the conditions and more detailed provisions which are contained therein) subject to such amendment of the issuer security trust deed and such other conditions as the issuer security trustee may require, but without the consent of the noteholders, the issuer security trustee may also agree to the substitution of any other body corporate in place of the issuer (the "**substituted issuer**") as principal debtor under the issuer security trust deed and the notes and in the case of such a substitution the issuer security trustee may agree, without the consent of the noteholders, to a change of the law governing the notes and/or the issuer security trust deed **provided that** such change would not in the sole opinion of the issuer security trustee be materially prejudicial to the interests of the noteholders. Any such substitution or addition shall be notified by the issuer to the noteholders in accordance with condition 16 (*Notices and provision of information*) as soon as practicable thereafter.

15. **Replacement of note certificates**

If any note certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the registrar and the transfer agent having its specified office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the issuer may reasonably require. Mutilated or defaced note certificates must be surrendered before replacements will be issued.

16. **Notices and provision of information**

(a) *Valid notices*

Any notice to noteholders shall be validly given if such notice is published in a leading daily newspaper printed in the English language and having general circulation in London (which is expected to be the Financial Times) or, if this is not practicable, in another leading English language newspaper as the issuer security trustee shall approve in its sole discretion having general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner required in the newspaper referred to above.

Any notice specifying an issuer payment date, a rate of interest, an interest amount, a note principal payment, a principal amount outstanding or a pool factor shall be deemed to have been duly given if the information contained in such notice appears on a page of the Reuters Screen or such other medium for the electronic display of data as may be approved in writing by the issuer security trustee and notified to the noteholders in accordance with the preceding paragraph. Any such notice will be deemed to have been given on the first date on which such information appeared on the relevant screen.

(b) *Other methods*

The issuer security trustee shall be at liberty to sanction some other method of giving notice to the noteholders or to a class or category of them if, in its sole opinion, such other method is reasonable having regard to market practice then prevailing and to the requirements of the stock exchange, competent listing authority and/or quotation system on or by which the notes are then listed, quoted or traded and **provided that** notice of such other method is given by the issuer to the noteholders in such manner as the issuer security trustee shall require.

(c) *Provision of information*

The issuer shall, during any period in which it is not subject to and in compliance with the reporting requirements of Section 13 or 15(d) of the United States Securities Exchange Act of 1934 (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, duly provide to any holder of a note which is a "restricted security" within the meaning of Rule 144(a)(3) under the Securities Act or to any prospective purchaser of such securities designated by such holder, upon the written request of such holder or (as the case may be) prospective holder addressed to the registrar and delivered to the registrar or to the specified office of the registrar, the information specified in Rule 144A(d)(4) under the Securities Act.

17. **Currency indemnity**

If any sum due from the issuer in respect of the notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the issuer; (b) obtaining an order or judgment in any court or other tribunal; or (c) enforcing any order or judgment given or made in relation to the notes, the issuer shall indemnify each noteholder, on the written demand of such noteholder addressed to the issuer and delivered to the issuer or to the specified office of the principal paying agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency; and (ii) the rate or rates of exchange at which such noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the issuer and shall give rise to a separate and independent cause of action.

18. **Rounding**

For the purposes of any calculations referred to in these conditions (unless otherwise specified in these conditions or the relevant final terms), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.); (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up); and (c) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

19. **Redenomination, renominatisation and reconventioning**

- (a) *Application:* This condition 19 (*Redenomination, renominatisation and reconventioning*) is applicable to the notes only if it is specified in the relevant final terms as being applicable.
- (b) *Notice of redenomination:* If the country of the specified currency becomes or, announces its intention to become, a participating member state, the issuer may, without the consent of the noteholders on giving at least 30 days' prior notice to the noteholders and the paying agents, designate a date (the "**redenomination date**"), being an issuer payment date under the notes falling on or after the date on which such country becomes a participating member state.
- (c) *Redenomination:* Notwithstanding the other provisions of these conditions, with effect from the redenomination date:
 - (i) the notes shall be deemed to be redenominated into euro in the denomination of euro 0.01 with a principal amount for each note equal to the principal amount of that note in the specified currency, converted into euro at the rate for conversion of such currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided, however, that**, if the issuer determines, with the agreement of the principal paying agent then market practice in respect of the redenomination into euro 0.01 of internationally offered securities is different from that specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the issuer shall promptly notify the noteholders each listing authority, stock exchange and/or quotation system (if any) by which the notes have then been admitted to listing, trading and/or quotation and the paying agents of such deemed amendments; and
 - (ii) if notes have been issued in definitive form, new note certificates denominated in euro will be issued in exchange for note certificates denominated in the specified currency in such manner as the principal paying agent may specify and as shall be notified to the noteholders in a notice specifying that new note certificates denominated in euro and available for exchange (the "**redenomination notice**").
- (d) all payments in respect of the notes exchanged in accordance with this condition (other than, unless the redenomination date is on or after such date as the specified currency ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the redenomination date) will be made solely in euro.
- (e) *Interest determination date:* If the floating rate note provisions are specified in the relevant final terms as being applicable and screen rate determination is specified in the relevant final terms as the manner in which the rate(s) of interest is/are to be determined, with effect from the redenomination date the interest determination date shall be deemed to be the second TARGET settlement day before the first day of the relevant issuer interest period.

20. **Non petition**

The noteholders shall not be entitled to take any steps (otherwise than in accordance with the issuer security trust deed, any issuer security trust deed supplement and/or these conditions):

- (a) to enforce the issuer security other than when expressly permitted to do so under condition 12 (*Enforcement*); or
- (b) to take or join any person in taking steps against the issuer for the purpose of obtaining payment of any amount due from the issuer to it; or
- (c) to initiate or join any person in initiating any Insolvency Proceedings in relation to the issuer or the appointment of an Insolvency Official in relation to the issuer or in relation to the whole or any substantial part of the undertakings or assets of the issuer; or
- (d) to take any steps or proceedings which would result in any of the issuer priorities of payment not being observed.

21. **Third party rights**

No person shall have any right to enforce any term or condition of the notes, the issuer security trust deed or any issuer security trust deed supplement under the Contracts (Rights of Third Parties) Act 1999.

22. **Governing law and jurisdiction**

The issuer security trust deed, any issuer security trust deed supplements and the notes are governed by, and shall be construed in accordance with, English law. The courts of England are to have non-exclusive jurisdiction to settle any disputes which may arise out of or in connection with the issuer security trust deed, any issuer security trust deed supplements and the notes. The parties to the issuer security trust deed and any issuer security trust deed supplement irrevocably submit to the non-exclusive jurisdiction of the courts of England.

23. **Specified offices**

The initial specified office of the initial registrar, the initial agent bank, the initial calculation agent and the initial principal paying agent is at One Canada Square, London E14 5AL, United Kingdom (the "**specified offices**").

MATURITY AND REPAYMENT CONSIDERATIONS

The weighted average lives of any series of notes cannot be stated, because the actual rate of repayment of the mortgage loans and any associated mortgage reserve and redemption of the mortgages and a number of other relevant factors are unknown. Calculations of the possible average lives of any series of notes can be made, however, based on certain assumptions. The assumptions used to calculate the possible weighted average lives of the notes are:

- (a) each note is repaid in full by its final maturity date;
- (b) neither the issuer security nor the funding security has been enforced;
- (c) no asset trigger event or non-asset trigger event occurs;
- (d) no event occurs that would cause payments on any notes to be deferred;
- (e) in the case of all notes other than in respect of any money market notes, the issuer exercises its option to redeem the relevant notes on the date on which the interest rate for such notes steps-up;
- (f) each payment made by the issuer to the noteholders is paid on the 20th day of the relevant month in which such payment is payable, regardless of whether such date is a business day;
- (g) no interest or fees are paid from mortgages trust principal receipts, funding available principal receipts or issuer available principal receipts;
- (h) the mortgage loans are not subject to any defaults or losses and no mortgage loan falls into arrears;
- (i) the size of the mortgages trust as at the relevant issue date is as specified in the applicable final terms;
- (j) the long-term, unsecured, unsubordinated and unguaranteed debt obligations of the seller continue to be rated at least AA- by S&P, Aa3 by Moody's and AA- by Fitch; and
- (k) each class of notes are not redeemed in accordance with Condition 7(d) items (iii) or (iv) ("*Optional early redemption of the notes*").

Assumptions (a), (d) and (e) reflect the issuer's current expectations, although no assurance can be given that repayment of each series of notes will occur as described. Assumptions (b), (c), (f), (g), (h), (i), (j) and (k) relate to unpredictable circumstances.

Based on the foregoing assumptions, the approximate weighted average lives of each series of notes, at various constant payment rates for the mortgage loans, will be as specified in the relevant final terms. Prospective investors should however note that weighted average lives of a series of notes are subject to factors largely outside of the control of the issuer and consequently no assurance can be given that any stated assumptions or estimates set out in this base prospectus or final terms are realistic and they must therefore be viewed with considerable caution. (See "*Risk Factors – Considerations relating to yield prepayments*").

MATERIAL LEGAL ASPECTS OF THE MORTGAGE LOANS AND THE RELATED SECURITY

Material legal aspects of the mortgage loans

The following discussion is a summary of the material legal aspects of English/Scottish and Northern Irish residential property loans and mortgages. It is not an exhaustive analysis of the relevant law.

English mortgages

General

There are two parties to a mortgage. The first party is the mortgagor, who is the borrower and homeowner. There may in certain instances in relation to the mortgage loans be two individuals who are jointly and severally the mortgagor, the borrower and homeowner. The mortgagor grants the mortgage over its property. The second party is the mortgagee, who is the lender. Each loan will be secured by a mortgage, which is either registered first as a first legal charge or in the event it is not registered first, takes priority pursuant to a priority arrangement with, *inter alios*, the existing mortgages, and accordingly is a mortgage which has a ranking priority in accordance with the arrangement over all other mortgages secured on the property and over all unsecured creditors of the borrower, except in respect of certain statutory rights, such as certain rights of HMRC, which are granted statutory priority. Some loans are secured by both a first and a second legal charge in favour of the seller. Each borrower is prohibited under the English mortgage conditions from creating another mortgage or other secured interest over the relevant property without the consent of the seller.

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. Title to the land is established by entries on the register relating to that land.

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, those classified as overriding interests, those classified as minor interests (as between the landowner and the beneficiary of those interests only and when the landowner has notice of those interests) and (in the case of leasehold land) all implied and express covenants, obligations and liabilities incident to the land.

The land register will reveal the present owner of the land, together with any legal charges and other interests in the land. The Land Registration Act 2002 provides that some interests in land will bind the land even though they are not capable of registration at the Land Registry. The land register 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 happening 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. Priority of mortgages over registered land is governed by the date of registration of the mortgage rather than date of creation or may also be governed by priority arrangements where certain mortgagees may agree that a subsequent registered mortgage has priority over a prior registered mortgage. 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 any interest which is received by the Land Registry during this priority period.

In the system of unregistered land, the first 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 that first mortgagee. Priority of mortgages over unregistered land is governed first by the possession of title deeds, and in relating to the 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 the section "*Risk factors – Seller to initially retain legal title to the mortgage loans*".

Enforcement of mortgages

If a borrower defaults under a mortgage loan (which includes circumstances where the borrower has failed to pay the equivalent of two monthly payments under the relevant mortgage loan, where the borrower is in breach of the mortgage conditions or relevant statutory provisions, or where the borrower has been served with a notice requiring payment of all or part of an interest only mortgage loan and such borrower have failed to make the required payment for three months after the service of such notice), the English mortgage conditions provide that all monies under the loan will become immediately due and payable and the seller has the right to enforce its security by taking legal proceedings to obtain possession of the mortgaged property and exercising its power of sale over the property. The seller or its successors or assigns would then be entitled to recover all outstanding principal, interest and fees following the repossession and sale of the mortgaged property 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 mortgage loan and further, may close the relevant current account of the borrower. Enforcement may occur in a number of ways, including the following:

- (i) 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;
- (ii) The mortgagee may lease the property to third parties;
- (iii) 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;
- (iv) The mortgagee may appoint a receiver to deal with income from the property or exercise other rights delegated to the receiver by the mortgagee. A receiver is the agent of the mortgagor and so, unlike when the mortgagee enters possession of the property, in theory the mortgagee is not liable for the receiver's acts or as occupier of the property. In practice, the receiver will require indemnities from the mortgagee that appoints it; and
- (v) 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.

In the event any sale proceeds are insufficient to meet the repayment obligations of the borrower, the borrower must repay the shortfall to the lender of the relevant mortgage account, on demand with interest. The mortgage will remain until all amounts outstanding under the mortgage account is repaid in full, although the lender has discretion (but is not obliged) to discharge the mortgage provided the borrower still has the obligation to repay such shortfall.

Reference Mortgage Reserves and the Related Security

The related security that is assigned to the mortgages trustee secures both the mortgage loans and the associated reference mortgage reserves. While the mortgages trustee, in the event of enforcement, may apply the proceeds it recovers to any shortfalls in the amounts owing to it under the mortgage loans, the mortgages trustee will not be able to apply the proceeds to any shortfalls in amounts owing under the associated reference mortgage reserves as these amounts are not assigned to the mortgages trustee and remain owing to the seller. Accordingly, in these circumstances, the mortgages trustee shall be required to pay such amounts it receives upon enforcement relating to the associated reference mortgage reserves directly to the seller, for the seller to apply same to the associated reference mortgage reserves and the seller shall in turn be required to repay the corresponding amounts to the mortgages trustee under the MRCLN note purchase facility agreement. The mortgage sale agreement and the MRCLN note purchase facility agreement shall allow the mortgages trustee to set-off such amounts payable to the seller in relation to the proceeds it receives from enforcement of the related security which are to be applied to the associated reference mortgage reserves against the corresponding amounts payable by the seller under the MRCLN note purchase facility agreement as a result of a payment under the relevant reference mortgage reserve.

Scottish mortgages

General

A standard security is the only means of creating a fixed charge or a fixed security interest over heritable 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, who is the lender, is termed 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 which will also rank in priority to all unsecured creditors of the borrower.

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 enforcement, and in particular the notice and other procedures required as a preliminary to the exercise of the heritable creditor's rights on a default by the borrower and the borrower's rights of redemption.

Nature of property as security

Title to land in Scotland is either recorded in the Register of Sasines (being a deed based register) or registered in the Land Register of Scotland (being a map based register). Title to residential property in Scotland is described either as ownership (being broadly the equivalent of freehold title in England and Wales) or leasehold (such category of title being extremely rare).

Land Register

This system of registration was established by the Land Registration (Scotland) Act 1979. Since that time it has been introduced on a county by county basis, and with effect from 1 April 2003 applies to the whole of Scotland. Once a county has been designated as falling within the system, the first sale of any parcel of land therein or the occurrence of certain other events in relation thereto (but not the granting of a standard security alone) trigger its registration in the Registrars of Scotland, 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 Registrars of Scotland 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. Such certificates are either in paper form or electronic. A person registered in the Registrars of Scotland owns the land free from all interests other than those entered on the Registrars of Scotland, 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 of the land. While this plan is not in all circumstances conclusive as to the location of the boundaries of the land, it cannot be amended if this would be to the prejudice of a proprietor in possession of the land, unless this indemnity has been expressly excluded in the land certificate itself.

General Register of Sasines

Title to all land in Scotland where no event has yet occurred to trigger registration in the Land Register falls to be 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 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 Registrars of Scotland or the General Register of Sasines (as applicable) in order to secure priority over any subsequent standard security. Priority of standard securities is (subject to express agreement to the contrary between the security holders) governed by the date of registration or recording (being the date of creation) rather than the 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 will be given effect by a declaration of trust by the seller (and any sale of Scottish mortgages in the future will be given effect by further declarations of trust), by which the seller's interest in the Scottish mortgages will be transferred to the mortgages trustee. The interest of the mortgages trustee as beneficiary under the declaration of trust (as opposed to the legal title) cannot be registered in the Land Register or the General Register of Sasines. The consequences of this are explained in the section "*Risk Factors – Seller to initially retain legal title to the mortgage loans*".

Enforcement of mortgages

If a borrower defaults under a loan, the Scottish mortgage conditions provide that all monies under the loan will become immediately due and payable and the seller has the right to enforce its security by taking legal proceedings to obtain possession of the mortgage property and exercising its power of sale over the property. 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):

- (a) 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;
- (b) the heritable creditor may lease the property to third parties;
- (c) 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; and

- (d) 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. The remedy is however rarely used.

In contrast to the position in England and Wales, the heritable creditor has no power to appoint a receiver under the standard security.

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 and expenses incurred by the lender in relation to that standard security and interest.

Northern Irish mortgages

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 loan will be secured by a mortgage (in the case of unregistered land) or a charge (in the case of registered land) which has a first ranking priority over all other mortgages secured on the property and over all unsecured creditors of the borrower, except in respect of certain statutory rights, such as the rights of HMRC, which are granted statutory priority. Each borrower is prohibited under the Northern Irish mortgage conditions from creating another mortgage or other secured interest over the relevant property without the consent of the seller.

Nature of property as security

There are two types 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 folio number. Title to the land is established by entries on the land certificate relating to that land.

There are six classes of registered title. The best form of title is absolute title. The estate of the registered owner is subject to entries appearing on the folio, certain burdens affecting the estate and any duties and liabilities arising from any trust subject to which the registered owner previously held the land. Otherwise, excluding the possibility of the title to mineral rights being vested in some other person or body, the registered owner holds his estate free from all other rights including rights of the Crown. In the case of a leasehold with absolute title, the title is subject to all express and implied covenants, conditions and liabilities incident to the lease under which the estate is held.

Good fee farm grant and good leasehold titles are the best form of title that can be obtained by a person holding under a fee farm grant or lease who is not in a position to prove the title of his grantor or lessor. They are granted where the registrar can guarantee title under the fee farm grant or lease but not the priority of the actual grant or lease itself nor, in the case of a good leasehold title, perhaps even the validity of the lease.

A possessory title carries no guarantee that the first registered owner is, or was, entitled to be registered as such. However, having established the validity of the title of the first registered owner the purchaser of a possessory title is entitled to rely on the register as giving an accurate picture of the title as derived from him.

A qualified title is a residuary class of title available when the Registrar is unable to comply with an application for registration with an absolute, good fee farm grant or good leasehold title because insufficient evidence has been deduced or examination of the title has revealed some defect.

Deemed possessory title, which is inferior to absolute title, is available where the title has been registered subject to certain unregistered rights in a property which existed at the time of first registration but which were not required to be investigated fully.

The land certificate will reveal the present owner of the land, together with any legal charges and other interests in the land. The Land Registration (Northern Ireland) Act 1970 provides that some interests in land will bind the land even though they are not capable of registration at the Land Registry of Northern Ireland. The Land Registry 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 unregistered land in Northern Ireland is now subject to compulsory registration on the happening of any of a number of trigger events, which includes sale of the property. The grant of security does not trigger compulsory first registration in Northern Ireland. Title to unregistered land is proved by establishing a chain of documentary evidence to title going back at least 40 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.

Taking security over land

Where land is registered, a mortgagee must register its mortgage at the Land Registry of Northern Ireland in order to secure priority over any subsequent mortgagee. 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 any interest which is received by the Land Registry of Northern Ireland during this priority period.

In the system of unregistered land, the mortgagee protects its interest by registering the mortgage at the Registry of Deeds of Northern Ireland and, in some cases, 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 by the date of registration at the Registry of Deeds.

The seller as mortgagee

The sale of the Northern Irish mortgages by the seller to the mortgages trustee will take effect in equity only. The mortgages trustee will not apply to the Land Registers of Northern Ireland or the Registry of Deeds of Northern Ireland to register or record its equitable interest in the mortgages. The consequences of this are explained in the section "*Risk factors – Seller to initially retain legal title to the mortgage loans*".

Enforcement of mortgages

If a borrower defaults under a loan, the Northern Irish mortgage conditions provide that all monies under the loan will become immediately due and payable and the seller has the right to enforce its security by taking legal proceedings to obtain possession of the mortgaged property and exercising its power of sale over the property. 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:

- (i) 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 maybe personally liable for mismanagement of the property and to third parties as occupier of the property;
- (ii) the mortgagee may lease the property to third parties;

- (iii) 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;
- (iv) the mortgagee may appoint a receiver to deal with income from the property or exercise other rights delegated to the receiver by the mortgagee. A receiver is the agent of the mortgagor and so, unlike when the mortgagee enters possession of the property, in theory the mortgagee is not liable for the receiver's acts or as occupier of the property. In practice, the receiver will require indemnities from the mortgagee that appoints it; and
- (v) 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 Acts 1881 and the Law of Property Act 1911. The purchaser of a property sold pursuant to a mortgagee's power of sale becomes the owner of the property.

REGULATION OF THE UK RESIDENTIAL MORTGAGE MARKET

Introduction

Until 31 October 2004, the primary mandatory regulatory requirements which were applicable to certain mortgage loans were imposed by the Consumer Credit Act 1974 (the "CCA"). The CCA imposes requirements on Mortgage Loans and Further Advances which are regulated credit agreements ("**regulated credit agreements**"). Mortgage Loans and Further Advances entered into prior to 6 April 2008 will be subject to the CCA if the "amount of credit" (as defined in the CCA) does not exceed the £25,000 financial limit or the loan is not otherwise exempt. On 6 April 2008 the £25,000 threshold was removed with the effect that unless an exemption applies, a loan of any amount entered into after that date could be subject to the CCA.

As of 31 October 2004, most mortgage loans are regulated under the Financial Services and Markets Act 2000 (the "**FSMA**") and not the CCA. Prior to 31 October 2004, the seller had subscribed to the mortgage code which was a voluntary code of conduct in relation to residential mortgages but which was superseded on 31 October 2004 when residential mortgages became regulated under FSMA. The FSMA applies to regulated mortgages, as defined in Article 61(3) of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (the "**order**"), originated after 31 October 2004 ("**regulated mortgage loans**"). It will not therefore include variations to existing agreements except where such variations would constitute a novation of the existing contract and a new contract being entered into with the borrower and that contract constitutes a regulated mortgage loan or any further advances on mortgage loans which were originated prior to 31 October 2004. A regulated mortgage loan is a contract under which the lender provides credit to an individual or trustees and the contract provides for the obligations of the borrower to be secured by a first legal mortgage (or, in Scotland, a first ranking standard security or, in Northern Ireland, by a first ranking mortgage or charge) on land located (other than timeshare accommodation) in the United Kingdom where at least 40 per cent. of the land is (or is intended) for residential use by the borrower or by an individual who is the beneficiary of the trust or by his or her immediate family. Regulated mortgage loans are not subject to CCA requirements, but are subject to requirements imposed by the Financial Services Authority (the "**FSA**"). Any mortgage loans or further advances, as the case may be, which may be included in the mortgage loan portfolio and which have been or are originated after 31 October 2004 may need to comply with these FSA requirements.

Regulated mortgage loans that would (except for the new regulatory regime for mortgage lending) be regulated under the CCA will, however, be enforceable only under court order obtained pursuant to Section 126 of the CCA, notwithstanding their regulation under the FSMA.

The Financial Services and Markets Act 2000 (Consequential Amendments) Order 2005 came into force on 16 November 2005. This order, which amends sections 82 and 146 of the CCA, is intended to remove the possibility that a mortgage agreement could fall to be regulated in certain circumstances under both FSMA and the CCA.

Thus, regulated mortgage loans are subject to the FSMA and the mortgage conduct of business rules set out in the FSA Handbook ("**MCOB**") enforced by the FSA. Mortgage loans which do not fall within the definition of a regulated mortgage loan (for example, second charge mortgages) and which are regulated credit agreements (for example, loans not exceeding £25,000) will be subject to the CCA (enforced by the OFT), and mortgage loans which are neither regulated mortgage loans nor regulated credit agreements will not be subject to their regulatory requirements. See "*Recent reforms to the Consumer Credit Act 1974 and subordinate legislation*" below for details of changes to the criteria for regulated credit agreements which may result in the extension of the CCA regulatory regime to include any mortgage loans for non-business purposes which are not regulated mortgage loans.

Mortgage loans regulated by the Consumer Credit Act 1974

A licence is required from the OFT to originate regulated credit agreements and in order to carry out certain other activities relating to regulated credit agreements. The OFT can take formal proceedings to revoke the licences of those it considers to be unfit to hold a licence. In the event that the licence is revoked, the former holder of the licence no longer is able to carry on a consumer credit business. Loans made by unlicensed lenders or introduced by unlicensed credit brokers are unenforceable without an order from the OFT.

The OFT may issue guidance for licence holders which sets out practices which the OFT considers could call into question a licence holder's fitness to continue to hold a consumer credit licence. Such guidance does not have the force of law, but breach of it may be taken into account by the OFT in assessing a person's fitness to hold a consumer credit licence. The OFT has issued guidance entitled "*Non-Status Lending Guidelines for Lenders and Brokers*" (the "**guidelines**") which is directed at mortgage lenders who lend to borrowers who may have difficulty obtaining credit on the basis of the general lending criteria of typical UK banks and building societies (often known as non-status, credit impaired or sub-prime borrowers). Further consideration of the guidelines is set out below.

The mortgage loan portfolio may contain mortgage loans and further advances which are regulated credit agreements. This may arise for mortgage loans made prior to 31 October 2004 and which (a) are partly regulated by the CCA in that they also finance the supply of insurance under arrangements with the supplier of the insurance; or (b) might be wholly or partly regulated by the CCA because of technical rules on determining whether the financial limit is exceeded; or (c) might be treated as wholly or partly regulated by the CCA because of technical rules on agreements varied mutually; or (d) are or are treated as wholly or partly regulated by the CCA as they were intended to be loans regulated by the CCA or entered into on documentation stated to be regulated by the CCA.

A Regulated Credit Agreement has to comply with requirements under the CCA as to content, layout and execution of the loan documentation. A Regulated Credit Agreement will be unenforceable (a) if the agreement to be signed by the borrower is not signed by the borrower or omits or misstates a "prescribed term"; or (b) without a court order, where a Regulated Credit Agreement fails to comply in other ways. Where the court has a discretion to enforce the agreement, in exercising its discretion whether to make the order, the court would take into account any prejudice suffered by the borrower and any culpability of the seller. The terms of a mortgage loan may also be reopened if a court finds an agreement to be an extortionate credit bargain within the meaning of the CCA.

Although no assurance can be given, in respect of those mortgage loans and/or further advances where the relevant mortgage loan was one which the seller expected, under the seller's lending criteria, to be regulated by the CCA and assuming that (i) the mortgage loan and/or further advance forms have been properly completed before execution and signed by the borrower; (ii) no charges exist that are outside the "total charge for credit" as defined in the CCA other than charges that are permitted to be excluded; (iii) technical rules on the inclusion within the calculation of the total charge for credit and the APR of the correct fees, charges and other amounts have been properly applied; (iv) technical rules on determining whether the financial limit is exceeded and the amount of credit to be stated in the agreement have been properly applied; and (v) no mortgage loan and/or further advance has been varied mutually; then it is unlikely that the mortgage loans and/or further advances would be unenforceable on the basis of non-compliance with requirements under the CCA as to content, layout and execution and otherwise save in exceptional circumstances.

Pursuant to the terms of the mortgage sale agreement, the seller will represent and warrant to, *inter alios*, the mortgages trustee that no agreement for any mortgage loan to be included in the mortgage loan portfolio is, or has ever been, wholly or partly regulated by the CCA (other than in relation to Sections 137 to 140 of the CCA) or constitutes an extortionate credit bargain under Sections 137 to 140 of the CCA or, to the extent that it is so regulated or partly regulated, such mortgage loan is a valid and binding obligation on the borrower and enforceable upon order of the court.

If a court order is necessary, and capable of being granted, to enforce a mortgage securing a mortgage loan and/or further advances, in dealing with such application, the court has the power, if it appears just to do so, to amend a mortgage loan and/or further advances which is a Regulated Credit Agreement or to impose conditions upon its performance or to make a time order (for example, giving extra time for arrears to be cleared).

Other liabilities may also arise under the CCA. In certain circumstances, lenders can be made responsible for misrepresentations and breaches of contract in respect of goods or services financed by a Regulated Credit Agreement. This may arise, for example, in relation to any insurance policies financed by the mortgage loan and may result in a claim by a borrower to set-off amounts due under a Regulated Credit Agreement.

Recent reforms to the Consumer Credit Act 1974 and subordinate legislation

In July 2001, the department of the UK government responsible for consumer credit legislation – the Department of Trade and Industry (the "DTI") – announced a review of the CCA with the intention of introducing reforms. The review has led to a number of changes, some of which are not yet in force.

On 31 May 2005 new statutory instruments under the CCA came into force amending the rules on (a) advertising of consumer credit, (b) the prescribed contractual information to be provided to borrowers prior to concluding consumer credit agreements and (c) the calculation of charges under consumer credit agreements. The amendments have some retrospective effect.

The amendments to the rules on calculation of early settlement charges have removed the use of the Rule of 78 calculation and replaced it with a different (actuarial) calculation for calculating rebates on the amounts that would otherwise be payable by consumers who settle a credit agreement early. This is likely to reduce the amount of the early repayment charge where the Rule of 78 is currently used. These amendments will apply to all mortgage loans that are regulated under the CCA and originated on or after 31 May 2005. They will also apply to all those mortgage loans made before 31 May 2005 from 31 May 2007 for agreements with a term not exceeding ten years and from 31 May 2010 for mortgage loans made before 31 May 2005 with a term exceeding ten years.

On 9 December 2004, the DTI laid before Parliament regulations further amending the CCA (i) in order to enable and facilitate the use of electronic communications for concluding regulated agreements (backed by signed hard copies) and when sending notices and other documents; and (ii) to ensure that all enforcement, default and termination notices are sent in paper format. Both sets of regulations came into force on 31 December 2004.

The Consumer Credit Act 2006, which amends the Consumer Credit Act 1974, was enacted in March 2006. Recent reforms which came into force include:

- (i) the removal of the £25,000 financial limit from the CCA in respect of credit for non-business lending (with the exception of buy to let lending);
- (ii) the exemption from the CCA regime of high net worth debtors and credit above the value of £25,000 where such credit agreement is entered into by the debtor predominantly for the purposes of a business carried on, or intended to be carried on, by him;
- (iii) the creation of an independent ombudsman service, allowing consumers to challenge agreements without court proceedings and the creation of a Consumer Credit Appeals Tribunal;
- (iv) the extension of the unfair relationship test to all existing credit agreements (except for those regulated by the FSA);
- (v) the strengthening of the powers of the Office of Fair Trading ("OFT") in relation to CCA licence holders;
- (vi) new provisions relating to the licensing of consumer credit businesses.

However, the new Consumer Credit Directive which is expected to be implemented by May 2010, may result in further amendment of the CCA and secondary legislation (see "*Consumer Credit Directive*" below).

Unfair relationships under the CCA

As from 6 April 2008 the unfair relationship test under Sections 140A to 140D of the CCA applies to all regulated credit agreements including those entered into prior to the commencement date of the unfair relationship test and those to which most CCA exemptions apply. For example, where a loan was exempt by the reason of the amount advanced or where a loan is an advance of credit for unrestricted use in respect of land (Sections 16(1) and (2) of the CCA), the unfair relationship provisions of the CCA will apply. It should be noted that the test does not apply to Regulated Mortgage Contracts (Section 140A(5)).

There is no statutory definition of what constitutes an unfair relationship. The provisions were kept intentionally wide to allow the courts to be able to consider a broad range of circumstances including the creditor's conduct before and after making the agreement.

If a Mortgage Loan subject to the unfair relationship test is found to be unfair, the court may require the creditor to repay sums to the debtor, to do, not do or cease doing anything in relation to the agreement, reduce or discharge any sums payable by the debtor or surety, return surety, alter the terms of the agreement, direct accounts to be taken or otherwise set aside any duty imposed on the debtor or surety. The term creditor as defined under section 189 of the CCA means the person providing the credit under a consumer credit agreement or the person to whom his rights and duties under the agreement have passed by assignment or operation of law.

Variations to agreements regulated by the CCA and the abolition of the financial threshold

The variation of credit agreements is regulated by section 82(2) of the CCA. Section 82 states that where an agreement (a "modifying agreement") varies or supplements an earlier agreement, the modifying agreement shall for the purposes of the CCA be treated as (a) revoking the earlier agreement and (b) creating a new combined agreement. Section 82 effectively operates to create a new CCA regulated agreement comprising the earlier agreement and the modifying agreement.

With the abolition of the £25,000 financial threshold on 6 April 2008, previously unregulated agreements which are varied or supplemented after this date could potentially fall within the scope of the CCA.

The Consumer Credit Act 2006 (Commencement No.4 and Transitional Provisions) Order 2008 (the "Order") provides that unregulated loans entered into prior to 6 April 2008 and subsequently varied, will not be subject to CCA regulation, if the variation (e.g. an interest rate switch) does not relate to the advance of further credit or an appropriate exemption applies. Notwithstanding the points above, many lenders do not treat further advances on unregulated loans as comprising a separate agreement but instead treat the loan (having been made before 6 April 2008) and further advance as a unitary agreement which avoids CCA regulation and therefore obviates the need to rely on the Order.

Loans regulated by the Financial Services Authority under the Financial Services and Markets Act 2000

As from 31 October 2004, a number of activities relating to regulated mortgage loans became "regulated activities" under Section 19 of the FSMA and the order and these activities require authorisation from the FSA. These activities are (a) entering into a regulated mortgage loan as lender; (b) administering a regulated mortgage loan (administering in this context includes notifying borrowers of changes in payments, interest rates or other notifiable matters and/or collecting payments due); (c) advising on regulated mortgage loans; (d) arranging regulated mortgage loans; and (e) agreeing to do any of the foregoing.

Barclays received its authorisation for all activities listed above on 22 October 2004. The mortgages trustees, funding and the issuer are each of the view that they do not require authorisation since their activities are such that they either do not fall within the regulated activities as defined in the order or they benefit from a specific exclusion in respect of those activities.

In addition, on or after 31 October 2004 no variation has been or will be made to the mortgage loans, and no further advance or product switch has been or will be made under the mortgage loans, where it would result in the mortgages trustee, funding or the issuer arranging or advising in respect of administering or entering into a regulated mortgage loan.

Authorisation by the FSA subjects Barclays to the full regulatory regime imposed by the FSMA and the FSA. In particular, Barclays is required to have in place full systems and controls, to ensure that those carrying out controlled functions are authorised by the FSA, to maintain prescribed prudential ratios, and its activities and regulated mortgage loans will be subject to the Financial Ombudsman Scheme. In addition, the regulated activities relating to regulated mortgage loans will be subject to mortgage conduct of business rules set out in MCOB.

MCOB sets out detailed rules that will apply to the origination of regulated mortgage loans. These rules include, but are not limited to, requirements (a) which place limitations on the types of inducements and commission which can be paid to introducers; (b) which regulate all advertising and other financial

promotions in relation to "qualifying credit promotions"; (c) to ensure the suitability of any advice provided; (d) on disclosure prior to conclusion of a regulated mortgage loan; (e) in relation to the format, layout and content of offer documentation; (f) to lend "responsibly" when entering into any regulated mortgage loan or further advance, including an express obligation to consider the customer's ability to repay; (g) that all charges (including the interest rate, settlement fees, default and arrears charges) are not "excessive" by reference to market rates; and (h) in relation to dealings with borrowers in arrears or facing repossession.

An authorised person who carries on a regulated activity in relation to a mortgage loan, other than in accordance with permission given to it by the FSA, or a failure to comply with the provisions of MCOB will not make regulated mortgage loans unenforceable. Regulated mortgage loans will only be unenforceable if the originator is not authorised or if they are originated following a regulated activity which is conducted by an unauthorised person in breach of the general prohibition, or as a result of a financial promotion which is not approved by an authorised person in breach of Section 21 of the FSMA. Breach of MCOB or the FSMA authorisation requirements by an FSA regulated entity could give rise to enforcement action by the FSA and is actionable by borrowers who suffer loss as a result of the contravention. In both cases, a Court may allow the regulated mortgage loan to be enforced against the borrower, if it considers it just and equitable to do so in the circumstances of the particular case. A breach could therefore give rise to a claim by a borrower to set-off sums due under a regulated mortgage loan.

The FSA has significant regulatory flexibility to alter its rules and to provide guidance on existing rules. No assurance can be given that the FSA will not change its rules or guidance or take a particular regulatory approach which may adversely affect Barclays' particular sector in the mortgage market or specifically Barclays. Any such development may have a material adverse effect on the issuer and/or the administrator and their respective businesses and operations.

Unfair Terms in Consumer Contracts Regulations 1994 and 1999

The Unfair Terms in Consumer Contracts Regulations 1994 and 1999 (the "**regulations**") apply to agreements made on or after 1 July 1995 and apply to standard form contracts entered into with individuals acting outside the scope of their trade, business or profession. The regulations provide that (a) a consumer may challenge a term in an agreement on the basis that it is "unfair" within the regulations and therefore not binding on the consumer and (b) the OFT the FSA and any other "qualifying body" may seek to enjoin (or in Scotland, interdict) a business against relying on unfair terms although the rest of the agreement will remain valid, if it can survive without the relevant term.

This will not generally affect "core terms" which set out the main subject matter of the contract (for example, the borrower's obligation to repay the principal) but may affect terms deemed to be ancillary terms, which may include interest variation provisions, the ability to choose a substitute for LIBOR where LIBOR cannot be determined under the mortgage loan and other terms the application of which are in the lender's discretion.

In February 2000, the OFT issued a guidance note (the "**guidance note**") on what the OFT considers "fair" or "unfair" within the regulations for interest variation terms. The guidance note accepts the principle of a term linking an interest rate to an external rate which is outside the lender's control. It provides that, generally, the OFT and Consumers' Association will not regard such term as unfair if the lender explains at the outset how the interest rate is linked to the external rate and, if the link does not provide for precise and immediate tracking, the maximum margin of difference, and the time limits within which changes will be made.

The guidance note was withdrawn from the OFT website a number of years ago. Prior to regulation by the FSA of regulated mortgages, it agreed with the OFT to take responsibility for the enforcement of the regulations in mortgage agreements.

In May 2005, the FSA issued a non-binding statement of good practice on fairness of terms in consumer contracts, with specific reference to the fairness of variation clauses. The statement is addressed to firms authorised and regulated by the FSA in relation to products and services within the FSA's regulatory scope, including regulated mortgage contracts. The statement provides, amongst other things, the FSA's views on the factors to be considered when assessing the fairness of variation clauses, particularly where such variation clauses are applied to contracts with locked-in borrowers (i.e. where, in order to withdraw

from the contract, the borrower is required to give advance notice or to pay a cost or to give up a benefit). Whilst the FSA provides that in general any information about interest rates, variations and notification of any changes should be clear fair and not misleading, the statement in particular specifies a variety of factors that should be considered in respect of variation clauses applied to contracts with locked-in borrowers. These factors include whether there is some connection between interest rates which apply to locked-in borrowers and those which apply to non-locked in borrowers; whether valid reasons for the change are stated clearly and unambiguously in the contract; and whether the borrower must be given advance notice of the change. Additionally, the FSA states that firms may consider drafting contracts so as to permit variations to be made only when any lock-in clause has not been exercised.

In January 2007, the FSA issued a non-binding statement of good practice on mortgage exit administration charges. The statement is addressed to firms in the same way as the May 2005 statement. The FSA states that it does not regard this statement as imposing any new obligations on lenders.

On 31 July 2006 a Concordat between the OFT and FSA became effective. The purpose of the Concordat is to ensure co-ordination of enforcement action and co-operation in delivery of consumer protection in relation to the UTCCR and the Enterprise Act 2002. The FSA published the Unfair Contract Terms Regulatory Guide in August 2007, which explains how the FSA utilises its powers under the UTCCR. Both the FSA and the OFT have issued guidance and undertakings relevant to mortgage contracts.

In August 2002, the Law Commission and the Scottish Law Commission issued a joint consultation on proposals (amongst other things) to consolidate the Unfair Contract Terms Act 1977 and the regulations into a single piece of legislation written in plain language. A final report (together with a draft Bill) was issued on 24 February 2005.

The Commissions recommendations include, but are not limited to:

- (a) rewriting the Unfair Contract Terms Act 1977 and the regulations so that there is a single piece of unfair terms legislation covering the whole of the UK which preserves the consumer protection currently contained in both pieces of legislation and extends to all the terms currently covered by the regulations;
- (b) extending the scope of consumer protection to negotiated clauses as well as standard form clauses, but not to "core" terms (that is, (i) the definition of the main subject matter of the contract provided it is substantially the same as the consumer reasonably expected and transparent; and (ii) the adequacy of the price so long as it is payable in circumstances substantially the same as those the consumer reasonably expected, calculated in substantially the same way as the consumer reasonably expected, not payable under a default or subsidiary term of the contract, and transparent);
- (c) requiring terms in consumer contracts to satisfy a 'fair and reasonable' test (for example, terms should be assessed according to whether they are transparent, their substance and effect and the circumstances in existence at the time the contract was made);
- (d) that the unified legislation contain a reformulated version of the indicative and non-exhaustive "grey" list of terms which may be regarded as unfair currently contained in the regulations;
- (e) subject to certain exceptions (including the exclusion of contracts entered into in pursuance of regulated financial services business, contracts in relation to land and contracts over £500,000), extending to businesses with nine or fewer staff the protections against unfair terms given to consumers under the regulations (including, but not limited to, allowing such businesses to challenge any type of standard term under the "fair and reasonable" test where the term has not been individually negotiated and is not a "core" term);
- (f) excluding from the definition of "consumer" a person who makes a contract for purposes mainly related to his or her business;
- (g) requiring that in claims brought by consumers, the burden of proof lies on the business to show that the term is fair, whilst in the exercise of preventive powers (such as the power to seek an injunction) it will be up to the OFT or other body to show that the term is unfair;

- (h) preventing businesses from relying on terms in consumer contracts unless the term is fair and reasonable and, where a term is shown to be unfair and unenforceable, allowing the contract to continue in existence if possible; and
- (i) that the rewritten Act will apply only to new contracts or variations of contract terms agreed after the commencement date of the rewritten Act.

No assurance can be given that changes to the regulations, if enacted, or changes to guidance on interest variation terms, if adopted, will not have an adverse effect on the mortgage loans, Barclays, the mortgages trustee, funding, the issuer or the administrator and their respective businesses and operations.

Non-statutory guidelines

Most mortgage lenders in the UK are members or associate members of the Council of Mortgage Lenders (CML). The seller and the administrator are full members of the CML. Prior to 1 November 2004 members of the CML agreed to abide by a voluntary code of good practice, the Mortgage Code, which set out a minimum standard of good mortgage business practices from marketing to lending procedures and dealing with borrowers experiencing financial difficulties. Compliance with the Mortgage Code was policed by the independent Mortgage Code Compliance Board. Many of the requirements imposed by the FSA and MCOB as of 31 October 2004 were already obligations imposed under the Mortgage Code. The Mortgage Code ceased to apply from 31 October 2004 and the Independent Mortgage Code Compliance Board has ceased its regulatory operations. However MCOB includes transitional arrangements which apply in respect of firms which are now FSA authorised for mortgage activities regarding complaints about mortgages sold under the Mortgage Code, which arise after 31 October 2004.

Potential for regulatory changes

In addition to the ongoing process of reform to the CCA set out above, the following developments may affect or lead to reform of the regulatory framework, legislation or rules applicable to mortgage lending.

Consumer Credit Directive

The Consumer Credit Directive (2008/48/EC) was adopted in April 2008. The Official Journal states that the directive should be implemented by member states by 12 May 2010. Once fully implemented, it will regulate consumer credit agreements between EUR 200 - 75,000 between credit providers and consumers. Notably, however, the Directive excludes a number of credit agreements from regulation including credit agreements secured by a mortgage (whether first or second mortgage) and credit agreements the purpose of which is to acquire or retain property rights in land. However, until the details of the implementing legislation are published, it is not certain what effect the adoption and implementation of the directive would have on the mortgage loans, Barclays, the issuer or the administrator and their respective businesses and operations. No assurance can be given that the finalised directive will not adversely affect the ability of the issuer to make payments to noteholders.

Proposed Mortgage Credit Directive

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 Consumer Credit Directive but will be covered by any initiatives resulting from the Green Paper process in relation to mortgage credit.

The White Paper on the Integration of EU Mortgage Credit Markets was published on 18 December 2007. In the paper, the Commission has stated that it is yet to be determined as to whether legislation is the most appropriate way forward. The Commission therefore undertook further assessments and cost-benefit analyses during 2008. The Commission has stated that no directive will be tabled if the costs of legislative measures outweigh their benefits.

On 14 March 2008, the European Commission published a notice, requesting tenders to undertake a nine month study on the costs and benefits of the different policy options for mortgage credit. No assurance can be given that the finalised directive or initiatives will not adversely affect the ability of the issuer to make payments to noteholders.

Consumer Protection from Unfair Trading Regulations 2008

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

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

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

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

The effect (if any) of the CPRs on the mortgage loans, the seller and their respective businesses and operations will depend on whether those entities engage in any of the practices described in the CPRs. Whilst engaging in an unfair commercial practice does not render a contract void or unenforceable, to do so is an offence punishable by a fine and/or imprisonment. In practical terms, the CPRs have not added much to the regulatory requirements already in place, such as treating customers fairly and conduct of business rules. Breach of the CPRs would initiate intervention by a regulator and /or an action for damages by borrowers who have suffered loss due to such activities.

No assurance can be given that the implementation of this directive will not adversely affect the ability of the issuer to make payments to noteholders.

Distance Marketing of Financial Services

With effect from 31 October 2004, the Distance Marketing of Financial Services Directive (the "**DMD**") has been implemented in the United Kingdom by way of the Financial Services (Distance Marketing) Regulations 2004 (the "**regulations**") and amendments to MCOB. In essence the regulations require that in respect of distance contracts, consumers have the right to receive certain information and, for some financial services, a right to cancel.

For the purposes of the regulations, a distance contract means "any contract concerning one or more financial services concluded between a supplier and a consumer under an organised distance sales or service-provision scheme run by the supplier or by an intermediary, who, for the purposes of that contract, makes exclusive use of one or more means of distance communication up to and including the time at which the contract is concluded". A similar definition is adopted in MCOB.

The regulations and MCOB require suppliers of financial services by way of distance communication to provide certain information to consumers. This information generally has to be provided before the consumer is bound by a distance contract for supply of the financial services in question and includes, but is not limited to, general information in respect of the supplier and the financial service; contractual terms and conditions; and whether or not there is a right of cancellation. In general, consumers of distance contracts have a right to cancel contracts for financial services during a set period after commencement of the contract. However, cancellation rights will not apply, amongst others, in the case of contracts for financial services where (i) the price of the service depends on fluctuations in the financial market outside the supplier's control (such as interest rate changes); (ii) the supplier provides credit to a consumer and

the consumer's obligation to repay is secured by a legal mortgage on land; or (iii) it is a restricted-use credit agreement (within the meaning of the CCA) to finance the purchase of land or an existing building, or an agreement for a bridging loan in connection with the purchase of land or an existing building. The above provisions may be enforced by way of injunction (interdict in Scotland) and any breach may render the seller and possibly its officers liable to a fine.

Any term in a distance contract will be void and unenforceable if, and to the extent that, it is inconsistent with the application of a provision of the regulations.

If a significant portion of the Mortgage Loans are characterised as being cancellable under the Regulations, then there could be an adverse effect on the issuer, which could affect the ability of the issuer to make payments to the noteholders.

Financial Ombudsman Service

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

TAXATION

United Kingdom taxation

The following is a summary of the issuer's understanding of the law and practice in the United Kingdom as at the date of this base prospectus in relation to the United Kingdom withholding taxation treatment of payments of principal and interest in respect of the notes. The comments do not deal with other United Kingdom tax aspects of acquiring, holding or disposing of the notes. The comments relate only to the position of persons who are absolute beneficial owners of the notes and may not apply to certain classes of persons, such as dealers or certain professional advisers.

The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their professional advisers. Noteholders who may be liable to tax in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects of payments in respect of the notes. In particular, noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.

(A) United Kingdom withholding tax

- (1) Each series of notes issued by the issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. Securities will be listed on a recognised stock exchange if they are admitted to trading on an exchange designated as a recognised stock exchange by an order made by the Commissioner for HM Revenue & Customs ("**HMRC**") and either they are included in the United Kingdom official list (within the meaning of Part 6 of the Financial Services and Markets Act 2000) or they are officially listed, in accordance with provisions corresponding to those generally applicable in European Economic Area states, in a country outside the United Kingdom in which there is a recognised stock exchange. The London Stock Exchange is a recognised stock exchange, and accordingly the Notes will constitute quoted Eurobonds provided they are and continue to be included in the United Kingdom official list and admitted by trading on the Regulated Market of that Exchange. Whilst the notes are and continue to be quoted Eurobonds, payments of interest on the notes may be made without withholding or deduction for or on account of United Kingdom income tax.
- (2) In all other cases, interest on the notes may fall to be paid under deduction of United Kingdom income tax at the basic rate (currently 20 per cent.) subject to such relief as may be available including under the provisions of any applicable double taxation treaty or to any other exemption which may apply.

(B) Provision of information

Noteholders should note that where any interest on the notes is paid to them (or to any person acting on their behalf) by the issuer or any person in the United Kingdom acting on behalf of the issuer (a "**paying agent**"), or is received by any person in the United Kingdom acting on behalf of the relevant noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "**collecting agent**"), then the issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to HMRC details of the payment and certain details relating to the noteholder (including the noteholder's name and address). These provisions will apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the noteholder is resident in the United Kingdom for United Kingdom tax purposes. Where the noteholder is not so resident, the details provided to HMRC may, in certain cases, be passed by HMRC to the tax authorities of the jurisdiction in which the noteholder is resident for taxation purposes.

With effect from 6 April 2008, the provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any notes where the amount payable on redemption is greater than the issue price of the notes.

The provisions referred to above also apply in certain circumstances to payments made on the redemption of any notes which constitute "deeply discounted securities" for the purposes of section 18 of the Taxes Management Act 1970 (although in this regard HMRC published practice for the year 2009/10 indicates that HMRC will not exercise its power to obtain information in relation to such payments in that year).

(C) EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each member state is required to provide to the tax authorities of another member state details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other member state; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain member states, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a member state. In addition, the member states have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a member state to, or collected by such a person for, an individual resident in one of those territories.

On 13 November 2008 the European Commission published a proposal for amendments to the Directive, which included number of suggested changes to the Directive. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

(D) Other points relating to United Kingdom withholding tax

- (1) Where interest has been paid under deduction of United Kingdom income tax, noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.
- (2) Where the notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.
- (3) The references to "interest" above mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the notes or any related documentation.
- (4) The above description of the United Kingdom withholding tax position assumes that there will be no substitution of an issuer pursuant to condition 14 of the notes and does not consider the tax consequences of any such substitution.

Jersey taxation

The following summary of the anticipated tax treatment in Jersey of the mortgages trustee is based on Jersey taxation law and practice in force at the date of this document and does not constitute legal or tax advice. Prospective investors should be aware that tax rules and practice and their interpretation may change.

The mortgages trustee will from the calendar year 2009 fall to be assessed under Article 123C of the Income Tax (Jersey) Law 1961, as amended (the "**1961 Law**"), as a non-financial services company, and as such will be subject to a general zero rate of income tax on all income other than receipts chargeable to tax under Schedule A of the 1961 Law (which relates broadly to income derived from the ownership or disposal of land in Jersey).

United States taxation

This discussion is not intended or written to be used, and cannot be used by any person, for the purpose of avoiding United States federal tax penalties, and was written to support the promotion or marketing of the transaction. Each prospective investor should seek advice based on such person's particular circumstances from an independent tax advisor.

The following is a summary of certain U.S. federal income tax consequences to a U.S. holder (defined below) of its acquisition, ownership and disposition of the notes. The following summary applies only to a U.S. holder that acquires a note on original issue at its "issue price" (the first price at which a substantial amount of notes is sold for money, excluding sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers) and holds such note as a "capital asset" (generally, property held for investment). In addition, the following summary does not discuss aspects of U.S. federal income tax law that may be applicable to a U.S. holder in light of its particular situation, including, among others, as an insurance company, a tax-exempt entity, a bank or other financial institution, an insurance company, a dealer or trader in securities or currencies, a U.S. holder that holds a note as part of a "straddle," "hedge" or "conversion transaction" for U.S. federal income tax purposes, a U.S. holder entering into "constructive purchase" or "constructive sale" transactions with respect to the notes, a U.S. holder that owns (or is deemed to own) 10 per cent. or more of the total voting power of all outstanding equity (including any notes treated as equity) of the issuer, a U.S. holder whose functional currency is not the U.S. dollar, or an expatriate.

The following summary is based on the provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), applicable Treasury Regulations, judicial authority and administrative rulings and practice in effect as of date of this offering, any of which may be appealed, revoked or otherwise altered with retroactive effect, thereby changing the U.S. federal income tax consequences discussed below. There is no assurance that the U.S. Internal Revenue Service (the "**IRS**") will not take a contrary view, and no ruling from the IRS has been or will be sought.

Prospective purchasers of the notes should consult their own tax advisers as to the particular U.S. federal income tax consequences to them of the purchase, ownership and disposition of the notes as well as the applicability and effect of any state, local, foreign or other tax laws.

As used herein, the term "**U.S. holder**" means a beneficial owner of a note that 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 for U.S. federal income tax purposes) created or organized under the laws of the United States or of any political subdivision thereof;
- (c) an estate whose income is subject to U.S. federal income taxation regardless of its source;
- (d) a trust, if both
 - (1) a court within the United States is able to exercise primary jurisdiction over the administration of the trust; and

- (2) one or more United States persons have the authority to control all substantial decisions of the trust; or
- (e) a trust in existence on 20 August 1996, and treated as a United States person prior to such date, that has elected to continue to be treated as a United States person.

If a partnership (including an entity treated as a partnership for U.S. federal income tax purposes) holds a note, the U.S. federal income tax treatment of a partner in such partnership generally will depend upon the activities of the partnership and the status of the partner. Therefore, partners in a partnership holding a note should consult their own tax advisers regarding the U.S. federal income tax consequences to such partners of the acquisition, ownership and disposition of the note by such partnership.

Treatment of the notes

The issuer will treat the classes of notes as defined in the final terms as the senior notes, (the "**senior notes**") as debt for U.S. federal income tax purposes, and each U.S. holder of a senior note, by acceptance of such senior note, will agree to such treatment. However, this agreement is not binding on the IRS, and no assurance can be given that the treatment of the senior notes as debt will prevail if such treatment were challenged by the IRS. In the event that a U.S. holder's senior notes were recharacterised as equity for U.S. federal income tax purposes, the tax consequences for the U.S. holder would be generally the same as those described below with respect to the classes of notes as defined in the final terms as the junior notes, (the "**junior notes**").

In light of the junior ranking and comparatively low credit rating of the junior notes, the issuer intends to treat them as equity of the issuer for U.S. federal income tax purposes. Each U.S. holder of a junior note, by acceptance of such junior note, will agree to such treatment. No assurance can be given that another treatment would not prevail, if treatment of the junior notes as equity of the issuer were challenged by the IRS.

Except where expressly stated otherwise, the remainder of this discussion assumes that, for U.S. federal income tax purposes, the senior notes will be treated as debt, and the junior notes will be treated as equity of the issuer. **Prospective investors should consult their own tax advisors regarding the proper treatment of the notes for U.S. federal income tax purposes.**

The 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)(5)(C) or 860G(a)(3) of the code, respectively.

Senior notes

Interest and original issue discount on the senior notes

In general, stated interest on a senior note that is considered "qualified stated interest" will be includible in the gross income of a U.S. holder when received or accrued in accordance with its regular method of tax accounting. "Qualified stated interest" is interest that is unconditionally payable at least annually at a single fixed or qualified floating rate. Stated interest on a senior note will be considered "unconditionally payable" if the U.S. holders are considered to have reasonable legal remedies to compel timely payments of such interest, or the senior notes provide terms and conditions that make the likelihood of late payment (other than a late payment that occurs within a reasonable grace period) or non-payment of such interest a "remote contingency" (i.e., there is a remote likelihood that the interest payment deficiencies will occur).

If the issue price of a senior note is less than its "stated redemption price at maturity" by more than a *de minimis* amount, the senior note will be considered to have been issued with original issue discount (or "**OID**"). The stated redemption price at maturity is the sum of all payments to be made on the senior note, including principal payments, other than payments of qualified stated interest. Payments on a class of senior notes that may be deferred until payments have been made on a more senior class of senior notes, will not be treated by the issuer as being qualified stated interest.

A U.S. Holder of senior notes issued with OID will be required to accrue and include in income the sum of the daily portions of the total OID on such senior notes for each day during the taxable year on which the U.S. Holder held such senior notes. In addition, a U.S. Holder should include any *de minimis* OID in

income proportionately as stated principal payments are received. Such *de minimis* OID should be treated as capital gain.

Depending on the terms of the senior notes, OID may be calculated based on a "constant yield method" or a "prepayment assumption method". The final terms for each series will indicate which method of calculating OID will be used for any senior notes of that series that are issued with OID.

If the prepayment assumption method applies, the amount of OID accruing for U.S. federal income tax purposes during each interest period over the term of a senior note will equal the excess, if any, of (i) the sum of (a) the present value as of the end of that interest period of all payments to be made under the senior note in future periods, plus (b) the amount of all payments made under the senior note during that interest period, over (ii) the adjusted issue price of the senior note as of the beginning of that interest period. For this purpose, the present value of the remaining payments on such a senior note as of the end of any interest period will be determined based on (i) the yield to maturity of the senior note as of the issue date of the senior note, (ii) an assumed rate of prepayment of the mortgage loans, and (iii) events (including actual prepayments) that have occurred since the end of the last interest period. In addition, the adjusted issue price of such a senior note at the beginning of any interest period will equal its issue price, increased by all accruals of OID in prior interest periods, and decreased by all payments under the senior note made in prior interest periods. These rules require the use of a prepayment assumption and an anticipated reinvestment rate, if any, relating to the senior notes. Regulations have not been issued that address how this should be done, though legislative history provides that Congress intended the prepayment assumption that is used in determining an initial offering price of Notes be used for this purpose.

The issuer intends to take the position, and the foregoing discussion assumes, that the senior notes will not be classified as "contingent payment debt obligations" for purposes of calculating OID. However, it is possible that the IRS will take a contrary view, and seek to so classify some or all of the senior notes that are not properly subject to the prepayment assumption method of calculating OID as being contingent payment debt obligations. If the IRS were successful in so classifying the senior notes, among other consequences, any gain recognised on the sale or disposition of such senior notes might be treated as ordinary income rather than as capital gain.

Interest on a senior note will be treated as arising from foreign sources for foreign tax credit purposes.

U.S. holders should consult their tax advisors as to the recognition of interest income with respect to the senior notes.

Additional considerations regarding interest and principal payments on senior notes denominated in a currency other than dollars

A U.S. holder who owns a senior note that is denominated in a currency other than dollars (a "**senior non-dollar note**") and who utilises the cash method of accounting for U.S. federal income tax purposes will be required to include in income the U.S. dollar value of any qualified stated interest payment received under such senior non-dollar note, based on the exchange rate in effect on the date of receipt, regardless of whether such payment is in fact converted into U.S. dollars at such time.

An accrual basis U.S. holder of a senior non-dollar note, or a U.S. holder using the cash method that is required to accrue OID on a senior non-dollar note, may use either of two methods to determine the amount of interest income, including OID, that is to be accrued in an interest period. Under the first accrual method, the amount of income accrued will be based on the average exchange rate in effect during the applicable interest period or, with respect to an interest period that spans two taxable years, the part of the period within the taxable year. Under the second accrual method, the U.S. holder may elect to determine the amount of income accrued on the basis of the exchange rate in effect on the last day of the interest period or, in the case of an interest period that spans two taxable years, the exchange rate in effect on the last day of the part of the period within the taxable year. If the last day of the issuer period is within five business days of the date the interest payment is actually received, an electing accrual basis U.S. holder may instead translate that interest at the exchange rate in effect on the day of actual receipt. Any election to use the second accrual method will apply to all debt instruments held by the U.S. holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. holder and will be irrevocable without the consent of the IRS.

Under either of the two accrual methods just described, a U.S. holder of a senior non-dollar note will recognise gain or loss with respect to accrued interest income on the date of receipt of the interest payment (including a payment attributable to accrued but unpaid interest upon the retirement or disposition of such note). The amount of gain or loss will equal the difference, if any, between the U.S. dollar value of the interest payment received (determined on the date the payment is received) in respect of the applicable interest period and the U.S. dollar value of the interest income that has accrued during that interest period (as determined under the accrual method utilised by the U.S. holder).

A U.S. holder of a senior non-dollar note that receives a payment of principal, other than on retirement of such senior non-dollar note, will generally recognise gain or loss equal to the U.S. dollar value of such payment, determined on the date the payment is received, and the U.S. dollar value of such payment, determined on the date the U.S. holder acquired the senior non-dollar note.

Any gain or loss recognised by a U.S. holder on the receipt of interest or principal payments on a senior non-dollar note under the rules described above will be ordinary income or loss and generally will be U.S.-source gain or loss for foreign tax credit limitation purposes.

A U.S. holder will have a tax basis in relevant non-dollar currency received as a payment of interest or principal on a senior non-dollar note equal to the U.S. dollar value of such currency, determined on the date such interest or principal is received. Any gain or loss recognised by a U.S. holder on a sale or other disposition of such currency (including an exchange of such currency for U.S. dollars) will be ordinary income or loss and generally will be U.S.-source gain or loss for foreign tax credit limitation purposes.

Sale, retirement or other taxable disposition of the senior notes

In general, a U.S. holder will recognize gain or loss upon the sale, retirement or other taxable disposition of a senior note in an amount equal to the difference between the amount of cash and the fair market value of the property received in exchange for the senior note (except to the extent attributable to the payment of accrued but unpaid qualified stated interest, which will be taxable as interest to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the senior note.

For purposes of computing gain or loss on a sale, retirement or other taxable disposition, a U.S. holder's adjusted tax basis will generally be the U.S. holder's cost or other basis in the senior note at the time the U.S. holder acquired it, increased by any accrued OID, and decreased by any payments that have been made on the senior note other than qualified stated interest payments. Gain or loss realized on the sale, retirement or other taxable disposition of a senior note will be long-term capital gain or loss, if the U.S. holder held the senior note for more than one year at the time of the sale, retirement or other taxable disposition. Such gain or loss recognized by a U.S. holder on the sale, retirement or other taxable disposition of a senior note generally will be U.S.-source for foreign tax credit limitation purposes (except to the extent described below in respect of senior non-dollar notes).

Additional considerations regarding the sale, retirement or other taxable disposition of senior notes denominated in a currency other than dollars

If a holder receives any currency other than U.S. dollars on a sale, retirement or other taxable disposition of a senior non-dollar note, the amount received will be determined based on the U.S. dollar value of such other currency on the date the payment is received or senior non-dollar note is disposed of. For purposes of determining the U.S. holder's adjusted tax basis in a senior non-dollar note, the cost of such senior non-dollar note is equal to the U.S. dollar value of the amount the U.S. holder paid for it (determined on the date of purchase), and the amount of any subsequent adjustments to basis is equal to the U.S. dollar value of such adjustments (determined on the dates of such adjustments).

Gain or loss will be realised on the sale, retirement or other taxable disposition of a senior non-dollar note that is attributable to fluctuations in the currency exchange rates between the time the senior non-dollar note was acquired and the time it is disposed of. Such gain or loss will equal the difference between the U.S. dollar value of the principal amount of the senior non-dollar note, determined on the date payment is received or the senior non-dollar note is disposed of, and the U.S. dollar value of such principal amount, determined on the date the U.S. holder acquired the senior non-dollar note. Such gain or loss will be realised only to the extent of the total gain or loss realized by the U.S. holder on the sale, retirement or other taxable disposition of the note. The gain or loss will be treated as ordinary income or loss and will generally be U.S.-source for foreign tax credit limitation purposes.

A U.S. holder will have a tax basis in currency, other than the U.S. dollar, received on the sale, retirement or other taxable disposition of a senior non-dollar note equal to the U.S. dollar value of such foreign currency, determined on the date the payment is received or the senior non-dollar note is disposed of. Any gain or loss realised by a U.S. holder on a sale or other disposition of such currency, including an exchange of such currency for U.S. dollars, will be ordinary income or loss and generally will be U.S.-source gain or loss for foreign tax credit limitation purposes.

Foreign tax credits

In the event that payments to a U.S. holder of interest on, or proceeds from the sale, redemption or other taxable disposition of, the senior notes are subject to a United Kingdom income or withholding tax, it may be possible for the U.S. holder to reduce or eliminate such United Kingdom income or withholding tax under the United States-United Kingdom income tax treaty. To the extent that the United States-United Kingdom income tax treaty does not reduce or eliminate such United Kingdom income or withholding tax, the U.S. holder may use such amounts as a credit against its U.S. federal income tax liability in respect of any such payments that are treated as foreign source income, or as a deduction to reduce its taxable income, in each case subject to certain limitations.

The statements in the preceding paragraph are based on the treaty and laws in force on the date hereof, which are subject to change.

Junior notes

Payments made under the junior notes prior to retirement

Subject to the passive foreign investment company rules discussed below, the gross amount of any payment made under a junior note prior to its retirement (a "**distribution**") generally will be taxable to a U.S. holder as a dividend to the extent of the issuer's current and accumulated earnings and profits as determined under U.S. federal income tax principles. The U.S. holder will not be eligible for any dividends received deduction in respect of the dividend otherwise allowable to corporations. Distributions in excess of earnings and profits will be non-taxable to the U.S. holder to the extent of, and will be applied against and reduce, the U.S. holder's adjusted tax basis in the junior notes. Distributions in excess of earnings and profits and such adjusted tax basis will generally be taxable to the U.S. holder as capital gain from the sale or exchange of property. The issuer does not calculate its earnings and profits under U.S. federal income tax principles.

A dividend will be included in income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the dividend is received by the U.S. holder.

Dividends with respect to a junior note will be treated as arising from foreign sources for foreign tax credit purposes and, with certain exceptions, as "passive" or, in certain cases, "financial services" income for purposes of determining the U.S. holder's foreign tax credit limitations.

A U.S. holder will have a tax basis in the relevant currency received as distributions equal to the U.S. dollar value of such currency, determined on the date such distributions are received. Any gain or loss recognised by a U.S. holder on a sale or other disposition of such currency (including an exchange of such currency for U.S. dollars) will be ordinary income or loss and generally will be U.S.-source gain or loss for foreign tax credit limitation purposes.

A U.S. holder may be required to accrue deemed distributions over the term of a junior note on a yield to maturity basis, under rules similar to the OID regulations discussed under "*Senior notes – Interest and original issue discount on the senior notes.*" To the extent that any such deemed distributions are dividends, a U.S. holder generally will recognise gain or loss attributable to fluctuations in the dollar/euro or sterling exchange rate between the time such dividends accrue and the time they are paid, which gain or loss will be treated as ordinary income or loss and generally will be U.S.-source for foreign tax credit limitation purposes. U.S. holders should consult their tax advisors regarding the possibility of deemed distributions on the junior notes, and regarding the possibility of recognition of gain or loss attributable to exchange rate fluctuations with respect to any deemed distributions that are dividends.

Sale, retirement or other taxable disposition of the junior notes

Subject to the passive foreign investment company rules discussed below, a U.S. holder generally will recognize gain or loss for U.S. federal income tax purposes upon the sale, retirement or other taxable disposition of junior notes in an amount equal to the difference between the amount of cash and the fair market value of the property received in exchange for the junior note and the U.S. holder's adjusted tax basis in the junior note. Such gain or loss will be long-term capital gain or loss, if the U.S. holder held the junior note for more than one year at the time of the sale, retirement or other taxable disposition. In addition, such gain or loss generally will be treated as from sources within the United States.

If a holder receives payments in a currency other than U.S. dollars on a sale, retirement or other taxable disposition of a junior note, the amount received will be determined based on the U.S. dollar value of such currency on the date the payment is received or junior note is disposed of. For purposes of determining the U.S. holder's adjusted tax basis in a junior note, the cost of such junior note is equal to the U.S. dollar value of the amount the U.S. holder paid for it (determined on the date of purchase), and the amount of any subsequent adjustments to basis is equal to the U.S. dollar value of such adjustments (determined on the dates of such adjustments).

A U.S. holder will have a tax basis in any currency other than the U.S. dollar received on the sale, retirement or other taxable disposition of a junior note equal to the U.S. dollar value of such foreign currency, determined on the date the payment is received or the junior note is disposed of. Any gain or loss realised by a U.S. holder on a sale or other disposition of such currency, including an exchange of such currency for U.S. dollars, will be ordinary income or loss and generally will be U.S.-source gain or loss for foreign tax credit limitation purposes.

Foreign tax credits

In the event that payments to a U.S. holder of distributions on, or proceeds from the sale, retirement or other taxable disposition of, the junior notes are subject to a United Kingdom income or withholding tax, it may be possible for the U.S. holder to reduce or eliminate such United Kingdom income or withholding tax under the United States-United Kingdom income tax treaty. To the extent that the United States-United Kingdom income tax treaty does not reduce or eliminate such United Kingdom income or withholding tax, the U.S. holder may use such amounts as a credit against its U.S. federal income tax liability in respect of any such payments that are treated as foreign source income, or as a deduction to reduce its taxable income, in each case subject to certain limitations. A U.S. holder must satisfy certain requirements in order to be entitled to a credit for withholding tax imposed on any distribution taxable to the U.S. holder as a dividend, including requirements relating to the U.S. holder's holding period for the junior notes. U.S. holders should consult their tax advisors regarding how these requirements apply with respect to their investment in the junior notes.

Passive foreign investment company considerations

A corporation organised outside the United States generally will be classified as a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (i) at least 75 per cent. of its gross income is "passive income", or (ii) on average at least 50 per cent. of the gross value of its assets is attributable to assets that produce "passive income" or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents, annuities and gains from commodities and securities transactions. The issuer will be treated as a PFIC for U.S. federal income tax purposes.

Because the issuer will be a PFIC, upon receipt of a distribution on junior notes, a U.S. holder will be required to allocate to each day in its holding period with respect to the junior notes, a *pro rata* portion of the distribution which is treated as an "excess distribution" (generally, any distributions received by the U.S. holder on the junior notes in a taxable year that are greater than 125 per cent. of the average annual distributions received by the U.S. holder in the three preceding taxable years or, if shorter, the U.S. holder's holding period for the junior notes), assuming the distributions are received in one currency (other than US dollars), the excess distribution is measured in that currency and each portion of the excess transferred into dollars at the spot rate for the date of the distribution to which it is allocated. Because interest is payable at a floating rate under the terms of the junior notes, it is possible that a U.S. holder will receive "excess distributions" as a result of fluctuations in such rate over the term of the junior notes. Any amount of an excess distribution treated as allocable to a prior taxable year will be subject to U.S.

federal income tax at the highest applicable rate for the year in question, plus an interest charge on the amount of tax deemed to be deferred. In addition, any gain from the sale, exchange or other disposition of the junior notes will be treated as excess distribution subject to taxation in the manner discussed above.

The foregoing rules with respect to distributions and dispositions may be avoided if a U.S. holder is eligible for and timely makes a valid "**QEF election**". A U.S. holder that makes this election will be required in each taxable year to include (a) as long-term capital gain its *pro rata* share of the issuer's net capital gain (i.e. the excess of net long-term capital gain over net short-term capital loss for the issuer's taxable year ending with or within the U.S. holder's taxable year) and (b) as ordinary income its *pro rata* share of the issuer's ordinary earnings (i.e. the excess of current earnings and profits for such taxable year over such net capital gain), regardless of whether the issuer distributes such amounts to the U.S. holder (although in some cases an electing U.S. holder may be entitled to defer taxation until the U.S. holder receives a distribution of such amounts, subject to an interest charge). For this purpose, a U.S. holder's *pro rata* share of the issuer's ordinary income and net capital gain is the amount which would have been distributed to the U.S. holder if, on each day during its taxable year, the issuer had distributed to each holder of an equity interest a *pro rata* share of that day's rateable share of the issuer's ordinary earnings and net capital gain for such year. If the issuer distributes the income or gain that was previously included in the U.S. holder's gross income, such distributions will be non-taxable to the U.S. holder. U.S. holders should, however, consult their tax advisors regarding the potential recognition of gain or loss on receipt of such distributions attributable to fluctuations in currency exchange rates between the time of inclusion of ordinary earnings or net capital gain and the time of receipt of corresponding non-taxable distributions. For purposes of determining gain or loss on the disposition (including redemption or retirement) of junior notes, a U.S. holder's initial tax basis in the junior notes will be increased by the amount so included in gross income with respect to the junior notes and decreased by the amount of any non-taxable distributions on the junior notes. In general, a U.S. holder making a timely QEF election will recognize, on the sale or disposition (including redemption and retirement) of junior notes, capital gain or loss equal to the difference, if any, between the amount realized upon such sale or disposition and that U.S. holder's adjusted tax basis in those junior notes.

The QEF election is effective for the U.S. holder's taxable year for which it is made and all subsequent taxable years and may not be revoked without the consent of the IRS. In general, a U.S. holder must make a QEF election on or before the due date for filing its income tax return for the first year to which the QEF election will apply.

The QEF election is effective only if certain required information is made available by the issuer. There can be no assurances that the issuer will provide such information to U.S. holders and therefore there can be no assurances that a U.S. holder will be able to make a QEF election. The issuer has not determined whether it will provide such information, and the issuer may determine that it will not do so. U.S. holders should consult their own tax advisors as to the procedures required to be followed in making a QEF election and the consequences of making and of failure to make a QEF election.

Each U.S. holder of junior notes must make an annual return on IRS Form 8621, reporting distributions received and gains realized with respect to the issuer.

Tax shelter reporting requirements

U.S. Treasury Regulations (the "**tax shelter regulations**") intended to address so-called tax shelters and other potentially tax-motivated transactions require participants in a "reportable transaction" to disclose certain information about the transaction on IRS Form 8886 and retain information relating to the transaction. Organizers and sellers of reportable transactions are required to disclose reportable transactions to the IRS, to maintain lists identifying the transaction investors and to furnish to the IRS upon demand such investor information as well as detailed information regarding the transactions. A transaction may be a "reportable transaction" based upon any of several indicia, including the existence of confidentiality agreements, certain indemnity arrangements or potential for recognising investment or other losses, one or more of which may be present with respect to or in connection with an investment in the notes. If the issuer participates in a "reportable transaction," because the issuer will be a PFIC, equity holders in the issuer (including U.S. holders of any senior notes recharacterised as stock of the issuer and U.S. holders of junior notes) will be treated as participating in a "reportable transaction" and will have to disclose their participation in such transaction, and, in such case, the issuer and its material advisors will also have to disclose the transaction and maintain a list of such equity holders. **Investors should consult**

their tax advisors concerning any possible disclosure obligation with respect to their investment and should be aware that the issuer and other participants in the transaction intend to comply with the disclosure and maintenance requirements under the tax shelter regulations that they determine apply to them with respect to this transaction.

Transfer Reporting Requirements

A U.S. holder of junior notes may be required to file additional tax forms with the IRS if the transfer when aggregated with all transfers made by such person (or any related person) within the preceding 12 month period, exceeds U.S.\$100,000. In the event a U.S. holder fails to file any such required form, the U.S. holder could be required to pay a penalty equal to 10 per cent. of the gross amount paid for such junior notes subject to a maximum penalty of U.S.\$100,000, except in cases involving intentional disregard. U.S. holders should consult their tax advisors with respect to this or any other reporting requirement, which may apply with respect to their acquisition of junior notes.

Information reporting and backup withholding

Payments of principal and interest on and the proceeds from the sale or other disposition of, a note by a U.S. person or certain U.S. connected persons will be reported to the IRS and to the U.S. holder as may be required under applicable regulations. If a U.S. holder subject to the information reporting requirements fails to establish an exemption from the rules or to provide the issuer or its paying agent with a duly completed and executed copy of an IRS Form W-9 or a substantially similar form, or the information on such form, including the U.S. holder's U.S. taxpayer identification number, is incorrect, or the IRS notifies the issuer or its paying agent that the U.S. holder has failed to report or under-reported payments of interest or dividends, the issuer or its paying agent will be required to withhold a portion of all payments it makes to the U.S. holder and pay to the IRS as a backup against the U.S. holder's potential U.S. federal income or withholding tax liability. Backup withholding is not an additional tax and will be credited against the U.S. holder's U.S. federal income tax liability or refunded to the U.S. holder, **provided that** the holder files a tax return with the IRS. Certain U.S. holders (including, among others, corporations) generally are not subject to information reporting or backup withholding. **Prospective purchasers should consult their own tax advisers regarding the applicability of the information reporting and backup withholding rules to them.**

The above summary is not intended to constitute a complete analysis of all U.S. income tax consequences relating to U.S. holders of their acquisition, ownership and disposition of the notes. U.S. holders should consult their own tax advisers concerning the tax consequences to them of the acquisition, ownership and disposition of the notes in light of their particular circumstances under the U.S. federal, state, local, foreign and other laws.

CERTAIN ERISA CONSIDERATIONS

Any fiduciary of an employee benefit plan within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), which is subject to ERISA, or such a plan, an individual retirement account or another entity subject to Section 4975 of the code, or an entity whose underlying assets include (or are deemed for purposes of ERISA or Section 4975 of the code to include) "**plan assets**" (each an "**ERISA plan**"), and which proposes to cause an ERISA plan to acquire any of the notes, should consult with its counsel and other advisors with respect to the potential consequences under ERISA and the code of the ERISA plan's acquisition and ownership of such notes. Each ERISA plan fiduciary should determine whether any non-exempt prohibited transactions or other violations of ERISA or the code may arise, and whether, under the general fiduciary standards of investment prudence and diversification and any other applicable law, an investment in the notes is appropriate for the ERISA plan, taking into account the overall investment policy of the ERISA plan and the composition of the plan's investment portfolio and all other appropriate considerations.

Under Section 2510.3-101 of the regulations (the "**regulations**") issued by the U.S. Department of Labor (the "**DOL**"), when an ERISA plan invests in an "equity interest" of an entity (including for these purposes interests that may be denominated as debt but that have substantial equity features), the ERISA plan's assets could be deemed, for purposes of ERISA and Section 4975 of the code, to include both the equity interest and an undivided interest in each of the underlying assets of the entity. If the underlying assets of the entity are deemed to be ERISA plan assets, the obligations and other responsibilities of ERISA plan sponsors, ERISA plan fiduciaries and ERISA plan administrators, and of "parties in interest" and "disqualified persons" (as defined under ERISA and the code), under Parts 1 and 4 of Subtitle B of Title I of ERISA and Section 4975 of the code, as applicable, may be expanded, and there may be an increase in their liability under these and other provisions of ERISA and the code (except to the extent (if any) that a favourable statutory or administrative exemption or exception applies). In addition, various providers of fiduciary or other services to the entity, and any other parties with authority or control with respect to the entity, could be deemed to be ERISA plan fiduciaries or otherwise parties in interest or disqualified persons by virtue of their provision of such services. No assurance is given as to whether the assets of the issuer would be deemed to be the assets of ERISA plans that become holders of the notes.

In analysing these issues with their own counsel, prospective purchasers of notes should consider, among other things, the discussion regarding the treatment of senior notes as debt for U.S. federal income tax purposes, see "*Taxation – United States taxation*".

In light of the regulations, it is not intended that any junior notes or any interests in the junior notes be purchased or held by or transferred to, ERISA plans, and each purchaser of a junior note will be deemed to have represented, warranted and agreed that the purchaser is not, and for so long as it holds any junior notes or any interest therein will not be, an ERISA plan.

Regardless of whether the assets of the issuer might be "plan assets", prohibited transactions could arise by virtue of the purchase and holding by an ERISA plan, or by another employee benefit plan subject to similar law, of senior notes (or any interests therein). It is possible that a purchase or holding of a senior note (or interest therein) could be covered by an individual or class exemption issued by the DOL (although, even if such an exemption applies, it might not cover all possible prohibited transactions that could arise by virtue of such purchase or holding). Each purchaser of a senior note (or interest therein) will be deemed to have represented, warranted and agreed either that (i) it is not, and for so long as it holds this note (or interest therein) it will not be, an ERISA plan, or (ii) its purchase and holding of a senior note, (or interest therein) will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the code (or, in the case of a governmental or other employee benefit plan, similar law) for which an exemption is not available.

PRIOR TO MAKING AN INVESTMENT IN NOTES, PROSPECTIVE ERISA PLAN INVESTORS (WHETHER OR NOT SUBJECT TO ERISA OR SECTION 4975 OF THE CODE) SHOULD CONSULT WITH THEIR LEGAL AND OTHER ADVISORS CONCERNING THE IMPACT OF ERISA AND THE CODE.

TRANSFER RESTRICTIONS

The global certificates will be subject to certain restrictions on transfer and to certification requirements and in particular in relation to those arising as a consequence of U.S. securities laws.

General

The global certificates (except for the Rule 144A DTC global certificates) may be transferred only to another common depository for Euroclear and Clearstream, Luxembourg and, in the case of the Rule 144A DTC global certificates, only to another custodian for DTC or DTC's nominee.

On or prior to the 40th day after the later of the commencement of the offering and the issue date, ownership of interests in a Regulation S global certificate and Rule 144A EC global certificate 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. Interests in a Regulation S global certificate may be transferred to a person who wishes to hold such interests through a Rule 144A global certificate of the same series only if a corresponding Rule 144A global certificate is also issued in respect of such series (as stated in the relevant final terms, and in such case) upon receipt by the registrar of a written certification from the transferor (in the form set out in Schedule 1 (*Transfer, exchange and registration documentation*) to the agency agreement) to the effect that such transfer is being made to a person who is both a QIB and a QP, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any State of the United States.

Interests in Rule 144A global certificates may also be transferred to a person who wishes to hold such interests through the Regulation S global certificate of the same series, if a corresponding Regulation S global certificate is also issued in respect of such series (as stated in the relevant final terms), but only upon receipt by the registrar of a written certification from the transferor (in the form set out in Schedule 1 (*Transfer, exchange and registration documentation*) to the agency agreement) to the effect that such transfer is being made to a person who is neither a U.S. Person nor a U.S. Resident and is being made outside the United States in accordance with Regulation S under the Securities Act. Neither U.S. Persons nor U.S. Residents may hold an interest in a Regulation S global certificate at any time.

Any interest in (i) a Rule 144A global certificate that is transferred to a person who takes delivery in the form of an interest in a Regulation S global certificate, which is permissible only if a corresponding Regulation S global certificate is also issued in respect of such series (as stated in the relevant final terms), or (ii) a Regulation S global certificate that is transferred to a person who takes delivery in the form of an interest in a Rule 144A global certificate, which is permissible only if a corresponding Rule 144A global certificate is also issued in respect of such series (as stated in the relevant final terms), will in each case, upon transfer, cease to be an interest in the first global certificate and will become an interest in the other global certificate and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to an interest in such other global certificate.

The notes (and interests in global certificates) have not been and will not be registered under the Securities Act or any securities law of any State of the United States. The Rule 144A global certificates (and interests in the Rule 144A global certificates) are being offered and sold in the United States in reliance on Rule 144A only to QIBs that are also QPs. The Regulation S global certificates (and interests in the Regulation S global certificates) are being offered and sold outside the United States to persons who are neither U.S. Persons nor U.S. Residents in reliance on Regulation S.

Rule 144A notes

Each prospective purchaser of Rule 144A notes, by accepting delivery of this base prospectus and the final terms, will be deemed to have represented and agreed that such person acknowledges that such base prospectus and final terms are personal to it and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire the notes of the relevant series other than pursuant to Rule 144A or in offshore transactions in accordance with Regulation S. Distribution of this base prospectus and the final terms, or disclosure of any of their contents to any person other than such offeree and those persons, if any, retained to advise it with respect thereto is unauthorised and any disclosure of any of their contents, without the prior written consent of the issuer, is prohibited. Notwithstanding

anything herein to the contrary, except as reasonably necessary to comply with applicable securities laws, investors (and each employee, representative or other agent of the investors) may disclose to any and all persons, without limitation of any kind, the U.S. federal tax treatment and U.S. federal tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to the investors relating to such U.S. federal tax treatment and U.S. federal tax structure (as such terms are defined for purposes of Sections 6011, 6111 and 6112 of the U.S. Internal Revenue Code and the Treasury Regulations promulgated thereunder).

Each purchaser or transferee of notes represented by a Rule 144A global certificate (or beneficial interest therein) will be deemed to have represented, warranted, acknowledged and agreed that:

1. The purchaser and each person for which it is acting (a) is a QIB and a QP, (b) is aware that the sale of such Rule 144A notes (or beneficial interests therein) to it is being made in reliance on Rule 144A, (c) is acquiring such notes (or beneficial interests therein) for its own account or for the account of one or more QIBs each of which is also a QP as to which the purchaser exercises sole investment discretion and such purchaser or transferee has full power to make the acknowledgements, representations and agreements on behalf of each such account contained in (1) through (8) herein, and in a principal amount of not less than the principal amount of the Rule 144A notes for the purchaser and for each such account, (d) will provide notice of the transfer restrictions described in this section "*Transfer Restrictions*" to any subsequent transferees and (e) is not purchasing such Rule 144A notes (or beneficial interests therein) with the intention of evading, either alone or in conjunction with any other person, the requirements of the Investment Company Act.
2. The purchaser understands and agrees that such Rule 144A notes have not been and will not be registered under the Securities Act, that the issuer has not registered and does not intend to register under the Investment Company Act and that such Rule 144A notes may be reoffered, resold, pledged or otherwise transferred only (a)(i) to a person that is a QIB and a QP purchasing for its own account or for the account of one or more QIBs each of which is also a QP as to which the purchaser exercises sole investment discretion in a transaction meeting the requirements of Rule 144A or (ii) to a non U.S. Person in an offshore transaction (and not to or for the account or benefit of a U.S. Person or a U.S. Resident) complying with Rule 903 or Rule 904 of Regulation S and (b) in accordance with all applicable securities laws including the securities laws of any State of the United States. The purchaser understands and agrees that before any interest in a Rule 144A note may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Regulation S notes, the registrar is required to receive a written certification (in the form provided in Schedule 1 (*Transfer, exchange and registration documentation*) to the agency agreement) as to compliance with the transfer restrictions described herein. The purchaser understands and agrees that any purported transfer of the Rule 144A notes to a purchaser that does not comply with the requirements of this paragraph (2) and paragraph (3) below shall be null and void *ab initio*.
3. The purchaser and each such account for which it is purchasing is acquiring the Rule 144A notes for its own account for investment purposes and not for sale in connection with any distribution thereof. The purchaser and each person for which it is acting (a) was not formed for the purpose of investing in the Rule 144A notes (except when each beneficial owner of the purchaser and each person for which it is acting is a QP for purposes of Section 3(c)(7) of the Investment Company Act), (b) to the extent the purchaser or any person for which it is acting is a private investment company formed on or before 30 April 1996, the purchaser has received the necessary consent to its being treated as a QP from its beneficial owners who acquired their interests on or before 30 April 1996, (c) is not a participant-directed employee plan, such as a 401 (k) plan or any other type of plan referred to in paragraph (a)(1)(i)(D) or (a)(1)(i)(E) of Rule 144A, or a trust fund referred to in paragraph (a)(1)(i)(F) of Rule 144A that holds the assets of such a plan, unless investment decisions with respect to the plan are made solely by the fiduciary, trustee or sponsor of such plan, (d) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.\$25,000,000 in securities of unaffiliated issuers and (e) understands that the issuer may receive a list of participants holding positions in securities from one or more book-entry depositaries. Further, the purchaser agrees with respect to itself and each such person for which it is acting (x) that it shall not hold such Rule 144A notes for the benefit of any other person and shall be the sole beneficial owner thereof for all purposes (y) that it shall not sell participation interests in the Rule 144A notes or enter into any other arrangement pursuant to

which any other person shall be entitled to a beneficial interest in the distributions on the Rule 144A notes and (z) that the Rule 144A notes purchased directly or indirectly by it constitute no more than 40 per cent. of the purchaser's and each such account's assets. The purchaser understands and agrees that any purported transfer of the Rule 144A notes to a purchaser that does not comply with the requirements of the transfer restrictions herein will be of no force and effect and will be void *ab initio* and that the issuer has the power to compel any beneficial owner of Rule 144A notes that is a U.S. Person and is not a QIB that is also a QP to sell its interest in the Rule 144A notes, or may sell such interest on behalf of such owner, as described in the securities legend contained in paragraph 7 below. The issuer has the right to refuse to honour the transfer of an interest in the Rule 144A notes to a U.S. Person who is not a QIB and a QP.

4. The purchaser shall not resell or otherwise transfer any of the notes except (a) to the issuer, (b) to a person that is both a QIB and a QP in a transaction meeting the requirements of Rule 144A under the Securities Act or (c) in a transaction conducted outside the United States and not to, or for the account or benefit of, a U.S. Person or a U.S. Resident, in accordance with Regulation S under the Securities Act; and no representation has been made as to the availability of any exemption under the Securities Act or the securities laws of any applicable jurisdiction. The purchaser understands that an investment in the Rule 144A notes involves certain risks, including the risk of loss of its entire investment in the Rule 144A notes under certain circumstances. The purchaser has had access to such financial and other information concerning the issuer and the Rule 144A notes as it deemed necessary or appropriate in order to make an informed investment decision with respect to its purchase of the Rule 144A notes, including an opportunity to ask questions of, and request information from, the issuer.
5. In connection with the purchase of the Rule 144A notes (a) none of the issuer, the arranger, or any affiliate thereof, the issuer security trustee, or any person acting on behalf of the foregoing, is acting as a fiduciary or financial or investment advisor for the purchaser; (b) the purchaser is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the issuer, the arranger, or any affiliate thereof, the issuer security trustee, or any person acting on behalf of the foregoing, other than in the final terms and the base prospectus and any representations expressly set forth in a written agreement with such party; (c) none of the issuer, the arranger or any affiliate thereof, the issuer security trustee, or any person acting on behalf of the foregoing, has given to the purchaser (directly or indirectly through any other person) any assurance, guarantee or representation whatsoever as to the expected or projected success, profitability, return, performance, result, effect, consequence or benefit (including legal, regulatory, tax, financial, accounting or otherwise) as to an investment in the Rule 144A notes; (d) the purchaser has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to the issuer security trust deed) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the issuer, the arranger, or any affiliate thereof, the issuer security trustee, or any person acting on behalf of the foregoing; (e) the purchaser has evaluated the rates, prices or amounts and other terms and conditions of the purchase and sale of the Rule 144A notes with a full understanding of all of the risks thereof (economic and otherwise), and it is capable of assuming and willing to assume (financially and otherwise) those risks; (f) the purchaser is a sophisticated investor; and (g) the purchaser understands that these acknowledgements, representations, and agreements are required in connection with U.S. securities laws and it agrees to indemnify and hold harmless the issuer, the arranger, any affiliate thereof, and the issuer security trustee from and against all losses, liabilities, claims, costs, charges and expenses which they may incur by reason of its failure to fulfil any of the terms, conditions or agreements set forth above or by reason of any breach of its representations and warranties herein.
6. (a) With respect to the Rule 144A senior notes (or any interest therein), either (i) the purchaser is not and for so long as such Rule 144A senior note (or any interest therein) are held will not be a "plan" that is subject to ERISA or Section 4975 of the code or any entity whose underlying assets include (or are deemed for the purposes of ERISA or Section 4975 to include) "plan assets" by reason of such plan investment in the entity (an "**ERISA plan**"), or (ii) the purchaser's purchase and holding of a Rule 144A note will not constitute or result in a prohibited transaction under Section 406 of ERISA or

Section 4975 of the code for which an exemption is not available. Any purported transfer of a Rule 144A note (or any interest therein) to a purchaser that does not comply with the requirements of this paragraph (6)(a) will be of no force and effect, will be void *ab initio* and the issuer will have the right to direct the purchaser to transfer its Rule 144A notes (or any interest therein), as applicable, to a person who meets the foregoing criteria.

(b) With respect to the Rule 144A junior notes, the purchaser is not, and for so long as it holds such Rule 144A junior notes or any interest therein will not be, an ERISA plan.

7. The purchaser understands that pursuant to the terms of the issuer security trust deed, the issuer has agreed that the Rule 144A global certificates offered in reliance on Rule 144A will bear the legend set forth below, will be represented by one or more Rule 144A global certificates and may not be reoffered, resold, pledged or otherwise transferred except in accordance with the legend set forth below. The Rule 144A global certificates may not at any time be held by or on behalf of U.S. persons that are not QIBs that are QPs. Before any interest in a Rule 144A global certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S global certificate, the transferor and/or transferee, as applicable, will be required to provide the registrar with a written certification substantially in the form set out in the agency agreement as to compliance with the transfer restrictions described herein. The Rule 144A global certificates will bear a legend to the following effect:

THE SERIES [•] NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), AND THE ISSUER HAS NOT AND DOES NOT INTEND TO REGISTER UNDER THE UNITED STATES INVESTMENT COMPANY ACT OF 1940, AS AMENDED (THE "**INVESTMENT COMPANY ACT**"). THIS SERIES [•] NOTE (AND ANY BENEFICIAL INTEREST THEREIN) MAY NOT BE REOFFERED, RESOLD, PLEDGED, EXCHANGED OR OTHERWISE TRANSFERRED IN VIOLATION OF THE SECURITIES ACT OR ANY OTHER APPLICABLE SECURITIES LAWS.

EACH PERSON WHO PURCHASES OR OTHERWISE ACQUIRES THIS SERIES [•] NOTE (OR A BENEFICIAL INTEREST THEREIN) BY PURCHASING SUCH INTEREST IS DEEMED TO REPRESENT, WARRANT, ACKNOWLEDGE AND AGREE FOR THE BENEFIT OF THE ISSUER AND THE ISSUER SECURITY TRUSTEE THAT IT, AND EACH PERSON FOR WHICH IT IS ACTING, WILL NOT REOFFER, RESELL, PLEDGE OR OTHERWISE TRANSFER THIS SERIES [•] NOTE OR ANY BENEFICIAL INTEREST HEREIN EXCEPT IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND EXCEPT: (1) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS BOTH A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") AND A QUALIFIED PURCHASER ("**QP**") WITHIN THE MEANING OF SECTION 2(a)(51) OF THE INVESTMENT COMPANY ACT AND THE RULES AND REGULATIONS THEREUNDER WHO CAN MAKE EACH OF THE REPRESENTATIONS, WARRANTIES, ACKNOWLEDGEMENTS AND AGREEMENTS CONTAINED IN THIS LEGEND IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A; OR (2) TO A PERSON WHO IS NEITHER A US PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("**REGULATION S**")) NOR A "**U.S. RESIDENT**" (AS DETERMINED FOR PURPOSES OF THE INVESTMENT COMPANY ACT) (A "**U.S. RESIDENT**") IN AN OFFSHORE TRANSACTION (AS DEFINED IN REGULATION S) PURSUANT TO RULE 903 OR RULE 904 OF REGULATION S; AND IN THE CASE OF CLAUSE (1) ABOVE, IN A PRINCIPAL AMOUNT OF NOT LESS THAN [•] WITH RESPECT TO THE SERIES [•] NOTES FOR THE PURCHASER AND FOR EACH ACCOUNT FOR WHICH IT IS ACTING.

EACH PERSON WHO PURCHASES OR OTHERWISE ACQUIRES THIS SERIES [•] NOTE (OR A BENEFICIAL INTEREST THEREIN) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, BY PURCHASING SUCH INTEREST, IS ALSO DEEMED TO REPRESENT, WARRANT, ACKNOWLEDGE AND AGREE FOR THE BENEFIT OF THE ISSUER AND THE ISSUER SECURITY TRUSTEE THAT IT, AND EACH PERSON FOR WHICH IT IS ACTING, (i) IS A QIB THAT IS A QP, (ii) WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE SERIES [•] NOTES (EXCEPT

WHEN EACH BENEFICIAL OWNER OF THE PURCHASER AND EACH PERSON FOR WHICH IT IS ACTING IS A QP), (iii) HAS RECEIVED THE NECESSARY CONSENT TO BE TREATED AS A QP FROM ALL BENEFICIAL OWNERS WHO ACQUIRED THEIR INTERESTS ON OR BEFORE 30 APRIL 1996, WHEN THE PURCHASER OR ANY PERSON FOR WHICH IT IS ACTING IS A PRIVATE INVESTMENT COMPANY FORMED BEFORE 30 APRIL 1996, (iv) IS NOT A BROKER-DEALER THAT OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS, (v) IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(k) PLAN, (vi) UNDERSTANDS THAT THE ISSUER MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK-ENTRY DEPOSITORIES AND (vii) IS ACTING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs EACH OF WHICH IS ALSO A QP AS TO WHICH THE PURCHASER EXERCISES SOLE INVESTMENT DISCRETION AND HAS FULL POWER TO MAKE THE ACKNOWLEDGEMENTS, REPRESENTATIONS AND AGREEMENTS ON BEHALF OF EACH SUCH ACCOUNT CONTAINED IN THIS LEGEND.

ANY RESALE OR OTHER TRANSFER OF THIS SERIES [•] NOTE (OR BENEFICIAL INTEREST THEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID *AB INITIO* AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE, NOTWITHSTANDING ANY INSTRUCTIONS TO THE CONTRARY TO THE ISSUER, THE ISSUER SECURITY TRUSTEE OR ANY INTERMEDIARY. IN ADDITION TO THE FOREGOING, IN THE EVENT OF A TRANSFER OF THIS SERIES [•] NOTE (OR BENEFICIAL INTEREST THEREIN) TO A U.S. PERSON WITHIN THE MEANING OF REGULATION S THAT IS NOT A QIB AND A QP, THE ISSUER MAY (A) COMPEL SUCH TRANSFEREE TO SELL THIS SERIES [•] NOTE OR ITS INTEREST THEREIN TO A PERSON WHO IS (I) A U.S. PERSON WHO IS A QIB AND A QP THAT IS, IN EACH CASE, OTHERWISE QUALIFIED TO PURCHASE THIS SERIES [•] NOTE OR INTEREST THEREIN IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) IS NOT A U.S. PERSON WITHIN THE MEANING OF REGULATION S OR (B) COMPEL SUCH TRANSFEREE TO SELL THIS SERIES [•] NOTE OR ITS INTEREST THEREIN TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE ISSUER AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFORE PAID BY THE ORIGINAL TRANSFEREE, (Y) 100 PER CENT. OF THE PRINCIPAL AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF THIS SERIES [•] NOTE OR INTEREST THEREIN TO A U.S. PERSON WHO IS NOT A QIB AND A QP. EACH TRANSFEROR OF THIS SERIES [•] NOTE WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ITS TRANSFEREE.

FOR CERTIFICATES FOR THE SERIES [•] NOTES [SENIOR NOTES]: THE PURCHASER OF THIS SERIES [•] NOTE OR ANY INTEREST IN THIS SERIES [•] NOTE SHALL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED EITHER THAT (I) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS SERIES [•] NOTE OR ANY INTEREST IN THIS SERIES [•] NOTE IT WILL NOT BE, (A) A "**PLAN**" THAT IS SUBJECT TO THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("**ERISA** ") OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "**CODE** "), OR (B) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 TO INCLUDE) "**PLAN ASSETS**" BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY, OR (II) ITS PURCHASE AND HOLDING OF THIS NOTE WILL NOT CONSTITUTE OR RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE FOR WHICH AN EXEMPTION IS NOT AVAILABLE.

[FOR CERTIFICATES FOR THE SERIES [•] NOTES [JUNIOR NOTES]: THE PURCHASER OF THIS SERIES [•] NOTE OR ANY INTEREST IN THIS SERIES [•] NOTE SHALL BE DEEMED TO HAVE REPRESENTED, WARRANTED AND AGREED THAT (I) IT IS NOT, AND FOR SO LONG AS IT HOLDS THIS SERIES [•] NOTE OR ANY INTEREST IN THIS

SERIES [•] NOTE WILL NOT BE, (A) A "PLAN" THAT IS SUBJECT TO THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") OR SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), OR (B) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE (OR ARE DEEMED FOR PURPOSES OF ERISA OR SECTION 4975 TO INCLUDE) "PLAN ASSETS" BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY.

8. The purchaser acknowledges that the issuer, the registrar, the issuer security trustee, the arranger and its affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A notes is no longer accurate, it shall promptly notify the issuer, the registrar, the issuer security trustee and the arranger.
9. The purchaser understands that the Issuer will treat the classes of notes as defined in the final terms as senior notes as debt for U.S. federal income tax purposes, and the classes of notes as defined in the final terms as junior notes as equity for U.S. federal income tax purposes, and the purchaser agrees, by acceptance of such Notes, to treat the classes of notes as defined in the final terms as senior notes as debt, and the classes of notes as defined in the final terms as junior notes as equity, for U.S. federal income tax purposes.

Prospective purchasers or transferees 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.

A transferor or seller who transfers or sells an interest in the Rule 144A global certificate to a transferee or purchaser who will hold the interest in the same form is not required to provide any additional written certification,

Regulation S notes

Each purchaser and transferee of any notes represented by a Regulation S global certificate (or beneficial interest therein) will be deemed to have made the representations set forth in clause (6) above, and to have further represented, warranted, acknowledged and agreed that:

1. It is, and the person, if any, for whose account it is acquiring the notes is, located outside the United States and is neither a U.S. Person nor a U.S. Resident and is purchasing for its own account or one or more accounts, each of which is neither a U.S. Person nor a U.S. Resident and as to each of which the purchaser exercises sole investment discretion, in an offshore transaction in accordance with Regulation S, and is aware that the sale of the notes to it is being made in reliance on the exemption from registration provided by Regulation S.
2. It understands that unless the issuer determines otherwise in compliance with applicable law, such notes will bear a legend to the effect set forth under "*Rule 144A notes*" above.
3. It understands that these acknowledgements, representations, and agreements are required in connection with U.S. securities laws and it agrees to indemnify and hold harmless the issuer, the arranger, any affiliate thereof, and the issuer security trustee from and against all losses, liabilities, claims, costs, charges and expenses which they may incur by reason of its failure to fulfil any of the terms, conditions or agreements set forth above or by reason of any breach of its representations and warranties herein.
4. It acknowledges that the issuer, the arranger, the issuer security trustee and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and it hereby consents to such reliance.
5. It understands that the Regulation S notes have not been and will not be registered under the Securities Act and that the issuer has not registered and will not register under the Investment Company Act. It agrees, for the benefit of the issuer, the arranger and any of its affiliates, that, if it decides to resell, pledge or otherwise transfer such Regulation S notes (or any beneficial interest or participation therein) purchased by it, any offer, sale or transfer of such Regulation S notes (or any beneficial interest or participation therein) will be made in compliance with the Securities Act and only (i) to a person (A) it reasonably believes is a QIB purchasing for its own

account or for the account of another QIB in a principal amount of not less than the principal amount with respect to the Regulation S notes for it and each such account, in a transaction that meets the requirements of Rule 144A and takes delivery in the form of a Rule 144A note and (B) that constitutes a "qualified purchaser" within the meaning of Section 2(a)(51) of the Investment Company Act; (ii) to a person who is neither a U.S. Person nor a U.S. Resident in an offshore transaction in accordance with Rule 903 or Rule 904 under Regulation S; or (iii) following the expiration of the distribution compliance period, pursuant to an applicable exemption from the registration requirements of the Securities Act and in accordance with any applicable securities laws of any State of the United States.

6. It agrees on its own behalf and on behalf of any account for which it is purchasing, to offer, sell or otherwise transfer such note only in an authorized denomination, and (i) in the United States in the form of an interest in a Rule 144A note, only to a Qualified Purchaser whom the purchaser reasonably believes is a Qualified Institutional Buyer, purchasing for its own account or one or more accounts with respect to which the purchaser exercises sole investment discretion, each of which is a QIB/QP, in accordance with Rule 144A or (ii) outside the United States, in the form of an interest in a Regulation S note, to a person that is neither a U.S. Person nor a U.S. Resident, purchasing for its own account or for one or more accounts with respect to which it exercises sole investment discretion, each of which is neither a U.S. Person nor a U.S. Resident, in an offshore transaction in accordance with Regulation S.
7. It understands that before any interest in a Regulation S global certificate may be offered, resold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A global certificate, the transferor and/ or transferee, as applicable, will be required to provide the registrar with a written certification substantially in the form set out in the agency agreement as to compliance with the transfer restrictions described herein.
8. It acknowledges that the issuer, the registrar, the issuer security trustee, the arranger and its affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S notes is no longer accurate, it shall promptly notify the issuer, the registrar, the issuer security trustee and the arranger.
9. It understands that the Issuer will treat the classes of notes as defined in the final terms as senior notes as debt for U.S. federal income tax purposes, and the classes of notes as defined in the final terms as junior notes as equity for U.S. federal income tax purposes, and the purchaser agrees, by acceptance of such Notes, to treat the classes of notes as defined in the final terms as senior notes as debt, and the classes of notes as defined in the final terms as junior notes as equity, for U.S. federal income tax purposes.

A transferor who transfers an interest in a Regulation S global certificate to a transferee who will hold the interest in the same form is not required to provide any additional written certification.

PLAN OF DISTRIBUTION

On 2 November 2006, prior to the issuance of notes by the issuer, the issuer entered into an agreement (the "**dealer agreement**") with Barclays Bank PLC, a "**dealer**", and together with any other dealer that may in the future become a party to the dealer agreement as provided therein, the "**dealers**") in connection with the future distribution of any series of notes to be issued under the programme. The dealer agreement does not impose any obligation on the dealers to purchase, or on the issuer to issue, any notes, but provides the general terms and conditions under which the issuer and one or more dealers may agree to the issuance by the former and the purchase by the latter of one or more series of notes.

In addition, because the provisions of the dealer agreement are not exclusive, the issuer may offer and sell the notes in any of three ways:

- (a) directly to one or more purchasers;
- (b) through agents; or
- (c) through dealers.

Any dealer or agent that offers the notes may be an affiliate of the issuer and/or the seller, and offers and sales of notes may include secondary market transactions by these affiliates. These affiliates may act as principal or agent in secondary market transactions. Secondary market transactions will be made at prices related to prevailing market prices at the time of sale.

A set of final terms in relation to this base prospectus will specify the terms of each offering, including:

- (i) the name or names of any dealers or agents;
- (ii) the public offering or purchase price;
- (iii) the proceeds to the issuer from the sale;
- (iv) any underwriting discounts and other items constituting underwriters' compensation;
- (v) any discounts and commissions allowed or paid to dealers;
- (vi) any commissions allowed or paid to agents; and
- (vii) the securities exchanges, if any, on which the notes will be listed.

If any notes are sold through dealers, the final terms will describe the nature of the obligation of the dealers to purchase the notes. The notes may be offered to the public either through syndicates represented by one or more dealers or directly by one or more firms acting alone. The dealer or dealers for a particular offering of notes will be named in the final terms relating to that offering, and, if a syndicate is used, the managing dealer or dealers will be set forth on the cover of the final terms. Unless otherwise described in the final terms, the obligation of the dealers to purchase any notes will be subject to various conditions precedent.

The final terms for any notes offered other than through dealers will contain information regarding the nature of the offering and any agreements to be entered into between the issuer and the participants in the distribution of the notes.

Dealer trading may take place in some of the notes, including notes not listed on any securities exchange. Direct sales may be made on a national securities exchange or otherwise. If the issuer, directly or through agents, solicits offers to purchase notes, the issuer reserves the sole right to accept and, together with its agents, to reject in whole or in part any proposed purchase of notes.

The issuer may change any initial public offering price and any discounts or concessions allowed or reallocated or paid to dealers. If indicated in a set of final terms in relation to this base prospectus, the issuer will authorise dealers or agents to solicit offers by certain institutions to purchase securities from the issuer pursuant to delayed delivery contracts providing for payment and delivery at a future date.

Any dealer or agent participating in the distribution of securities, including notes offered by this base prospectus, may be deemed to be an underwriter of those securities under the Securities Act of 1933 and any discounts or commissions received by them and any profit realised by them on the sale or resale of the securities may be deemed to be underwriting discounts and commissions.

The issuer may agree to indemnify dealers, agents and their controlling persons against certain civil liabilities, including liabilities under the Securities Act of 1933 in connection with their participation in the distribution of the issuer's notes.

The issuer anticipates that the notes will be sold to institutional investors. Purchasers of notes, including dealers, may, depending on the facts and circumstances of the purchases, be deemed to be "underwriters" within the meaning of the Securities Act of 1933 in connection with re-offers and sales of the notes by them. Noteholders should consult with their legal advisors in this regard prior to any re-offer or sale.

Dealers and agents participating in the distribution of the securities, and their controlling persons, may engage in transactions with and perform services for the seller, the issuer or their affiliates in the ordinary course of business.

Barclays Bank PLC will be the seller, a beneficiary under the mortgages trust, cash manager, issuer cash manager, administrator, the basis rate swap provider, the senior expenses loan facility provider and the junior expenses loan facility provider.

United States of America

Each relevant dealer acknowledges that the notes have not been and will not be registered under the Securities Act or the state securities laws of any state of the United States or the securities laws of any other jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, except in the case of any Rule 144A notes, in reliance on Rule 144A to QIBs and Section 3(c)(7) of the Investment Company Act to QPs. None of the notes other than the Rule 144A notes may be offered or sold within the United States or to, or for the account or benefit of, U.S. persons.

Each relevant dealer acknowledges and agrees that it has offered and sold any Regulation S notes, and will offer and sell the Regulation S notes (a) (i) as part of its distribution at any time and (ii) otherwise until 40 days after the relevant issue date (the "**40-day distribution compliance period**"), only in accordance with Rule 903 of Regulation S, or pursuant to Rule 144A or another exemption from the registration requirements under the Securities Act; and (b) it will send to each dealer or person receiving a selling concession, fee or other remuneration in respect of such Regulation S notes that purchases Regulation S notes from it in reliance on Regulation S a notice stating that such dealer or person receiving a selling concession, fee or other remuneration is subject to the same restrictions during the 40-day distribution compliance period.

Each relevant dealer acknowledges and agrees that neither it nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts (as defined in Regulation S) with respect to any Regulation S notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. In addition, each relevant dealer acknowledges and agrees that neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any form of general solicitation or general advertising (within the meaning of 502(c) under the Securities Act) in connection with any offer or sale of the notes in the United States.

If any Rule 144A notes are offered under the relevant final terms, the issuer will acknowledge that, based on discussions with the dealers and other factors that the issuer or its counsel may deem necessary and appropriate, the issuer has a reasonable belief that initial sales and subsequent transfers of the notes held through Euroclear, Clearstream, Luxembourg and DTC (as applicable) to U.S. Persons or U.S. Residents will be limited to persons that are both Qualified Institutional Buyers and Qualified Purchasers.

With respect to notes initially sold in reliance on Regulation S, an offer or sale of such notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A under the Securities Act or pursuant to another exemption from registration under the Securities Act.

Due to the restrictions set forth above in the applicable final terms, purchasers of the notes in the United States are advised to consult legal counsel prior to making any offer for, resale, pledge or other transfer of the notes.

Each purchaser of notes offered hereby will be deemed to have represented and agreed that it has received a copy of this prospectus and such other information as it deems necessary to make an investment decision. Purchasers are also deemed to have made the representations and agreements set out in the applicable final terms.

Public Offer Selling Restrictions under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), the Manager has represented to and agreed with the Issuer that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public in that Relevant Member State at any time:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Selling Restrictions Addressing Additional United Kingdom Securities Laws

Each dealer has represented to and agreed with the Issuer that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by them in connection with the issue or sale of such Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

Selling Restrictions Addressing Additional Italian Securities Laws

The offering of the notes has not been registered pursuant to Italian securities legislation and, accordingly each dealer has represented and agreed that (i) it has not offered or sold, and will not offer or sell, any notes in the Republic of Italy in a solicitation to the public; (ii) any offer or sale of the notes in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations and (iii) it is solely responsible for ensuring that any offer or resale of the notes in the Republic of Italy by it shall occur in compliance with applicable Italian laws and regulations.

Any offer, sale or delivery of the notes or distribution of copies of this base prospectus or any other document relating to the notes in the Republic of Italy must be:

- (a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993, Legislative Decree No. 58 of 24 February 1998 and, CONSOB Regulation No. 11522 of 1 July 1998 (in each case, as amended) and any other applicable laws and regulations; and
- (b) in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

General

Other than with respect to the admission to listing, trading and/or quotation by such one or more listing authorities, stock exchanges and/or quotation systems as may be specified in the relevant final terms, no action has been or will be taken in any country or jurisdiction by the issuer or the dealers that would permit a public offering of notes, or possession or distribution of any offering material in relation thereto, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this base prospectus or any final terms comes are required by the issuer and the dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver notes or have in their possession or distribute such offering material, in all cases at their own expense.

The dealer agreement provides that the dealers shall not be bound by any of the restrictions relating to any specific jurisdiction (set out above) to the extent that such restrictions shall, as a result of change(s) or change(s) in official interpretation, after the date hereof, of applicable laws and regulations, no longer be applicable but without prejudice to the obligations of the dealers described in the immediately preceding paragraph above.

Selling restrictions may be supplemented or modified with the agreement of the issuer. Any such supplement or modification will be set out in the relevant base prospectus or final terms (in the case of a supplement or modification relevant only to a particular series of notes).

RATINGS OF THE NOTES

Notes offered by this base prospectus and the applicable final terms will be assigned a rating by each of Standard & Poor's, Moody's and Fitch Ratings (other than class RF notes which are unlikely to be assigned any rating).

The ratings of the notes should be evaluated independently from similar ratings on other types of securities. A rating is not a recommendation to buy, sell or hold the notes. A rating may be suspended, lowered or withdrawn at any time. The rating does not address the expected schedule of principal repayments other than to say that principal will be returned no later than the final maturity date.

Rating agencies other than those requested could assign a rating to the notes, and its rating could be lower than any rating assigned by a rating agency chosen by the issuer.

EXPERTS

The financial statements of funding and issuer included in this prospectus have been so included in reliance on the reports of PricewaterhouseCoopers LLP, given on the authority of said firm as experts in auditing and accounting.

PricewaterhouseCoopers LLP is a member of the Institute of Chartered Accountants in England and Wales and is regulated or overseen by a number of authorities including the Institute of Chartered Accountants in England and Wales and the Financial Reporting Council. In addition PwC is authorised and regulated by the Financial Services Authority in respect of services regulated by the Financial Services and Markets Act 2000.

The address of PwC is Hay's Galleria, 1 Hays Lane, London, SE1 2RD.

REPORTS TO NOTEHOLDERS

The administrator, as applicable, has and will prepare quarterly investor reports that will contain information about the notes. The financial information contained in the reports will not be prepared in accordance with generally accepted accounting principles. Unless and until individual certificates are issued, the reports may be inspected during normal business hours at the specified office of the principal paying agent and from the registered office of the issuer. The quarterly investor reports can also be found by way of the Barclays investor website: www.investorrelations.barclays.co.uk. No reports will be sent directly to any noteholders.

Enquiries and requests for information in relation to the notes from noteholders in the United Kingdom may be directed to the London office of the issuer security trustee, which is located at One Canada Square, 40th Floor, Canary Wharf, London E14 5AL. The issuer security trustee, from its London office, will be able to respond to all enquiries and requests for information regarding the notes and to refer any calls requiring any action on the part of the registrar to the registrar's London office to liaise with the relevant holder of the notes. In performing these functions, the issuer security trustee is procuring that the equivalent services that would be available at a London paying agent are available to holders of notes in London (excluding any payment of principal or interest or any other payment on the notes) to enable these noteholders to exercise all their rights, in particular, being informed of meetings which they are entitled to attend and exercising their right to vote.

LISTING AND GENERAL INFORMATION

The issuer has made an application to the UK Listing Authority to admit the notes to the Official List and to the regulated market of the London Stock Exchange to admit the notes to trading. The listing of the notes on the regulated market of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). Each class of a series of notes intended to be admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the regulated market of the London Stock Exchange will be so admitted to listing and trading upon submission to the UK Listing Authority and the regulated market of the London Stock Exchange of this base prospectus and any other information required by the UK Listing Authority and the regulated market of the London Stock Exchange, subject in each case to the issue of the relevant notes. Prior to official listing, dealings will be permitted by the regulated market of the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

However, notes may be issued pursuant to the programme which will not be admitted to listing, trading and/or quotation by the UK Listing Authority or the regulated market of the London Stock Exchange or any other listing authority, stock exchange and/or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the issuer and the relevant dealer(s) may agree.

The establishment of the programme was authorised by board meeting of the issuer passed on 31 October 2006. The issuer has obtained or will obtain from time to time all necessary consents, approvals and authorisations in connection with the issue and performance of the notes.

Application will be made for the notes to be accepted for clearance through Euroclear, Clearstream and/or DTC, as specified in the relevant final terms. The appropriate common code and the International Securities Identification Number ("ISIN") in relation to the notes of each series will be specified in the final terms relating thereto. The relevant final terms shall specify any other clearing system as shall have accepted the relevant notes for clearance together with any further appropriate information.

The issuer confirms that the securitised assets backing the issue of the notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the notes. However, investors are advised that this confirmation is based on the information available to the issuer at the date of the base prospectus and the relevant final terms and may be affected by future performance of such securitised assets. Consequently, investors are advised to review carefully the disclosure in the base prospectus together with any amendments or supplements thereto and, in relation to any series, the relevant final terms.

Funding confirms that the securitised assets backing the issue of the notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the notes. However, investors are advised that this confirmation is based on the information available to funding at the date of the base prospectus and the relevant final terms and may be affected by future performance of such securitised assets. Consequently, investors are advised to review carefully the disclosure in the base prospectus together with any amendments or supplements thereto and, in relation to any series, the relevant final terms.

An investment in the notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment. If any noteholder is in any doubt about the contents of this base prospectus or the relevant final terms, it should consult its stockbroker, bank manager, solicitor, accountant or other financial adviser.

Funding neither is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which funding is aware) during the 12 months before the date of this base prospectus which may have, or have had in the recent past, significant effects on funding's financial position or profitability.

There has been no significant change in the financial or trading position of funding since 31 December 2008 and, since that date, there has been no material adverse change in the financial position or prospects of funding.

The issuer neither is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the issuer is aware) during the 12 months before the date of this base prospectus which may have, or have had in the recent past, significant effects on the issuer's financial position or profitability.

There has been no material adverse change in the issuer's financial position or prospects since 31 December 2008 and, since that date, there has been no significant change in the financial or trading position of the issuer.

There is no intention to accumulate surpluses in the issuer, funding (other than in respect to the funding reserve fund, the yield supplement account and, potentially, the funding liquidity reserve fund, each as described herein) or the mortgages trustee.

It should be remembered that the price of securities and the income from them can go down as well as up.

Documents available for inspection

For so long as the base prospectus is in effect, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the principal paying agent and from the registered office of the issuer, namely:

- (a) the memorandum and articles of association of each of the issuer, funding, holdings, the mortgages trustee and the PECO;
- (b) the audited financial statements of the issuer for the period ended 31 December 2008;
- (c) the audited financial statements of funding for the period ended 31 December 2008;
- (d) copies of the following documents:
 - (i) the dealer agreement and the relevant subscription agreement;
 - (ii) the global loan note no. 1;
 - (iii) any supplement to the global loan note no. 1;
 - (iv) the mortgages trust deed;
 - (v) the mortgage sale agreement;
 - (vi) the MRCLN note purchase facility agreement;
 - (vii) the MRCLN collateral agreement;
 - (viii) the funding security trust deed;
 - (ix) the issuer security trust deed;
 - (x) the basis rate swap agreement;
 - (xi) any issuer basis rate swap agreement;
 - (xii) any issuer dollar currency swap agreement;
 - (xiii) any issuer euro currency swap agreement;
 - (xiv) any issuer swap credit support document;
 - (xv) any issuer security trust deed supplement;
 - (xvi) the agency agreement;
 - (xvii) the administration agreement;
 - (xviii) the mortgages trustee cash management agreement;

- (xix) the funding cash management agreement;
- (xx) the issuer cash management agreement;
- (xxi) the series post-enforcement call option agreement;
- (xxii) the funding account bank agreement;
- (xxiii) the mortgages trustee account bank agreement;
- (xxiv) the issuer account bank agreement;
- (xxv) the collection account declaration of trust;
- (xxvi) the master definitions schedule;
- (xxvii) the issuer master framework agreement;
- (xxviii) the senior expenses loan facility agreement;
- (xxix) the junior expenses loan facility agreement;
- (xxx) the issuer corporate services agreement;
- (xxxi) the holdings corporate services agreement;
- (xxxii) the PECO corporate services agreement;
- (xxxiii) the funding corporate services agreement;
- (xxxiv) the mortgages trustee corporate services agreement;
- (xxxv) the tax deed of covenant;
- (xxxvi) the yield supplement loan facility agreement;
- (xxxvii) the controlling beneficiary deed;
- (xxxviii) the yield supplement GIC account; and
- (xxxix) the master deed of amendment dated on or about 1 September 2009,

together with each other document entered into or to be entered into by the issuer, funding and the mortgages trustee pursuant to or in connection with any of the above documents, the "**transaction documents**".

INDEX OF APPENDICES

The appendices are an integral part of this base prospectus.

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APPENDIX A
OTHER SERIES ISSUED AND OUTSTANDING

Prior to the date of this base prospectus, the following previous series have been issued by Gracechurch Mortgage Funding PLC:

Series	Ratings	Issue Date	Outstanding Principal Amount at Issue Date	Current Outstanding Principal Amount	Note Interest Rate	Final Maturity Date
2007-1-1A1	Aaa/AAA/AAA	6 June 2007	\$2,100,000,000	\$0	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 August 2032
2007-1-1A2	Aaa/AAA/AAA	6 June 2007	€454,500,000	\$0	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) EURIBOR	20 August 2032
2007-1-1A3	Aaa/AAA/AAA	6 June 2007	£149,300,000	£0	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	20 August 2032
2007-1-2A1	Aaa/AAA/AAA	6 June 2007	\$1,813,500,000	\$892,702,234	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 November 2056
2007-1-2A2	Aaa/AAA/AAA	6 June 2007	€500,000,000	€246,126,891	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) EURIBOR	20 November 2056
2007-1-3A1	Aaa/AAA/AAA	6 June 2007	\$2,429,000,000	\$2,429,000,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 November 2056
2007-1-3A2	Aaa/AAA/AAA	6 June 2007	€1,146,000,000	€1,146,000,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) EURIBOR	20 November 2056
2007-1-3A3	Aaa/AAA/AAA	6 June 2007	£768,500,000	£768,500,000	3 Month (or in the case of the first issuer payment date	20 November 2056

Series	Ratings	Issue Date	Outstanding Principal Amount at Issue Date	Current Outstanding Principal Amount	Note Interest Rate	Final Maturity Date
2007-1-1B1	Aa3/AA/AA	6 June 2007	\$86,000,000	\$0	falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR 3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 November 2056
2007-1-2B2	Aa3/AA/AA	6 June 2007	€140,000,000	€140,000,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 November 2056
2007-1-2B3	Aa3/AA/AA	6 June 2007	£20,000,000	£20,000,000	EURIBOR 3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	20 November 2056
2007-1-1C1	A2/A/A	6 June 2007	\$65,000,000	\$0	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 November 2056
2007-1-2C2	A2/A/A	6 June 2007	€95,100,000	€95,100,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) Sterling EURIBOR	20 November 2056
2007-1-2C3	A2/A/A	6 June 2007	£40,000,000	£40,000,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	20 November 2056
2007-1-2D1	Baa2/BBB/BBB	6 June 2007	\$45,000,000	\$45,000,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) USD LIBOR	20 November 2056
2007-1-2D2	Baa2/BBB/BBB	6 June 2007	€190,900,000	€190,900,000	3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of	20 November 2056

Series	Ratings	Issue Date	Outstanding Principal Amount at Issue Date	Current Outstanding Principal Amount	Note Interest Rate	Final Maturity Date
2007-1-2D3	Baa2/BBB/BBB	6 June 2007	£22,000,000	£22,000,000	two and three month) EURIBOR 3 Month (or in the case of the first issuer payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	20 November 2056
2006-1-A1	Aaa/AAA/AAA	9 November 2006	\$1,900,000,000	\$0	Prior to the issuer payment date falling in November 2011, 3 Month USD LIBOR plus 0.03% and thereafter USD LIBOR plus 0.06%	20 November 2031
2006-1-A2	Aaa/AAA/AAA	9 November 2006	€455,000,000	€0	Prior to the issuer payment date falling in November 2011, 3 Month EURIBOR plus 0.04% and thereafter EURIBOR plus 0.08%	20 November 2031
2006-1-A3	Aaa/AAA/AAA	9 November 2006	£610,000,000	£0	Prior to the issuer payment date falling in November 2011, 3 Month Sterling LIBOR plus 0.04% and thereafter Sterling LIBOR plus 0.08%	20 November 2031
2006-1-A4	Aaa/AAA/AAA	9 November 2006	\$2,596,000,000	\$1,048,659,729	Prior to the issuer payment date falling in November 2011, 3 Month USD LIBOR plus 0.05% and thereafter USD LIBOR plus 0.10%	20 November 2056
2006-1-A5	Aaa/AAA/AAA	9 November 2006	€1,699,000,000	€1,699,000,000	Prior to the issuer payment date falling in November 2011, 3 Month EURIBOR plus 0.10% and thereafter EURIBOR plus 0.20%	20 November 2056
2006-1-A6	Aaa/AAA/AAA	9 November 2006	\$1,038,500,000	\$1,038,500,000	Prior to the issuer payment date falling in May 2013, 3 Month USD LIBOR plus 0.10% and thereafter USD LIBOR plus 0.20%	20 November 2056
2006-1-A7	Aaa/AAA/AAA	9 November 2006	£500,000,000	£500,000,000	Prior to the issuer payment date falling in May 2013, 3 Month Sterling LIBOR plus 0.11% and thereafter Sterling LIBOR plus 0.22%	20 November 2056
2006-1-B1	Aa3/AA/AA	9 November 2006	\$84,500,000	\$0	Prior to the issuer payment date	20 November 2056

Series	Ratings	Issue Date	Outstanding Principal Amount at Issue Date	Current Outstanding Principal Amount	Note Interest Rate	Final Maturity Date
2006-1-B3	Aa3/AA/AA	9 November 2006	€167,000,000	€167,000,000	falling in November 2011, 3 Month USD LIBOR plus 0.10% and thereafter USD LIBOR plus 0.20% Prior to the issuer payment date falling in November 2011, 3 Month EURIBOR plus 0.18% and thereafter EURIBOR plus 0.36%	20 November 2056
2006-1-B4	Aa3/AA/AA	9 November 2006	£23,000,000	£23,000,000	Prior to the issuer payment date falling in November 2011, 3 Month Sterling LIBOR plus 0.18% and thereafter Sterling LIBOR plus 0.36%	20 November 2056
2006-1-C1	A2/A/A	9 November 2006	\$74,500,000	\$0	Prior to the issuer payment date falling in November 2011, 3 Month USD LIBOR plus 0.18% and thereafter USD LIBOR plus 0.36%	20 November 2056
2006-1-C3	A2/A/A	9 November 2006	€91,000,000	€91,000,000.00	Prior to the issuer payment date falling in November 2011, 3 Month EURIBOR plus 0.27% and thereafter EURIBOR plus 0.54%	20 November 2056
2006-1-C4	A2/A/A	9 November 2006	£56,000,000	£56,000,000.00	Prior to the issuer payment date falling in November 2011, 3 Month Sterling LIBOR plus 0.27% and thereafter Sterling LIBOR plus 0.54%	20 November 2056
2006-1-D2	Baa2/BBB/BBB	9 November 2006	\$70,000,000	\$70,000,000.00	Prior to the issuer payment date falling in November 2011, 3 Month USD LIBOR plus 0.47% and thereafter USD LIBOR plus 0.94%	20 November 2056
2006-1-D3	Baa2/BBB/BBB	9 November 2006	€211,000,000	€211,000,000.00	Prior to the issuer payment date falling in November 2011, 3 Month EURIBOR plus 0.47% and thereafter USD LIBOR plus 0.94%	20 November 2056

Series	Ratings	Issue Date	Outstanding Principal Amount at Issue Date	Current Outstanding Principal Amount	Note Interest Rate	Final Maturity Date
2006-1-D4	Baa2/BBB/BBB	9 November 2006	£20,000,000	£20,000,000.00	Prior to the issuer payment date falling in November 2011, 3 Month Sterling LIBOR plus 0.47% and thereafter USD LIBOR plus 0.94%	20 November 2056

Prior to the date of this base prospectus, the following global loan note have been issued by Gracechurch GMF Funding 1 Limited:

Relevant Loan note tranche	Issuance Date	Current Interest Rate ⁵	Step-Up Date	Step-Up Date Interest Rate ⁵	Initial Principal Amount ⁶	Current Principal Amount	Final Maturity Date
2007-1-1A1	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.2519%	£1,057,082,452	£0	Funding payment date falling in August 2032
2007-1-1A2	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.2357%	£308,470,205	£0	Funding payment date falling in August 2032
2007-1-1A3	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.0800%	£149,300,000	£0	Funding payment date falling in August 2032

⁵ Excluding for these purposes any further interest amount and any interpolation of such interest rates in relation to the first funding interest period.

⁶ Loan note principal amounts are rounded to the nearest Pound.

Relevant Loan note tranche	Issuance Date	Current Interest Rate⁵	Step-Up Date	Step-Up Date Interest Rate⁵	Initial Principal Amount⁶	Current Principal Amount	Final Maturity Date
		LIBOR					
2007-1-2A1	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.2941%	£912,866,204	£449,361,841	Funding payment date falling in November 2056
2007-1-2A2	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.2824%	£339,351,161	£167,046,892	Funding payment date falling in November 2056
2007-1-3A1	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.3897%	£1,222,692,037	£1,222,692,037	Funding payment date falling in November 2056
2007-1-3A2	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.4031%	£777,792,860	£777,792,860	Funding payment date falling in November 2056
2007-1-3A3	6 June 2007	3 Month (or in the case of the first funding payment date falling in August	Funding payment date falling in May 2012	3 month Sterling LIBOR plus 0.2000%	£768,500,000	£768,500,000	Funding payment date falling in November 2056

Relevant Loan note tranche	Issuance Date	Current Interest Rate⁵	Step-Up Date	Step-Up Date Interest Rate⁵	Initial Principal Amount⁶	Current Principal Amount	Final Maturity Date
		2007, the linear interpolation of two and three month) Sterling LIBOR					
2007-1-1B1	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.3719%	£43,290,043	£0	20 November 2056
2007-1-2B2	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.4749%	£95,018,325	£95,018,325	20 November 2056
2007-1-2B3	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.2800%	£20,000,000	£20,000,000	20 November 2056
2007-1-1C1	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.5375%	£32,719,219	£0	20 November 2056

Relevant Loan note tranche	Issuance Date	Current Interest Rate⁵	Step-Up Date	Step-Up Date Interest Rate⁵	Initial Principal Amount⁶	Current Principal Amount	Final Maturity Date
2007-1-2C2	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.6654%	£64,544,591	£64,544,591	20 November 2056
2007-1-2C3	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.4600%	£40,000,000	£40,000,000	20 November 2056
2007-1-2D1	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.8736%	£22,651,767	£22,651,767	20 November 2056
2007-1-2D2	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation of two and three month) Sterling LIBOR	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.8709%	£129,564,273	£129,564,273	20 November 2056
2007-1-2D3	6 June 2007	3 Month (or in the case of the first funding payment date falling in August 2007, the linear interpolation	Funding payment date falling in February 2010	3 month Sterling LIBOR plus 0.8000%	£22,000,000	£22,000,000	20 November 2056

Relevant Loan note tranche	Issuance Date	Current Interest Rate ⁵	Step-Up Date	Step-Up Date Interest Rate ⁵	Initial Principal Amount ⁶	Current Principal Amount	Final Maturity Date
		of two and three month) Sterling LIBOR					
2006-1-A1	9 November 2006	3 Month Sterling LIBOR plus 0.0519%	20 November 2011	3 Month Sterling LIBOR plus 0.2538%	£1,001,634,245	£0	20 November 2031
2006-1-A2	9 November 2006	3 Month Sterling LIBOR plus 0.0435%	20 November 2011	3 Month Sterling LIBOR plus 0.2370%	£305,205,259	£0	20 November 2031
2006-1-A3	9 November 2006	3 Month Sterling LIBOR plus 0.0400%	20 November 2011	3 Month Sterling LIBOR plus 0.0800%	£610,000,000	£0	20 November 2031
2006-1-A4	9 November 2006	3 Month Sterling LIBOR plus 0.0889%	20 November 2011	3 Month Sterling LIBOR plus 0.3278%	£1,368,548,685	£552,828,156	20 November 2056
2006-1-A5	9 November 2006	3 Month Sterling LIBOR plus 0.1282%	20 November 2011	3 Month Sterling LIBOR plus 0.4064%	£1,139,656,560	£1,139,656,560	20 November 2056
2006-1-A6	9 November 2006	3 Month Sterling LIBOR plus 0.1452%	20 May 2013	3 Month Sterling LIBOR plus 0.4404%	£547,472,191	£547,472,191	20 November 2056
2006-1-A7	9 November 2006	3 Month Sterling LIBOR plus 0.1100%	20 May 2013	3 Month Sterling LIBOR plus 0.2200%	£500,000,000	£500,000,000	20 November 2056
2006-1-B1	9 November 2006	3 Month Sterling LIBOR plus 0.1321%	20 November 2011	3 Month Sterling LIBOR plus 0.4142%	£44,546,365	£0	20 November 2056
2006-1-B3	9 November 2006	3 Month Sterling LIBOR plus 0.2141%	20 November 2011	3 Month Sterling LIBOR plus 0.5782%	£112,020,392	£112,020,392	20 November 2056
2006-1-B4	9 November 2006	3 Month Sterling LIBOR plus 0.1800%	20 November 2011	3 Month Sterling LIBOR plus 0.3600%	£23,000,000	£23,000,000	20 November 2056
2006-1-C1	9 November 2006	3 Month Sterling LIBOR plus 0.2144%	20 November 2011	3 Month Sterling LIBOR plus 0.5788%	£39,274,606	£0	20 November 2056
2006-1-C3	9 November 2006	3 Month Sterling LIBOR plus 0.3112%	20 November 2011	3 Month Sterling LIBOR plus 0.7724%	£61,041,052	£61,041,052	20 November 2056
2006-1-C4	9 November 2006	3 Month Sterling LIBOR plus	20 November 2011	3 Month Sterling LIBOR plus	£56,000,000	£56,000,000	20 November 2056

Relevant Loan note tranche	Issuance Date	Current Interest Rate⁵	Step-Up Date	Step-Up Date Interest Rate⁵	Initial Principal Amount⁶	Current Principal Amount	Final Maturity Date
		0.2700%		0.5400%			
2006-1-D2	9 November 2006	3 Month Sterling LIBOR plus 0.5304%	20 November 2011	3 Month Sterling LIBOR plus 1.0608%	£36,902,314	£36,902,314	20 November 2056
2006-1-D3	9 November 2006	3 Month Sterling LIBOR plus 0.5254%	20 November 2011	3 Month Sterling LIBOR plus 1.0508%	£141,534,746	£141,534,746	20 November 2056
2006-1-D4	9 November 2006	3 Month Sterling LIBOR plus 0.4700%	20 November 2011	3 Month Sterling LIBOR plus 0.9400%	£20,000,000	£20,000,000	20 November 2056

APPENDIX B

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 on each issue date.

Final Terms dated [•]

(to the base prospectus dated [•])

GRACECHURCH MORTGAGE FINANCING PLC

(incorporated in England and Wales with limited liability under registered number 5673206)

Residential Mortgage Backed Note Programme

Issue of Series [•]-[•] Notes

Series	Class	Interest Rate	Initial Principal Amount	Issue Price	Scheduled Redemption Date	Maturity Date
[•]	[A]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]
[•]	[•]	[Fixed]/[Floating]	[\$][EUR][£][•]	[•]%	[•]	[•]

Terms not otherwise defined herein shall be deemed to be defined as such for the purposes of the conditions set forth in the base prospectus dated [•] which constitutes a base prospectus (the "**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 base prospectus. Full information on the issuing entity and the offer of the notes is only available on the basis of the combination of final terms and the base prospectus. The base prospectus is available for viewing at [•].

Arranger
Barclays Capital

Dealer[s]
Barclays Capital

[•]

[•]

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved these series [•] notes or determined if these final terms are truthful or complete. Any representation to the contrary is a criminal offence.

The series [•] notes issued under the programme 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. The issuer has not registered and does not intend to register as an investment company under the United States Investment Company Act of 1940, as amended (the "Investment Company Act") in reliance on the exclusion provided in Section 3(c)(7) thereof. The series [•] notes are being offered and sold: (1) within the United States in reliance on Rule 144A under the Securities Act ("Rule 144A") only to persons that are both: (i) "qualified institutional buyers" (each a "QIB") within the meaning of Rule 144A; and (ii) "qualified purchasers" (each a "QP") within the meaning of Section 2(a)(51)(A) of the Investment Company Act, and the rules and regulations thereunder, in each case acting for their own account or for the account of another QIB that is a QP; and (2) outside the United States to persons who are neither U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S") (each a "U.S. Person") nor U.S. residents (as determined for the purposes of The Investment Company Act) (each a "U.S. Resident") in offshore transactions in reliance on Regulation S.] For a more complete description of restrictions on offers and sales, see "Plan of Distribution" and "Transfer Restrictions" in these final terms and the base prospectus.

Please review and carefully consider the risk factors beginning on page [•] of the base prospectus before you purchase any series [•] notes.

You should read these final terms and the base prospectus carefully before you invest. A note is not a deposit and neither the series [•] notes nor the underlying mortgage loans are insured or guaranteed by Barclays Bank PLC or by any United Kingdom or United States governmental agency. The series [•] notes offered in these final terms and the base prospectus will be obligations of the issuer only. The issuer will seek to satisfy its obligations under these series [•] notes from its assets. The series [•] notes will not be obligations of Barclays Bank PLC or any of its affiliates.

Series [•] notes issued pursuant to the programme may not be reoffered, resold, pledged, exchanged or otherwise transferred except in transactions exempt from or not subject to the registration requirements of the Securities Act and any other applicable securities laws. By its purchase of a series [•] note, each purchaser will be deemed to have (1) represented and warranted that: (i) it is a QIB that is a QP, acting for its own account or for the account of another QIB that is a QP, or (ii) it is neither a U.S. Person nor a U.S. Resident, and that it is located outside the United States; and (2) agreed that it will only resell such series [•] note in accordance with the applicable restrictions set forth herein. See "Plan of distribution" and "Transfer Restrictions" in these final terms and the base prospectus.

[Regulation S notes (as defined herein) of series [•] notes will be represented on issue by beneficial interests in one or more global certificates (each a "Regulation S global certificate"), in fully registered form, without interest coupons attached, which will be deposited with, and registered in the name of The Bank of New York Mellon, acting through its London Branch, as common depository (the "common depository") for Euroclear Bank S.A./N.V. ("Euroclear"), as operator of the Euroclear system, and Clearstream Banking, *société anonyme* ("Clearstream, Luxembourg").] [Rule 144A notes (as defined herein) of series [•] notes will be represented on issue by beneficial interests in one or more global certificates [(each a "Rule 144A EC global certificate"), in fully registered form, without interest coupons attached, which will be deposited with a common depository for Euroclear and Clearstream, Luxembourg,] [and] [in one or more global certificates (each a "Rule 144A DTC global certificate"), in fully registered form, without interest coupons attached, which will be deposited with The Bank of New York Mellon, acting through its London Branch, as custodian (the "custodian") for, and registered in the name of, Cede & Co. as nominee of, The Depository Trust Company ("DTC").] Ownership interests in the [Regulation S global certificates] [and] [the Rule 144A DTC global certificates] [and] [the Rule 144A EC global certificates] [(collectively, the "Rule 144A global certificates") [and, together with the Regulation S global certificates, the "global certificates")] [will be shown on, and transfers thereof will only be effected through, records maintained by [Euroclear; Clearstream, Luxembourg] [and] [DTC] [(as applicable)], and their respective participants. Series [•] notes in definitive certificated and fully registered form will be issued only in the limited circumstances described herein. In each case,

purchasers and transferees of series [•] notes will be deemed to have made certain representations and agreements. See "*Plan of Distribution*" in these final terms and the base prospectus.

IMPORTANT NOTICES

In the event that any withholding or deduction for any taxes, duties, assessments or government charges of whatever nature is imposed, levied, collected, withheld or assessed on payments of principal or interest in respect of the series [•] notes by the United Kingdom, or any other jurisdiction or any political subdivision or any authority in or of such jurisdiction having power to tax, the issuer or the paying agents shall make such payments after such withholding or deduction and neither the issuer nor the paying agents will be required to make any additional payments to holders of series [•] notes in respect of such withholding or deduction.

This document constitutes final terms for the purposes of Article 5.4 of the Prospectus Directive and is supplemental to and must be read in conjunction with the base prospectus. Full information on the issuer and the offer of the series [•] notes is only available on the basis of the combination of these final terms and the base prospectus. The base prospectus is available for viewing at the specified office of the principal paying agent and from the registered office of the issuer and copies may be obtained from the specified office of the principal paying agent.

The issuer has confirmed to the dealers named under "*Plan of Distribution*" below that these final terms, when read in conjunction with the base prospectus, contains all information which is (in the context of the programme, the issue, offering and sale of the series [•] notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed in these final terms are honestly held or made and are not misleading in any material respect; that these final terms does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the programme, the issue and offering and sale of the series [•] notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with these final terms or any other document entered into in relation to the programme or any information supplied by the issuer or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the issuer or any dealer.

No representation or warranty is made or implied by the dealers or any of their respective affiliates, and neither the dealers nor any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in these final terms. Neither the delivery of these final terms nor the offering, sale or delivery of any note shall, in any circumstances, create any implication that the information contained in these final terms is true subsequent to the date hereof or the date upon which any future final terms (in relation to any future issue of other series [•] notes) is produced or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the issuer since the date thereof or, if later, the date upon which any future final terms (in relation to any future issue of other series [•] notes) is produced or that any other information supplied in connection with the programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No request has been made for a certificate permitting public offers of the series [•] notes in other member states of the European Union.

The distribution of these final terms and the offering, sale and delivery of the series [•] notes in certain jurisdictions may be restricted by law. Persons in possession of the final terms are required by the issuer and the dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of series [•] notes and on the distribution of these final terms and other offering material relating to the series [•] notes, see "*Plan of distribution*" and "*Transfer Restrictions*" in these final terms and the base prospectus.

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

The maximum aggregate principal amount outstanding of notes outstanding at any one time under the programme will not exceed £[•],000,000,000 (and for this purpose, any series [•] notes denominated in another currency shall be translated into sterling at the date of the agreement to issue such series [•] notes

(calculated in accordance with the provisions of the dealer agreement)). The maximum aggregate principal amount outstanding of notes which may be outstanding at any one time under the programme may be increased from time to time, subject to compliance with the relevant provisions of the dealer agreement as defined under "*Plan of Distribution*" in the base prospectus.

Certain figures included in these final terms have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

The information about these series [•] notes appears in two separate documents: a base prospectus and these final terms. The base prospectus provides general information about each series of notes issued under the Gracechurch Mortgage Financing residential mortgage backed note programme, some of which may not apply to the series [•] notes described in these final terms. With respect to the series [•] notes, these final terms are the "relevant final terms" or the "applicable final terms" referred to in the base prospectus.

These final terms may be used to offer and sell the series [•] notes only if accompanied by the base prospectus.

These final terms may supplement the disclosure in the base prospectus. If the terms in these final terms differ from the terms in the base prospectus, the terms in these final terms will prevail and apply to the series [•] notes.

You should rely only on the information in these final terms and the base prospectus, including information incorporated by reference. The issuer has not authorised anyone to provide different information.

TRANSACTION FEATURES

These final terms may supplement the disclosure in the base prospectus. If the terms in these final terms differ from the terms in the base prospectus, the terms in these final terms will prevail and apply to the series [•] notes. Unless otherwise indicated, words and expressions defined in the base prospectus shall have the same meanings below.

[To be replicated for each series]

Series Number:	Series [•]-[•]-[•]
Class of Notes:	[•]
Expected Ratings from Moody's:	[•]
Expected Ratings from S&P:	[•]
Expected Ratings from Fitch Ratings:	[•]
Issue Date:	[•]
Issue Price:	[•] per cent.
Specified Currency:	[•]
[Currency Swap Rate:]	[•]
Principal Amount:	[•]
Minimum Specified Denomination:	[•]
Integral Multiples	[•]
[Classification of the Class A Notes:]	[Money Market Notes]
[Repayment Characteristics:]	[Bullet Pay Notes]
[Scheduled Redemption Date:]	[•]
Final Maturity Date:	[•]
Fixed or Floating Designation:	[•]
Basis:	[•]
[Initial Rate/Margin] Until Step-Up Date:	[•]
Margin After Step-Up Date:	[•]
Step-Up Date:	[•]
Optional Redemption:	[•]
Business Day Convention:	[•]
Day Count Fraction:	[•]
Interest Commencement Date:	[•]
Interest Determination Date:	[•]
[Issuer Payment Dates:]	[•]
[First Issuer Payment Date:]	[•]
[Money Market Note Payment Dates:]	[•]
[First Money Market Note Payment Date:]	[•]
Classification of Note for U.S. tax	[Senior Note/Junior Note]

purposes:	
[OID Calculation:]	[constant yield method/prepayment assumption method]
[Application of redenomination provisions of Condition 19:]	[Applicable/Not Applicable]
Listing:	The Gilt Edged and Fixed Interest Market of the London Stock Exchange
Stock Exchange:	[•]
Form of Notes:	[Reg S Note registered in the name of [a nominee for DTC/a nominee of the common depository of Euroclear and Clearstream, Luxembourg]] [Rule 144A Note registered in the name of [a nominee for DTC/a nominee of the common depository of Euroclear and Clearstream, Luxembourg]]
Distribution:	
(a) If syndicated, names [and addresses] of Dealers:	[Not Applicable/ <i>give names</i>]
(b) Stabilising Dealer (if any):	[Not Applicable/ <i>give name</i>]
(c) Details of discount and commission or underwriting discounts and commission paid to any Dealer (if any) or Agent.]	[•]
If non-syndicated name of relevant Dealer:	[<i>Name</i>]
Selling restrictions Optional information:	[As set out in the base prospectus/ <i>give details</i>]
Any clearing system(s) other than DTC, Euroclear or Clearstream, Luxembourg and the relevant identification numbers:	[Not Applicable/ <i>give name(s) and number(s)</i>]
Delivery:	Delivery [against/free of payment] [•]
Names and addresses of additional Paying Agent(s) (if any):	[•]
[ISIN Code Reg S:]	[•]
[ISIN Code 144A:]	[•]
[Common Code Reg S:]	[•]
[Common Code 144A:]	[•]
[CUSIP:]	[•]
Amortisation Period:	[•] [<i>details of non-asset trigger amortisation period and asset trigger amortisation period</i>]
[Additional Business Centres]	[•]

[Additional Financial Centres] [•]

[Principal Financial Centre] [•]

LOAN NOTE TRANCHE SUPPORTING SERIES

Loan Note Tranche Number: [•]

Designation for the purposes of the funding security trust deed: Class [•]

Issuance Date: [•]

Initial Principal Amount: [•]

Funding Payment Dates: [•]

First Funding Payment Date: [•]

[Accumulation Period Commencement Date:] [•]

[Scheduled Redemption Date:] [•]

Basis: [•]

Margin Until Step-Up Date: [•]

Margin After Step-Up Date: [•]

Step-Up Date: [•]

Final Maturity Date: [•]

Additional Early Redemption Events: [•]

Required Subordination Percentage: [•]

Funding Rating Repayment Test: [Applicable/Not Applicable]

Common Funding Reserve Required Amount: 1.25 per cent.

Common Funding Reserve Required Amount after occurrence of arrears or step-up trigger event:

(a) if an arrears or step up trigger event has occurred under item (i) only of the arrears or step-up trigger event definition: [•]

(b) if an arrears or step up trigger event has occurred under item (ii) only of the arrears or step-up trigger event definition: [•]

(c) if an arrears or step up trigger event has occurred under item (i) and (ii) of the arrears or step-up trigger event [•]

definition:

[Segregated Funding Reserve Fund] *[details of segregated funding reserve fund which loan note tranche has benefit of]*

[Segregated Funding Reserve Required Amount:] [•]

[Senior Expenses Loan Drawdown:] [•]

[Junior Expenses Loan Drawdown:] [•]

[Loan note tranche controlled amortisation schedule]

[To be included for relevant loan note tranches]

ANCILLARY INFORMATION

New Mortgage Loan Portfolio Designation: [•] mortgage loan portfolio

[New Mortgage Portfolio Purchase Price: £[•]]

Maximum Permitted Mortgage Loan Maturity Date: [•]

[Estimate of total expenses related to admission to trading: £[•] (being the estimated total of underwriting, arrangement, legal and other fees, costs and expenses converted at an exchange rate of GBP 1.00/\$[•] in the case of \$ denominated notes and GBP 1.00/€[•] in the case of EUR denominated notes.)]

PARTIES

Dealers:	Barclays Bank PLC and [•]
Issuer:	Gracechurch Mortgage Financing PLC
Issuer Security Trustee, Funding Security Trustee:	The Bank of New York Mellon, acting through its London Branch, whose address is, at the date of these final terms, 40th Floor, One Canada Square, London E14 5AL
Principal Paying Agent, Registrar, Transfer Agent, Agent Bank, Calculation Agent and Exchange Agent:	The Bank of New York Mellon, acting through its London Branch, whose address is, at the date of these final terms, 40th Floor, One Canada Square, London E14 5AL
Mortgages Trustee:	Gracechurch GMF Trustee Limited
Funding:	Gracechurch GMF Funding 1 Limited
Seller:	Barclays Bank PLC
Cash Manager:	Barclays Bank PLC
Administrator:	Barclays Bank PLC
PECOH:	Gracechurch GMF Options Limited
Holdings:	Gracechurch GMF Holdings Limited
Senior Expenses Loan Facility Provider:	Barclays Bank PLC
Junior Expenses Loan Facility Provider:	Barclays Bank PLC
Yield Supplement Loan Facility Provider:	Barclays Bank PLC
Basis Rate Swap Provider:	Barclays Bank PLC
Calculation Agent:	Barclays Bank PLC
Issuer Swap Provider:	Barclays Bank PLC
Common Depositary:	[•]

OTHER SERIES ISSUED AND LOAN NOTE TRANCHES HELD

Gracechurch Mortgage Financing PLC

In addition to the other series of notes already issued on a previous issue date and as described in the base prospectus, the issuer has also issued the following series of notes prior to this issue date:

[As at the date of these final terms, no previous series, other than disclosed in the base prospectus, have been issued by the issuer, funding or the mortgage trustee.]

<u>Series</u>	<u>Ratings</u>	<u>Issue Date</u>	<u>Outstanding Principal Amount</u>	<u>Current outstanding principal amount</u>	<u>Note Interest Rate</u>	<u>Final Maturity Date</u>
[•]	[•]	[•]	[•]	[•]	[•]	[•]

Gracechurch GMF Funding 1 Limited

In addition to the loan note tranches already advanced on a previous issue date and as described in the base prospectus, funding has advanced the following loan note tranches prior to this issue date:

[As at the date of these final terms, no previous series, other than disclosed in the base prospectus, have been issued by the issuer, funding or the mortgage trustee.]

<u>Relevant Loan note tranche</u>	<u>Issuance Date</u>	<u>Current Interest Rate</u>	<u>Step-Up Date</u>	<u>Step-Up Date Interest Rate</u>	<u>Initial Principal Amount</u>	<u>Current Principal Amount</u>	<u>Final Maturity Date</u>
[•]	[•]		[•]	[•]	[•]	[•]	[•]

CURRENCY PRESENTATION

Translations of pounds sterling into US dollars, unless otherwise stated in these final terms, have been made at the rate of £1.00 = \$[•], which reflects the end of day buying rate on Bloomberg (New York composite rates) in the City of New York in dollars per £1.00 sterling as certified for customs purposes by the Federal Reserve Bank on [• date]. Use of this rate does not mean that pound sterling amounts actually represent those US dollar amounts or could be converted into US dollars at that rate at any particular time.

References throughout these final terms to "£", "**pounds**" or "**sterling**" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

References in these final terms to "US\$", "**USD**", "\$", "**US dollars**" or "**dollars**" are to the lawful currency of the United States of America.

Sterling/US dollar exchange rate history

	Years ended 31 December							
	[2008]	[2007]	2006	2005	2004	2003	2002	2001
Last ¹	[•]	[•]	1.9589	1.7230	1.9181	1.7858	1.6100	1.4546
Average ²	[•]	[•]	1.8436	1.8196	1.8334	1.6358	1.5038	1.4407
High	[•]	[•]	1.9815	1.9291	1.9467	1.7858	1.6100	1.5038
Low	[•]	[•]	1.7199	1.7142	1.7559	1.5541	1.4082	1.3727

¹ Last is the closing exchange rate on the last operating business day of each of the years indicated, years commencing from January 1 or the next operating business day.

² Average is the average daily exchange rate during the period.

MATURITY AND REPAYMENT CONSIDERATIONS

Based upon the assumptions made in the base prospectus (see in the base prospectus "*Maturity and Repayment Considerations*"), the approximate weighted average lives of the series [•] notes, at various constant payment rates for the mortgage assets, would be as follows:

Constant payment rate(%per annum)	Possible weighted average life of the series[•] notes
	<i>(years)</i>
5%	[•]
10%	[•]
15%	[•]
20%	[•]
25%	[•]
30%	[•]
35%	[•]

THE MORTGAGES TRUST

As at the last trust determination date before the date of these final terms, the size of the funding share of the trust property was £[•], the size of the funding (no. 2) share of the trust property was £100 and the size of the seller share of the trust property was £[•].

On the issue date, funding will make [an initial contribution in an amount of £[•]/a further contribution of £[•]] to the mortgages trustee, and the mortgages trustee will utilise an amount equal to such contributions to [pay an initial purchase price for the [•] mortgage account portfolio of £[•] to the seller/make an additional MRCLN advance of £[•] to the seller/make a special distribution to the seller of £[•]/make a special distribution to funding (no. 2) of £[•]].

[As at the issue date and following such contribution, the size of funding's beneficial interest in the trust property (the "**funding share**") [will be/is expected to be approximately] £[•] million, which will correspond to approximately [•] per cent. of the trust property. The actual share of funding's beneficial interest in the trust property on the issue date will not be determined until the day prior to the issue date.]

[As at the issue date and following the sale of the [•] mortgage loan portfolio to the mortgages trustee by the seller, the size of the seller's beneficial interest in the trust property (the "**seller share**") is expected to be approximately £[•] million, which will correspond to approximately [•] per cent. of the trust property. The actual share of the seller's beneficial interest in the trust property on the issue date will not be determined until the day prior to the issue date.]

THE MORTGAGE ASSETS

Introduction

At [•], mortgage loans outstanding in the UK amounted to approximately £[•]. Outstanding mortgage debt in the UK grew at an annual average rate of [•] per cent. between [1994] and [•]. At [•], banks held [•] per cent. of outstanding mortgage debt while building societies held [•] per cent. of outstanding mortgage debt.

The series [•] cut-off date mortgage account portfolio plus the mortgage accounts that form part of the trust property at the cut-off date (the "**cut-off date mortgage account portfolio**") was drawn up as at [•] (the "**cut-off date**").

[•] of the mortgages securing the mortgage accounts in the cut-off date mortgage account portfolio (or [•] per cent. of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio) are on freehold properties and [•] of the mortgages securing the mortgage accounts in the cut-off date mortgage account portfolio (or [•] per cent. of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio) are on leasehold properties. [•] of the mortgages securing the mortgage accounts in the cut-off date mortgage account portfolio (or [•] per cent. of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio) are on the heritable properties (being the Scots law equivalent of freehold).

The cut-off date mortgage account portfolio as at the cut-off date comprised [•] mortgage accounts having: (i) an aggregate mortgage loan balance of £[•]; (ii) an aggregate mortgage reserve balance of £[•]; and (iii) an aggregate mortgage account balance of £[•]. The seller originated the mortgage accounts in the cut-off date mortgage account portfolio between [•] and [•]. None of the mortgage accounts in the cut-off date mortgage account portfolio has an aggregate required monthly payment that is overdue by one or more months. All mortgage accounts in the cut-off date mortgage account portfolio were originated by the seller at least [•] months before the issue date.

Interest payments and setting of interest rates

The borrower may have the flexibility of having a portion of a mortgage loan accruing interest at a variable rate and the rest accruing interest at a fixed rate (subject to availability).

[•] mortgage accounts in the cut-off date mortgage account portfolio were fixed rate mortgage loans (equating to [•] per cent. of the aggregate current balance of the mortgage accounts in the cut-off date mortgage account portfolio). [•] mortgage accounts in the cut-off date mortgage account portfolio were tracker rate mortgage loans (equating to [•] per cent. of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio). The remaining [•] mortgage accounts in the cut-off date mortgage account portfolio were standard variable rate mortgage loans or discounted variable rate mortgage loans (equating to [•] per cent. of the aggregate mortgage account balance of the mortgage accounts in the cut-off date mortgage account portfolio).

As at the date of these final terms, the Barclays base rate is [•] per cent. per annum, the Bank of England's base rate is [•] per cent. per annum and the Barclays standard variable rate is [•] per cent. per annum.

Assignment of the mortgage loans' etc.

The mortgage loans in the [•] new mortgage account portfolio [will be/were] transferred to the mortgages trustee on [the mortgages trust establishment date/the [•] issue date/[•]] in accordance with the terms of the mortgage sale agreement, as more fully described in the base prospectus (see in the base prospectus "*The Assignment of the Mortgage Loans and Related Security*").

The initial purchase price payable by the mortgages trustee in respect of the [•] mortgage loan portfolio [is/was] [approximately] £[•], and in addition the mortgages trustee will make an additional MRCLN advance of approximately £[•] and on such date the principal amount outstanding on the MRCLN [was/will be] [approximately] £[•].

Selected statistical information on the issue date cut-off date mortgage account portfolio

The statistical and other information contained in these final terms has been compiled by reference to the mortgage accounts in the cut-off date mortgage account portfolio. Columns stating percentage amounts may not add up to 100 per cent. due to rounding. The characteristics of the mortgage account portfolio as of the issue date are not expected to differ materially from the characteristics of the cut-off date mortgage account portfolio, however, it should be noted that a mortgage account will have been removed from any additional mortgage account portfolio (which comprises a portion of the cut-off date mortgage account portfolio) if, in the period up to (and including) the assignment date related to such additional mortgage account portfolio, the mortgage account is repaid in full or if the mortgage account does not comply with the terms of the mortgage sale agreement on about the applicable assignment date. [Once such mortgage accounts are removed, the seller will then randomly select from the mortgage accounts remaining in the additional mortgage account portfolio those mortgage accounts to be assigned on the applicable assignment date once the determination has been made as to the anticipated principal balances of the notes to be issued and the corresponding size of the trust that would be required ultimately to support payments on the notes.] The seller has not revalued any of the mortgaged properties since the date of the origination of the related mortgage account for the purposes of the issue of the notes, other than in respect of a mortgaged property of a related borrower that has remortgaged its property or to which the seller has made a further advance.

Original term

<u>Term of mortgage accounts</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>% of total</u>	<u>Number of mortgage accounts</u>	<u>% of total</u>
<i>(years)</i>	<i>(£)</i>	<i>(US\$)</i>			
0 to 5	[.]	[.]	[.]	[.]	[.]
5 to 8	[.]	[.]	[.]	[.]	[.]
8 to 10	[.]	[.]	[.]	[.]	[.]
10 to 12	[.]	[.]	[.]	[.]	[.]
12 to 14	[.]	[.]	[.]	[.]	[.]
14 to 15	[.]	[.]	[.]	[.]	[.]
15 to 16	[.]	[.]	[.]	[.]	[.]
16 to 17	[.]	[.]	[.]	[.]	[.]
17 to 18	[.]	[.]	[.]	[.]	[.]
18 to 19	[.]	[.]	[.]	[.]	[.]
19 to 20	[.]	[.]	[.]	[.]	[.]
20 to 21	[.]	[.]	[.]	[.]	[.]
21 to 22	[.]	[.]	[.]	[.]	[.]
22 to 23	[.]	[.]	[.]	[.]	[.]
23 to 24	[.]	[.]	[.]	[.]	[.]
24 to 25	[.]	[.]	[.]	[.]	[.]
25 to 26	[.]	[.]	[.]	[.]	[.]
26 to 27	[.]	[.]	[.]	[.]	[.]
27 to 28	[.]	[.]	[.]	[.]	[.]
28 to 30	[.]	[.]	[.]	[.]	[.]
30 to 34	[.]	[.]	[.]	[.]	[.]
> 34	[.]	[.]	[.]	[.]	[.]
Total	[.]	[.]	[.]	[.]	[.]

Types of property

<u>Type of property</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>% of total</u>	<u>Number of mortgage accounts</u>	<u>% of total</u>
	<i>(£)</i>	<i>(US\$)</i>			
Bungalow	[.]	[.]	[.]	[.]	[.]
Detached House	[.]	[.]	[.]	[.]	[.]
Flat/Maisonette	[.]	[.]	[.]	[.]	[.]
Semi Detached House	[.]	[.]	[.]	[.]	[.]

Type of property	Aggregate mortgage account balance as of the cut-off date (£)	Aggregate mortgage account balance as of the cut-off date (US\$)	% of total	Number of mortgage accounts	% of total
Terraced House	[.]	[.]	[.]	[.]	[.]
Total	[.]	[.]	[.]	[.]	[.]

Seasoning of mortgage accounts

The following table shows length of time since the mortgage accounts were originated as of the cut-off date.

Age of mortgage accounts (months)	Aggregate mortgage account balance as of the cut-off date (£)	Aggregate mortgage account balance as of the cut-off date (US\$)	% of total	Number of mortgage accounts	% of total
7 to 9	[.]	[.]	[.]	[.]	[.]
9 to 11	[.]	[.]	[.]	[.]	[.]
11 to 13	[.]	[.]	[.]	[.]	[.]
13 to 15	[.]	[.]	[.]	[.]	[.]
15 to 17	[.]	[.]	[.]	[.]	[.]
17 to 19	[.]	[.]	[.]	[.]	[.]
19 to 21	[.]	[.]	[.]	[.]	[.]
21 to 23	[.]	[.]	[.]	[.]	[.]
23 to 25	[.]	[.]	[.]	[.]	[.]
25 to 27	[.]	[.]	[.]	[.]	[.]
27 to 29	[.]	[.]	[.]	[.]	[.]
Total	[.]	[.]	[.]	[.]	[.]

The weighted average seasoning of mortgage accounts as of the cut-off date is expected to be [.] months. The maximum seasoning of mortgage accounts as of the cut-off date is expected to be [.] months and the minimum seasoning of the mortgage accounts as of the cut-off date is expected to be [.] months.

Years to maturity

Years to maturity	Aggregate mortgage account balance as of the cut-off date (£)	Aggregate mortgage account balance as of the cut-off date (US\$)	% of total	Number of mortgage accounts	% of total
0 to 2.99	[.]	[.]	[.]	[.]	[.]
3 to 4.99	[.]	[.]	[.]	[.]	[.]
5 to 6.99	[.]	[.]	[.]	[.]	[.]
7 to 8.99	[.]	[.]	[.]	[.]	[.]
9 to 10.99	[.]	[.]	[.]	[.]	[.]
11 to 12.99	[.]	[.]	[.]	[.]	[.]
13 to 14.99	[.]	[.]	[.]	[.]	[.]
15 to 16.99	[.]	[.]	[.]	[.]	[.]
17 to 18.99	[.]	[.]	[.]	[.]	[.]
19 to 20.99	[.]	[.]	[.]	[.]	[.]
21 to 22.99	[.]	[.]	[.]	[.]	[.]
23 to 24.99	[.]	[.]	[.]	[.]	[.]
25 to 26.99	[.]	[.]	[.]	[.]	[.]
27 to 28.99	[.]	[.]	[.]	[.]	[.]
29 to 30.99	[.]	[.]	[.]	[.]	[.]
31 to 32.99	[.]	[.]	[.]	[.]	[.]
33 to 34.99	[.]	[.]	[.]	[.]	[.]
35 to 36.99	[.]	[.]	[.]	[.]	[.]

<u>Years to maturity</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>% of total</u>	<u>Number of mortgage accounts</u>	<u>% of total</u>
	(£)	(US\$)			
37 to 38.99	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

The weighted average remaining term of the mortgage accounts as of the cut-off date is expected to be [•] years. The maximum remaining term as of the cut-off date is expected to be [•] years and the minimum remaining term as of the cut-off date is expected to be [•] years.

Geographical distribution of mortgaged properties

The following table shows the distribution of mortgaged properties securing the mortgage accounts throughout England, Wales, Northern Ireland and Scotland as of the cut-off date. No mortgaged properties are situated outside England, Wales, Northern Ireland or Scotland. The geographical location of a mortgaged property securing a mortgage account has no impact upon the seller's lending criteria and credit scoring tests.

<u>Region</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>% of total</u>	<u>Number of mortgage accounts</u>	<u>% of total</u>
	(£)	(US\$)			
East Anglia.....	[•]	[•]	[•]	[•]	[•]
East Midlands.....	[•]	[•]	[•]	[•]	[•]
Greater London	[•]	[•]	[•]	[•]	[•]
North.....	[•]	[•]	[•]	[•]	[•]
North West.....	[•]	[•]	[•]	[•]	[•]
Northern Ireland.....	[•]	[•]	[•]	[•]	[•]
South East.....	[•]	[•]	[•]	[•]	[•]
South West.....	[•]	[•]	[•]	[•]	[•]
Wales.....	[•]	[•]	[•]	[•]	[•]
West Midlands.....	[•]	[•]	[•]	[•]	[•]
Yorkshire and Humberside.....	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

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 household income over the period from 2001 to 2004 for each region in order to produce a house price to earnings ratio for each region. This ratio is highest in [•] ([•]) and lowest in [•] ([•]).

<u>Region</u>	<u>Average Price</u>	<u>Average Earnings</u>	<u>Price/Earnings Ratio</u>
	(£)	(£ per annum)	
East Anglia.....	[•]	[•]	[•]
East Midlands.....	[•]	[•]	[•]
Greater London	[•]	[•]	[•]
Northern Ireland.....	[•]	[•]	[•]
North East.....	[•]	[•]	[•]
North West.....	[•]	[•]	[•]
Scotland.....	[•]	[•]	[•]
South East.....	[•]	[•]	[•]
South West.....	[•]	[•]	[•]
Wales.....	[•]	[•]	[•]
West Midlands.....	[•]	[•]	[•]
Yorkshire & Humberside	[•]	[•]	[•]

Sources: Office of National Statistics, Department for Communities and Local Government.

Current loan to value ratios

The following table shows the range of current loan to value, or LTV, ratios, which express the mortgage account balance of a mortgage account as at the cut-off date divided by the value of the mortgaged property securing that mortgage account at the same date. The seller has not revalued any of the mortgaged properties since the date of the origination of the related mortgage account, other than in respect of a mortgaged property of a related borrower that has remortgaged its property or to which the seller has made a further advance, as described in the base prospectus under "*The Mortgage Assets – overpayments, unauthorised underpayment and further advances on mortgage loans*".

Current LTV (%)	Aggregate mortgage account balance as of the cut-off date	Aggregate mortgage account balance as of the cut-off date	% of total	Number of mortgage accounts	% of total
	(£)	(US\$)			
0 to 20	[•]	[•]	[•]	[•]	[•]
20 to 30	[•]	[•]	[•]	[•]	[•]
30 to 40	[•]	[•]	[•]	[•]	[•]
40 to 50	[•]	[•]	[•]	[•]	[•]
50 to 60	[•]	[•]	[•]	[•]	[•]
60 to 70	[•]	[•]	[•]	[•]	[•]
70 to 80	[•]	[•]	[•]	[•]	[•]
80 to 90	[•]	[•]	[•]	[•]	[•]
> 90	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

The weighted average current loan to value ratio of the mortgage accounts at the cut-off date was [•] per cent.

Drawable loan to value ratio

Mortgage reserve credit and aggregate debt limit LTV (%)	Aggregate mortgage account balance	Aggregate mortgage account balance	% of total	Number of mortgage accounts	% of total
	(£)	(US\$)			
0 to 20	[•]	[•]	[•]	[•]	[•]
20 to 30	[•]	[•]	[•]	[•]	[•]
30 to 40	[•]	[•]	[•]	[•]	[•]
40 to 50	[•]	[•]	[•]	[•]	[•]
50 to 60	[•]	[•]	[•]	[•]	[•]
60 to 70	[•]	[•]	[•]	[•]	[•]
70 to 80	[•]	[•]	[•]	[•]	[•]
80 to 90	[•]	[•]	[•]	[•]	[•]
> 90	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

The weighted average drawable loan to value ratio of the mortgage accounts at the cut-off date was [•].

Original loan to value ratio

Original LTV (%)	Aggregate mortgage account balance	Aggregate mortgage account balance	% of total	Number of mortgage accounts	% of total
	(£)	(US\$)			
0 to 20	[•]	[•]	[•]	[•]	[•]
20 to 30	[•]	[•]	[•]	[•]	[•]
30 to 40	[•]	[•]	[•]	[•]	[•]
40 to 50	[•]	[•]	[•]	[•]	[•]
50 to 60	[•]	[•]	[•]	[•]	[•]
60 to 70	[•]	[•]	[•]	[•]	[•]
70 to 80	[•]	[•]	[•]	[•]	[•]
80 to 90	[•]	[•]	[•]	[•]	[•]

<u>Original LTV (%)</u>	<u>Aggregate mortgage account balance</u>	<u>Aggregate mortgage account balance</u>	<u>% of total</u>	<u>Number of mortgage accounts</u>	<u>% of total</u>
	(£)	(US\$)			
> 90	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

The weighted average original loan to value ratio of the mortgage accounts at the cut-off date was [•].

Current indexed loan to value ratio

The following table shows the range of current indexed loan to value, or LTV, ratios, which express the mortgage account balance of a mortgage account as of the cut-off date divided by the indexed value of the mortgaged property securing that mortgage account as of the same date [(calculated using the Halifax House Price Index)].

<u>[Current Indexed LTV (%)]</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>% of total</u>	<u>Number of mortgage accounts</u>	<u>% of total</u>
	(£)	(US\$)			
0 to 20	[•]	[•]	[•]	[•]	[•]
20 to 30	[•]	[•]	[•]	[•]	[•]
30 to 40	[•]	[•]	[•]	[•]	[•]
40 to 50	[•]	[•]	[•]	[•]	[•]
50 to 60	[•]	[•]	[•]	[•]	[•]
60 to 70	[•]	[•]	[•]	[•]	[•]
70 to 80	[•]	[•]	[•]	[•]	[•]
80 to 90	[•]	[•]	[•]	[•]	[•]
> 90	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

The weighted average current indexed loan to value ratio of the mortgage accounts as of the cut-off date was [•] per cent.

Outstanding balances

The following table shows the outstanding balances of a mortgage account (including capitalised fees and/or charges, if applicable) as of the cut-off date:

<u>Range of outstanding mortgage account balance</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>Aggregate mortgage account balance as of the cut-off date</u>	<u>per cent. of total</u>	<u>Number of mortgage accounts</u>	<u>per cent. of total</u>
	(£)	(US\$)			
£0 to £50,000	[•]	[•]	[•]	[•]	[•]
over £50,000 to £100,000	[•]	[•]	[•]	[•]	[•]
over £100,000 to £150,000	[•]	[•]	[•]	[•]	[•]
over £150,000 to £200,000	[•]	[•]	[•]	[•]	[•]
over £200,000 to £250,000	[•]	[•]	[•]	[•]	[•]
over £250,000 to £300,000	[•]	[•]	[•]	[•]	[•]
over £300,000 to £350,000	[•]	[•]	[•]	[•]	[•]
over £350,000 to £400,000	[•]	[•]	[•]	[•]	[•]
over £400,000 to £450,000	[•]	[•]	[•]	[•]	[•]
over £450,000 to £500,000	[•]	[•]	[•]	[•]	[•]
over £500,000 to £600,000	[•]	[•]	[•]	[•]	[•]
over £600,000 to £700,000	[•]	[•]	[•]	[•]	[•]
over £700,000 to £800,000	[•]	[•]	[•]	[•]	[•]
over £800,000 to £900,000	[•]	[•]	[•]	[•]	[•]

Range of outstanding mortgage account balance	Aggregate mortgage account balance as of the cut-off date	Aggregate mortgage account balance as of the cut-off date	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)			
over £900,000 to £1,000,000.....	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

The largest mortgage account had a mortgage account balance as of the cut-off date of £[•] or US\$[•]. The average mortgage account balance as of the cut-off date was approximately £[•] or US\$[•].

Initial advance

The following table shows the aggregate initial mortgage account balance of the mortgage accounts as of the date of the relevant advance:

Range of outstanding mortgage account balance	Aggregate mortgage account balance as of the cut-off date	Aggregate mortgage account balance as of the cut-off date	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)			
£0 to £50,000	[•]	[•]	[•]	[•]	[•]
over £50,000 to £100,000.....	[•]	[•]	[•]	[•]	[•]
over £100,000 to £150,000.....	[•]	[•]	[•]	[•]	[•]
over £150,000 to £200,000.....	[•]	[•]	[•]	[•]	[•]
over £200,000 to £250,000.....	[•]	[•]	[•]	[•]	[•]
over £250,000 to £300,000.....	[•]	[•]	[•]	[•]	[•]
over £300,000 to £350,000.....	[•]	[•]	[•]	[•]	[•]
over £350,000 to £400,000.....	[•]	[•]	[•]	[•]	[•]
over £400,000 to £450,000.....	[•]	[•]	[•]	[•]	[•]
over £450,000 to £500,000.....	[•]	[•]	[•]	[•]	[•]
over £500,000 to £600,000.....	[•]	[•]	[•]	[•]	[•]
over £600,000 to £700,000.....	[•]	[•]	[•]	[•]	[•]
over £700,000 to £800,000.....	[•]	[•]	[•]	[•]	[•]
over £800,000 to £900,000.....	[•]	[•]	[•]	[•]	[•]
over £900,000 to £1,000,000.....	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

Mortgage loan products – collateral level

Mortgage loan products	Aggregate mortgage account balance as of the cut-off date	Aggregate mortgage account balance as of the cut-off date	per cent. of total	Aggregate mortgage reserve debt	Aggregate mortgage reserve debt	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)		(£)	(US\$)			
Discounted.....	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Fixed.....	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Standard Variable.....	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Tracker.....	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]

Self Employed

Self Employed	Aggregate mortgage account balance as of the cut-off date	Aggregate mortgage account balance as of the cut-off date	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)			
No	[•]	[•]	[•]	[•]	[•]
Yes	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]

Approximately [•] per cent. of the aggregate mortgage account balance of the mortgage accounts as of the cut-off date were made to borrowers under the seller's non-verified income process described in the base prospectus under [•].

Distribution of fixed rate mortgage loans

Fixed rate mortgage loans remain at the relevant fixed rate for a period of time as specified in the offer of advance, after which they move to the seller's standard variable rate or some other rate as specified in the offer of advance.

Fixed rate per cent.	Aggregate mortgage loan current balance as of the cut-off date	Aggregate mortgage loan current balance as of the cut-off date	per cent. of total	Aggregate mortgage reserve debt	Aggregate mortgage reserve debt	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)		(£)	(US\$)			
3.00 – 3.99	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
4.00 – 4.99	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
5.00 – 5.99	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
6.00 – 6.99	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
7.00 – 7.99	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
8.00 – 8.99	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Total	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]

Distribution of termination of fixed rate mortgage (by quarter)

Quarter in which fixed rate period ends	Aggregate mortgage loan current balance as of the cut-off date	Aggregate mortgage loan current balance as of the cut-off date	per cent. of total	Aggregate mortgage reserve debt	Aggregate mortgage reserve debt	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)		(£)	(US\$)			
2006 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2006 – Q4	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2007 – Q1	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2007 – Q2	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2007 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2007 – Q4	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2008 – Q1	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2008 – Q2	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2008 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2008 – Q4	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2009 – Q1	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2009 – Q2	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2009 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2009 – Q4	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2010 – Q1	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2010 – Q2	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2010 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2011 – Q1	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2011 – Q2	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2011 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]

Quarter in which fixed rate period ends	Aggregate mortgage loan current balance as of the cut-off date	Aggregate mortgage loan current balance as of the cut-off date	per cent. of total	Aggregate mortgage reserve debt	Aggregate mortgage reserve debt	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)		(£)	(US\$)			
2011 – Q4	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2015 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2016 – Q1	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2016 – Q2	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
2016 – Q3	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Total	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>

Repayment terms

Type of Repayment Plans	Aggregate mortgage loan current balance as of the cut-off date	Aggregate mortgage loan current balance as of the cut-off date	per cent. of total	Aggregate mortgage reserve debt	Aggregate mortgage reserve debt	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)		(£)	(US\$)			
Endowment	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Repayment	[•]	[•]	[•]	[•]	[•]	[•]	[•]	[•]
Total	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>

Mortgage reserves do not have a repayment schedule (see "The Mortgage Assets – Repayment and Operation of the Mortgage Reserve").

Arrears and repossession experience

The following table shows the arrears and repossession experience in respect of the cut-off date mortgage account portfolio.

The mortgage accounts used in the table below are administered in accordance with Barclays Bank PLC administration policies. The method by which Barclays Bank PLC classifies mortgage accounts as being in arrears is described in the base prospectus under "The Administrator and the Administration Agreement – Arrears practice in respect of the mortgage loans" and is important in helping to understand the arrears and repossession information in respect of the cut-off date mortgage account portfolio set forth in the following table.

Mortgage accounts in arrears

Mortgage accounts in arrears	Aggregate mortgage account as of the cut-off date	Aggregate mortgage account as of the cut-off date	per cent. of total	Number of mortgage accounts	per cent. of total
	(£)	(US\$)			
Current					
Current	[•]	[•]	[•]	[•]	[•]
>1 and 2	[•]	[•]	[•]	[•]	[•]
>2 and 3	[•]	[•]	[•]	[•]	[•]
>3 and 6	[•]	[•]	[•]	[•]	[•]
>6 and 12	[•]	[•]	[•]	[•]	[•]
>12	[•]	[•]	[•]	[•]	[•]
Total	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>	<u>[•]</u>

ARREARS EXPERIENCE OF THE SELLER

The following table summarises, in respect of the seller's overall mortgage portfolio, the seller's experience in administering mortgage accounts in arrears and its repossession experience for residential mortgage accounts that were originated by the seller. The information set forth below includes information in respect of the seller's experience in administering mortgage loans secured by properties located in England, Wales, Scotland and Northern Ireland.

The mortgage accounts used for statistical purposes in the table below are administered in accordance with the administration policies of Barclays Bank PLC. Noteholders should note the method by which Barclays Bank PLC classifies accounts as being in arrears, which is described under "*The Administrator and the Administration Agreement – Arrears practice in respect of the mortgage loans*" in the base prospectus, and which is important in helping noteholders to understand arrears and repossession experience of Barclays Bank PLC as set forth in the following table.

PLAN OF DISTRIBUTION

After the public offering, the public offering price and other selling terms may be changed by the dealers.

In connection with the sale of these series [•] notes, the dealers may engage in:

- over-allotments, in which members of the syndicate selling these series [•] notes sell more notes than the issuer actually sold to the syndicate, creating a syndicate short position;
- stabilising transactions, in which purchases and sales of these series [•] notes may be made by the members of the selling syndicate at prices that do not exceed a specified maximum;
- syndicate covering transactions, in which members of the selling syndicate purchase these series [•] notes in the open market after the distribution has been completed in order to cover syndicate short positions; and
- penalty bids, by which dealers reclaim a selling concession from a syndicate member when any of these series [•] notes originally sold by that syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions.

These stabilising transactions, syndicate covering transactions and penalty bids may cause the price of these series [•] notes to be higher than it would otherwise be. These transactions, if commenced, may be discontinued at any time.

The issuer, the mortgages trustee, funding and Barclays Bank PLC have agreed to indemnify the dealers against certain liabilities, including liabilities under applicable securities laws.

LISTING APPLICATION

This document comprises the final terms required to list the issue of the series [•] notes described herein pursuant to the Gracechurch Mortgage Financing residential mortgage backed note programme of the issuer.

RESPONSIBILITY

The issuer accepts responsibility for the information contained in these final terms. Signed on behalf of the issuer:

By:
duly authorised

GENERAL INFORMATION

The admission of the programme to listing on the Official List of the UK Listing Authority and to trading on the regulated market of the London Stock Exchange will take effect on [•]. The listing of the series [•] notes on the regulated market of the London Stock Exchange will be expressed as a percentage of their principal amount (exclusive of accrued interest). The series [•] notes intended to be admitted to listing on the Official List of the UK Listing Authority and admitted to trading on the regulated market of the London Stock Exchange will be so admitted to listing and trading upon submission to the UK Listing Authority and the regulated market of the London Stock Exchange of these final terms and any other information required by the UK Listing Authority and the regulated market of the London Stock Exchange, subject in each case to the issue of the relevant series [•] notes. Prior to official listing, dealings will be permitted by the regulated market of the London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day in London after the day of the transaction.

[However, series [•] notes may be issued pursuant to the programme which will not be admitted to listing, trading and/or quotation by the [•] or any other listing authority, stock exchange and/ or quotation system or which will be admitted to listing, trading and/or quotation by such listing authority, stock exchange and/or quotation system as the issuer and the relevant dealer(s) may agree.]

The issuer confirms that the securitised assets backing the issue of the series [•] notes have characteristics that demonstrate capacity to produce funds to service any payments due and payable on notes. However, investors are advised that this confirmation is based on the information available to the issuer at the date of the base prospectus and these final terms and may be affected by future performance of such securitised assets. Consequently, investors are advised to review carefully the disclosure in the base prospectus together with any amendments or supplements thereto and other documents incorporated by reference in the base prospectus and, in relation to any series, these final terms.

An investment in the series [•] notes is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such investment and who have sufficient resources to be able to bear any losses which may result from such investment. If any noteholders are in any doubt about the contents of these final terms, it should consult its stockbroker, bank manager, solicitor, accountant or other financial adviser.

The issuer has approved the issue of these securities by board resolution dated [•].

There has been no significant change and no significant new matter has arisen since publication of the base prospectus.

It should be remembered that the price of securities and the income from them can go down as well as up.

Documents available for inspection

For so long as the base prospectus is in effect, copies and, where appropriate, English translations of the following documents may be inspected during normal business hours at the specified office of the principal paying agent and from the registered office of the issuer, namely:

- (i) the dealer agreement and the series [•] subscription agreement;
- (ii) the global loan note no. 1;
- (iii) any supplement to the global loan note no. 1;
- (iv) the mortgages trust deed;
- (v) the mortgage sale agreement;
- (vi) the MRCLN note purchase facility agreement;
- (vii) the MRCLN collateral agreement;
- (viii) the funding security trust deed;

- (ix) the issuer security trust deed;
- (x) the basis rate swap agreement;
- (xi) [the series [•] issuer [•] swap agreement;
- (xii) the series [•] issuer [•] swap credit support document;]
- (xiii) the issuer security trust deed supplement;
- (xiv) the agency agreement;
- (xv) the administration agreement;
- (xvi) the mortgages trustee cash management agreement;
- (xvii) the funding cash management agreement;
- (xviii) the issuer cash management agreement;
- (xix) the series post-enforcement call option agreement
- (xx) the funding account bank agreement;
- (xxi) the mortgages trustee account bank agreement;
- (xxii) the issuer account bank agreement;
- (xxiii) the collection account declaration of trust;
- (xxiv) the master definitions schedule;
- (xxv) the issuer master framework agreement;
- (xxvi) the senior expenses loan facility agreement;
- (xxvii) the junior expenses loan facility agreement;
- (xxviii) the issuer corporate services agreement;
- (xxix) the holdings corporate services agreement;
- (xxx) the PECO corporate services agreement;
- (xxxi) the funding corporate services agreement;
- (xxxii) the mortgages trustee corporate services agreement;
- (xxxiii) the tax deed of covenant;
- (xxxiv) the yield supplement loan facility agreement;
- (xxxv) the controlling beneficiary deed; and
- (xxxvi) the master deed of amendment dated on or about 1 September 2009,

together with each other document entered into or to be entered into by the issuer, funding and the mortgages trustee pursuant to or in connection with any of the above documents, the "**transaction documents**".

ISSUER

Gracechurch Mortgage Financing PLC
1 Churchill Place
London E14 5HP

SELLER, CASH MANAGER AND ADMINISTRATOR

Barclays Bank PLC
1 Churchill Place
London E14 5HP

ARRANGER

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB

FUNDING

Gracechurch GMF Funding 1 Limited
1 Churchill Place
London E14 5HP

MORTGAGES TRUSTEE

Gracechurch GMF Trustee Limited
26 New Street
St. Helier, Jersey
JE2 3RA
Channel Islands

**ISSUER SECURITY TRUSTEE AND
FUNDING SECURITY TRUSTEE**

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40th Floor, One Canada Square
London E14 5AL

**PRINCIPAL PAYING AGENT AND
REGISTRAR**

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AUDITORS TO THE ISSUER AND FUNDING

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Hay's Galleria
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**APPENDIX C
AUDITED FINANCIAL STATEMENTS FOR THE ISSUER**

**GRACECHURCH MORTGAGE FINANCING PLC
(FORMERLY PILLBAY PLC)**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY 2007 TO 31 DECEMBER 2007 AND 1 JANUARY 2008 TO 31
DECEMBER 2008**

REGISTERED NUMBER: 05673206

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DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2007.

Principal activity and review of business

Gracechurch Mortgage Financing PLC (the "Company") is a public limited company incorporated in England and Wales on 12 January 2006 with an authorised share capital of £50,000, comprising 50,000 ordinary shares of £1 each. The issued share capital comprises 50,000 ordinary shares of £1 each (two fully paid up and 49,998 partly paid up to 25%). All shares are held by Gracechurch GMF Holdings Limited except for one share, which is held by SFM Corporate Services Limited, under the terms of a share declaration of trust. The shares in Gracechurch GMF Holdings Limited are in turn held by SFM Corporate Services Limited under the terms of a trust for charitable purposes. .

The Company is a securitisation vehicle for residential mortgage loans and commenced its activities on issue of £6.006bn of debt securities (referred to in these financial statements as the "Notes") in order to purchase an equivalent amount of unlisted securities from Gracechurch GMF Funding 1 Limited. The Notes are listed on the Official List of the UK Listing Authority and a registration statement has been filed with the Securities and Exchange Commission.

Results and Dividends

During the year the Company made a loss after taxation of £3,544,429 (2006: loss after taxation £2,482,492). The Directors do not recommend the payment of a dividend.

Principal risks and uncertainties

As described in the going concern section below, the principal risk is that the Company is unable to meet its obligations to pay interest and principal to its note holders. This could arise if the interest and principal received on the Company's assets were not sufficient to pay the note holders interest and principal and the associated expenses of the Company.

Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

Future outlook

The Directors remain confident that the Company will be able to meet all due obligations.

Key performance indicators

The key performance indicator of the Company is the reported performance of Gracechurch Mortgage Financing PLC loan notes' associated share of the collections of the trust. This is reported monthly on Bloomberg.

Directors

The Directors of the Company, who served during the period, together with their dates of appointment and resignation, where appropriate, are as shown below:-

SFM Directors (No2) Limited	(appointed 26 April 2006)
SFM Directors Limited	(appointed 26 April 2006)
Ross Douglas Aucutt	(appointed 27 October 2006)
Nicholas John Robert Lambert (alternate for R D Aucutt)	(appointed 27 October 2006)

Directors' interests in shares (as defined by section 325 of the Companies Act 1985)

None of the Directors have beneficial interests in the shares of the Company or any disclosable interests in the shares of group companies.

Going concern

Company law requires the Directors to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. Due to the volatility of the EURO & US Dollar exchange rates as at 31 December 2007 the Company had net liabilities. It is anticipated that the unrealised loss arising on the foreign exchange differences between the asset backed notes and the related swap, which gave rise to the loss for the year, will reverse to nil by the redemption date. Having reviewed projected cash flows for the Company over the next 12 months, the Directors believe the Company's cash flows will be sufficient to meet its obligations to pay interest and principal to its note holders and that it is appropriate to prepare the accounts on a going concern basis.

Statement of Directors responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on pages 5 and 6 is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors' in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 7 to 25

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been prepared on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Financial Instruments

The Company's financial risk management objectives and policies, and the exposure to credit risk, liquidity risk and market risk are set out in the note 'Financial Risks' on pages 18 to 23.

Related party transactions

Details of the Company's related party transactions during the period are set out in note 17

Creditors' payment policy

The Company's policy is to follow the DTI's Better Payment Practice Code. The code states that a company should have a clear, consistent policy to settle bills in accordance with payment terms agreed with suppliers, dealing quickly with complaints and advising suppliers of disputes.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD

R D Aucutt
Director
22 May 2008

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRACECHURCH MORTGAGE FINANCING PLC

We have audited the financial statements of Gracechurch Mortgage Financing Plc for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes on pages 11 to 25. These financial statements have been prepared under the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may (come save where expressly agreed by our prior consent in writing).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Directors Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 May 2008

INCOME STATEMENT

	Notes	2007 £	2006 £
Interest and similar income	4	533,786,320	46,759,906
Interest expense	5	(533,563,241)	(46,710,466)
Net Interest income		223,079	49,440
Gain/(loss) on fair value derivative financial instruments		230,704,699	(106,407,652)
Foreign exchange (loss)/gain on asset backed notes		(233,221,149)	102,856,560
Administrative expenses	6	(169,723)	(44,765)
Loss before taxation		(2,463,094)	(3,564,471)
Taxation	7	(1,081,335)	1,063,925
Loss after taxation	15	(3,544,429)	(2,482,492)

The accompanying notes from an integral part of the accounts.

BALANCE SHEET

	Notes	2007 £	2006 £
ASSETS			
Non-current assets			
- unlisted security	8	10,367,755,209	6,053,596,321
Derivative financial instruments	12	124,297,049	-
Deferred tax asset	13		1,065,328
Total non-current assets		10,492,052,258	6,054,661,649
Current assets			
Cash and cash equivalents		61,515	12,502
Prepayment		12,337	-
Total current assets		73,852	12,502
Total assets		10,492,126,110	6,054,674,151
LIABILITIES			
Current liabilities			
Trade and other payables	9	(48,738)	(44,765)
Current tax liability	10	(16,007)	(1,403)
Total current liabilities		(64,745)	(46,168)
Net current assets		9,107	(33,666)
Non-current liabilities			
Financial liabilities			
- long-term borrowings	11	(10,498,075,784)	(5,590,690,321)
- derivative financial instruments	12	-	(106,407,652)
Total non-current liabilities		(10,498,075,784)	(6,057,097,973)
Net liabilities		(6,014,419)	(2,469,990)
SHAREHOLDERS' EQUITY			
Called up share capital	14	12,502	12,502
Retained earnings	15	(6,026,921)	(2,482,492)
Total shareholders' equity		(6,014,419)	(2,469,990)

The accompanying notes from an integral part of the accounts

The financial statements were approved by the board of Directors and authorised for issue on 22 May 2008. They were signed on its behalf by:

R D Aucutt
 Director
 22 May 2008

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	Note	2007 £	2006 £
Loss for the year	15	3,544,429	2,482,492
Total recognised Loss for the year		3,544,429	2,482,492

CASH FLOW STATEMENT

	2007 £	2006 £
Loss before taxation	(2,463,094)	(3,546,417)
Adjustment for non-cash items		
Increase in trade debtors	(12,377)	-
Increase in trade creditors	3,972	44,765
Increase in amounts due from Funder	(29,411,914)	(46,759,905)
Increase/(Decrease) in amounts due to note holders	29,417,339	46,710,466
Loss/(Gain) on revaluation of asset backed loan notes	233,221,149	(102,856,560)
(Gain)/Loss on fair value derivative financial instrument	(230,704,700)	106,407,651
Net charges in operating assets and liabilities	50,416	
Tax Paid	(1,043)	
Net cash from operating activities	(1,043)	
Purchase of internal loan notes	(6,005,843,136)	(6,006,836,416)
Repayment of internal loan notes	1,721,096,162	-
Interest receipts on asset backed deemed loan	533,786,320	46,759,907
Net cash used in investing activities	(3,750,960,654)	(5,960,076,509)
Issuing of asset backed loan notes	6,005,843,136	6,006,836,416
Repayments to investors	(1,721,096,162)	-
Interest payments to investors	(533,786,320)	(46,759,907)
New share capital issued	-	12,502
Net cash from financing activities	3,750,960,654	5,960,089,011
Net increase in cash and cash equivalents	49,013	12,502
Cash and cash equivalents at the beginning of the year	12,502	-
Cash and cash equivalents at the end of the year	61,515	12,502

The accompanying notes from an integral part of the accounts

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

These financial statements are prepared for Gracechurch Mortgage Financing PLC ('the Company').

The Company is a public limited company, incorporated in the United Kingdom. The address of the registered office of the Company is 1 Churchill Place, Canary Wharf, London E1 4 5HP.

2. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with international Financial Reporting Standards ('IFRS'), adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. In all respects, this is also in accordance with IFRS, including the interpretations issued by the International Financial Reporting Interpretations Committee.

IFRS 7 'Financial Instruments Disclosures' and an amendment to IAS 1 'Presentation of Financial Statements' on capital disclosures were implemented in 2007, resulting in new or revised disclosures.

3. Accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied. Basis of preparation The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required under IAS 39, 'Financial Instruments, recognition, and measurement' as set out in the relevant accounting policies. They are stated in pounds sterling, the currency of the country in which the Company is incorporated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements.

(a) Foreign currency translation

The financial statements are presented in sterling, which is the functional currency of the Company.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

(b) Financial assets and liabilities

The Company recognises financial instruments from the contract date, and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

Financial Assets

Financial assets are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

Held to Maturity

Held to maturity investments are non derivative financial instruments with fixed or determinable payments that the Company's management has the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs and are subsequently valued using the contractually agreed note profiles.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that its financial assets including trade receivables, is impaired. The factors that the Company takes into account include significant financial difficulties of the debtor, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the debtor's financial difficulties.

The Company first assesses whether objective evidence of impairment exists individually for individually significant financial assets.

Impairment allowances are calculated, based on the difference between the carrying amount of the asset and its estimated recoverable amount, calculated by reference to the expected cash flows from it discounted at the original effective interest rate for the asset.

Financial Liabilities

Financial Liabilities are measured at amortised cost, except liabilities designated at fair value, which are held at fair value through the income statement.

Determining fair value

The Company holds financial instruments that are not quoted in active markets, such as the cross currency swaps. Fair values of such instruments are determined by using valuation techniques.

(c) **Derivatives**

Derivatives are measured at fair value on initial recognition and subsequently the resulting gains and losses are taken to the income statement. The fair value of derivatives is generally determined by reference to open market prices or by calculating the expected cash flows under the terms of each specific contract, discounted back to their present value using an appropriate market based pricing model.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement.

(d) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash comprises cash on hand, demand deposits, and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than 3 months. Trading balances are not considered to be part of cash equivalents.

(e) **Income taxes, including deferred income taxes**

Income tax payable on taxable profits ('current tax'), is recognised as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits.

Deferred income tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

4. **Interest and similar income**

	2007	2006
	£	£
Interest income on unlisted securities	533,563,241	46,710,466
Other income	223,079	49,440
	<u>533,786,320</u>	<u>46,759,906</u>

5. **Interest expense**

	2007	2006
	£	£
Interest expense on asset backed notes	<u>533,563,241</u>	<u>46,710,466</u>

6. **Administrative expenses**

	2007	2006
	£	£
Administrative expenses	<u>169,723</u>	<u>44,765</u>

The Directors did not receive any emoluments in respect of their services to the Company during the year. The Company had no employees during the year.

The following items have been charged in arriving at the Company's administrative expenses:

	2007	2006
	£	£
Auditors remuneration - audit services	<u>21,150</u>	<u>18,000</u>

7. **Income tax expense**

The analysis of the credit for the yeas is as follows:

	2007	2006
	£	£
Current taxation		
United Kingdom corporation tax	(16,007)	(1,043)
Deferred taxation (note 13):		
United Kingdom corporation tax	(1,065,328)	1,065,328
Total	<u>(1,081,335)</u>	<u>1,063,925</u>

A numerical reconciliation of the applicable tax rate and the effective rate of tax is as follows:

	2007	2006
	£	£
Loss before taxation	<u>(2,463,094)</u>	<u>(3,546,417)</u>
Tax credit at average UK corporation tax rate of 30%	738,928	1,063,925
Deferred tax write off	(1,065,328)	
Taxation of profit retained	(754,935)	
Overall tax (charge) / credit	<u>(1,081,335)</u>	<u>1,063,925</u>
Effective tax rate	<u>44%</u>	<u>30%</u>

8. **Unlisted Security**

2007	2006
£	£

Unlisted security	<u>10,367,755,209</u>	<u>6,053,596,321</u>
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9. Trade and other Payables

Analysis of trade and other payables is as follows:

	2007	2006
	£	£
Accrued administrative expenses	<u>(48,738)</u>	<u>(44,765)</u>

The Directors consider that the carrying amount of trade payables approximates their fair value.

10. Current tax liabilities

Current tax liabilities were as follows:

	2007	2006
	£	£
UK corporation tax payable	<u>(16,007)</u>	<u>(1,043)</u>

11. Borrowings

An analysis of the Company's borrowings is as follows:

	2007	2006
	£	£
Asset backed floating rate notes	<u>10,498,075,784</u>	<u>5,950,690,321</u>

Borrowings are the notes issued by the Company to external investors. They are recognised initially at fair value net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs (issuance costs) and the redemption value is recognised in the income statement over the period of the notes using the effective interest method.

A first tranche of notes were issued on 9 November 2006 with a nominal value of £6,006,836,416 and a further issuance was made on 6 June 2007 with a nominal value of £6,005,843,136. At 31 December 2007 the value of the outstanding notes was £10,421,947,979.

In the event that impairment losses exceed the credit enhancement provided by Barclays Bank PLC, losses are borne by the note holders in accordance with the priority of payments waterfall.

Interest is payable on tranche 1 of the floating rate notes as follows:

- Class A1a Notes - 3 month USD LIBOR plus 0.03%
- Class A2a Notes - 3 month EURIBOR plus 0.04%
- Class A3a Notes - 3 month GBP LIBOR plus 0.04%
- Class A4a Notes - 3 month USD LIBOR plus 0.05%
- Class A5a Notes - 3 month EURIBOR plus 0.10%
- Class A6a Notes - 3 month USD LIBOR plus 0.10%
- Class A7a Notes - 3 month GBP LIBOR plus 0.11 %
- Class B1b Notes - 3 month USD LIBOR plus 0.10%
- Class B3b Notes - 3 month EURIBOR plus 0.18%
- Class B4b Notes - 3 month GBP LIBOR plus 0.18%
- Class C1c Notes - 3 month USD LIBOR plus 0.18%
- Class C3c Notes - 3 month EURIBOR plus 0.27%
- Class C4c Notes - 3 month GBP LIBOR plus 0.27%
- Class D2d Notes - 3 month USD LIBOR plus 0.47%
- Class D3d Notes - 3 month EURIBOR plus 0.47%
- Class D4d Notes - 3 month GBP LIBOR plus 0.47%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 August 2013.

Interest is payable on tranche 2 of the floating rate notes as follows:

Class 1A1 Notes - 3 month USD LIBOR plus 0.03%
 Class 1A2 Notes - 3 month EURIBOR plus 0.04%
 Class 1A3 Notes - 3 month GBP LIBOR plus 0.04%
 Class 2A1 Notes - 3 month LSD LIBOR plus 0.04%
 Class 2A2 Notes - 3 month EURIBOR plus 0.05%
 Class 3A1 Notes - 3 month LSD LIBOR plus 0.08%
 Class 3A2 Notes - 3 month GBP LIBOR plus 0.1 0%
 Class 3A3 Notes - 3 month GBP LIBOR plus 0.1 0%
 Class 1B1 Notes - 3 month USD LIBOR plus 0.08%
 Class 2B2 Notes - 3 month EURIBOR plus 0.1 4%
 Class 2B3 Notes - 3 month GBP LIBOR plus 0.14%
 Class 1C1 Notes - 3 month USD LIBOR plus 0.1 6%
 Class 2C2 Notes - 3 month EURIBOR plus 0.23%
 Class 2C3 Notes - 3 month GBP LIBOR plus 0.23%
 Class 2D1 Notes - 3 month USD LIBOR plus 0.39%
 Class 2D2 Notes - 3 month EURIBOR plus 0.40%
 Class 2D3 Notes - 3 month GBP LIBOR plus 0.40%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 December 2012.

The class B notes will be subordinated to the class A notes. The class C notes will be subordinated to both the class A notes and the class B notes. The class D notes will be subordinated to the class A notes, the class B notes and the class C notes.

Information relating to the fair value of borrowing is in note 16.

12. Derivative Financial Instruments

	2007	2006
	£	£
Cross Currency Swap at fair value	<u>124,297,049</u>	<u>(106,407,652)</u>

The Company enters into cross currency swaps in order to match its sterling deemed loan assets with its Euro & US Dollar denominated asset backed debt obligations.

The cross currency swaps are recognised at fair value on the date on which the swap contracts are entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The cross currency swaps are carried as assets when fair value is positive and as liabilities when fair value is negative.

The gain or loss on the cross currency swaps and the Euro & US Dollar denominated asset backed debt obligations are taken to the income statement.

Information relating to Financial Risks is in note 16.

13. Deferred taxation

The components of and the movement on the deferred income tax account during the year was as follows:

	1 January 2007	(Debited) / credited to income statement	31 December 2007
	£	£	£
Assets			
Net deferred tax asset	<u>1,065,328</u>	<u>(1,065,328)</u>	<u>-</u>
Assets			

	9 November 2006	Credited to income statement	31 December 2006
	£	£	£
Assets			
Net deferred tax asset	-	<u>1,065,328</u>	<u>-</u>

Under the new tax regime adopted after 1 January 2007 for securitisation vehicles, the Company is not required to include deferred tax arising from cross currency swaps. As such, the deferred tax asset from 2006 has been reversed out in 2007 disclosures.

14. Share capital

Particulars of the Company's share capital were as follows

	Authorised	Allotted, issued and fully paid	Allotted, issued and quarter paid	Total
	£	£	£	£
At 12 January 2006	50,000	2	12,500	12,500
Movements during the period	-	-	12,500	12,500
At 01 January 2007	50,000	2	12,500	12,500
Movements during the year	-	-	-	-
At 31 December 2007	<u>50,000</u>	<u>2</u>	<u>12,500</u>	<u>12,500</u>

The authorised share capital of Gracechurch Mortgage Financing PLC is £50,000, (2006: £50,000), comprising 50,000 (2006: 50,000) ordinary shares of 1 each. The issued share capital of the Company comprises 50,000 (2006: 50,000) ordinary shares of 1 each. Of the total number of shares issued, 2 have been fully paid and 49,998 have been quarter paid up.

15. Retained earnings

Movements in retained earnings are as follows:

	2007	2006
	£	£
At 01 January 2007	(2,482,492)	-
Net loss for year	(3,544,429)	(2,482,492)
At 31 December 2007	<u>(6,026,921)</u>	<u>(2,485,492)</u>

16. Financial risks

The Company's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk, (which includes foreign currency risk). Consequently, the Company devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business. The Company uses derivative financial instruments to hedge certain risk exposures.

The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company.

The primary credit risk of the Company relates to default on the unlisted security with Gracechurch GMF Funding 1 Limited, which in turn depends on the credit risk associated with the securitised pool of mortgages held by Barclays Bank PLC.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a

concentration in the securitised assets, could also affect the cash flows from the mortgage pool. All risk factors were assessed in detail at inception and are outlined in the Offering Circular.

The Company assesses its counterparties, including its customers, for credit risk before contracting with them. Risk rating is the main method used to measure credit risk. Third party financial instrument counterparties are required to be rated AA or better, and the Company's exposure to them is subject to financial limits.

At the balance sheet date all counterparties were in fact AA rated.

The Company has a concentration of risk to the originator (Barclays Bank PLC). The underlying mortgage assets of the securitisation are concentrated in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk is reflected by the amounts disclosed in the balance sheet.

The Company does not hold any collateral as security.

Financial assets subject to credit risk

For the purposes of the Company's disclosures regarding credit quality, financial assets subject to credit risk are Held to Maturity assets. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

	2007 £	2006 £
Unlisted security	<u>10,367,755,209</u>	<u>6,053,596,321</u>

The Company meets its obligation 011 the notes issued from the cash flows it receives Gracechurch GMF Funding 1 Limited. These represent the only recourse for the Company. As a consequence, the credit quality of -the mortgage loans demonstrates the capacity of the Company to service its payments.

(b) Financial assets neither past due nor impaired

Financial assets neither past due nor impaired can be analysed according to the rating systems used by the Company and Originator when assessing customers and counterparties.

For the purposes of the Company's disclosures regarding credit quality, securitised mortgage loan subject to credit risk have been analysed as follows:

	2007 £	2006 £
Neither past due nor impaired	9,724,738,725	5,664,075,776
Past due but not individually impaired	8,452,453	-
Total	<u>9,733,191,178</u>	<u>5,664,075,776</u>

The credit quality of financial assets subject to credit risk that were neither past due nor impaired based on credit ratings is as follows:

Barclays Retail Grade	Description	Probability of default£
1	Strong	0.0% - 0.15%
2		0.15% - 0.30%
3		0.30% - 0.60%
4-5	Satisfactory	0.60% - 2.50%
5-7		2.50% - 10.00%
8	Weak / Substandard	10.00%+

Strong -there is very high likelihood of the asset being recovered in full.

Satisfactory -there is a high likelihood that the asset will be recovered in full and therefore, of no cause for concern to the Company.

Weak / Substandard -there is concern over the obligor's ability to make payments when due. However these have not yet converted to actual delinquency and the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	Strong £	Satisfactory £	Weak £	Total £
Securitised mortgage loans	9,244,686,323	459,874,981	20,177,421	9,721,255,957

	Strong £	Satisfactory £	Weak £	Total £
Securitised mortgage loans	5,380,560,879	283,154,278	360,619	5,664,075,776

(c) **Liquidity Risk**

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its payment obligations as they fall due.

The ability of the Company to make interest payments under the currency swaps, pay interest on the notes and to pay its other expenses is dependant upon the Company receiving sufficient cash flow from Gracechurch GMF Funding 1 Limited and receiving the amounts due from swap counterparties.

Principal repayments are made on the notes in accordance with the Company's principal priority of payments and reflect the amount of principal collection on the internal loan notes.

The Company is only required to make payments on the notes to the extent it has received sufficient cashflows from the Gracechurch GMF Funding 1 Limited.

The Company maintains a mixture of long term and short term committed facilities, including financial support from the parent company, Barclays Bank PLC, that are designed to ensure the Company has sufficient available funds for operations.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Company manages the inherent liquidity risk based on discounted expected cash inflows.

Prepayment Risks

Cash flows on the unlisted securities with Gracechurch GMF Funding 1 Limited are dependant on the underlying mortgage loans held by Barclays Bank PLC. In 'the normal course of business, a proportion of mortgage borrowers repay their loan in advance of contractual maturity. As a result, the weighted average life of the deemed loan and the notes is likely to be significantly less then that implied by the contractual maturity dates of the mortgage pool.

The contractual maturities of the Company's borrowings in the table below assume there are no prepayments by borrowers on the underlying mortgage pool. The terms of the notes are that repayments of principal will only be made to the extent that sufficient cash flows have been received from the Company's assets. In the event that prepayment rates in the mortgage pool reduce, principal repayments on the deemed loan and the notes will be spread over a longer period.

2007	<1yr £	1-2yrs £	2-5yrs £	>5yrs £	Total £
Trade and other payables	48,738	-	-	-	-
Borrowings	2,158,238,023	1,664,591,433	6,011,305,686	663,940,642	10,498,075,784
Total	<u>2,158,238,023</u>	<u>1,664,591,433</u>	<u>6,011,305,686</u>	<u>663,940,642</u>	<u>10,498,075,784</u>

2006	<1yr £	1-2yrs £	2-5yrs £	>5yrs £	Total £
Trade and other payables	44,765	-	-	-	44,765
Borrowings	1,314,890,368	927,641,490	1,873,956,958	1,834,201,505	5,950,690,321
Derivative financial instruments	106,407,652	-	-	-	106,407,652
Total	<u>1,421,342,785</u>	<u>927,641,490</u>	<u>1,837,956,958</u>	<u>1,834,201,505</u>	<u>6,057,142,738</u>

(d) **Market Risk**

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates.

Foreign Currency Risk

The Company's assets are denominated in sterling, its functional currency. However, the Company has issued notes denominated in USD and Euro. It is therefore exposed to currency risk as the value of the notes will fluctuate due to changes in USD and Euro exchange rates and in US and Euro LIBOR rates.

To manage this risk, the Company has entered into a cross currency swap with Barclays Bank PLC at the time of the notes issuance. As shown in the table below, the contractual notional amount of the cross currency swaps correspond exactly to the amount of the notes issued in USD and Euro and therefore mitigates the Company's exposure to currency risk. The currency swaps substantially eliminates the sensitivity of the Company's results to movements in exchange rates.

	2007 £	2006 £
Asset Backed Notes	8,666,364,157	4,694,979,855
Notional principal amounts of the outstanding cross currency contracts	<u>8,666,364,157</u>	<u>4,694,979,855</u>

Fair values of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged, or liability settled in an arms-length transaction between knowledgeable parties.

The following table summarises the carrying amounts of financial assets and financial liabilities presented on the Company's balance sheet, and their fair values.

	Note	2007		2006	
		Carrying amount	Fair value	Carrying amount	Fair value
		£	£	£	£
Financial assets:					
	a	10,367,755,209	10,397,755,209	6,053,596,321	6,053,596,321
Financial liabilities					
Borrowings -					
<i>A Class</i>	b	(9,371,506,209)	(9,203,938,839)	(5,373,766,853)	(5,373,984,853)
<i>B Class</i>	b	(353,571,282)	(343,788,741)	(178,051,813)	(178,051,813)
<i>C Class</i>	b	(302,307,135)	(289,811,258)	(154,983,033)	(154,983,033)
<i>D Class</i>	b	(394,562,914)	(358,878,279)	(197,178,155)	(197,178,155)
<i>Interest Payable on Debt Securities</i>	c	(76,127,805)	(76,127,805)	(46,710,466)	(46,710,466)
Derivative financial instruments	d	124,297,050	124,297,050	(106,407,652)	(106,407,652)

(a) Fair value of the deemed loan is calculated by using discounted cash flow applying market rates. The methodology is to calculate expected cash flows under the terms of each specific contract and then discount these values back to present values. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-market pricing models.

(b) Fair values of the notes are based on quoted market prices.

(c) Fair values of the long term borrowings are based on contractual agreements between counterparties.

(d) Financial instruments at fair value are priced with reference to a quoted market price for that instrument.

17. Related party transactions

The definition of related parties includes parent company, ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors. Particulars of transactions, and the balances outstanding at the year end, are disclosed in the tables below.

All of the issued share capital of the Company is held by Gracechurch GMF Holdings Limited except for one share held by SFM Corporate Services Limited in its capacity as the issuer share trustee. The one share held by the issuer share trustee is held pursuant to the terms of the Issuer share trust dated 3 May 2006, with Gracechurch CMF Holdings Limited having the beneficial interest in the issuer share trust. Barclays Bank PLC, the Originator, does not own directly or indirectly any of the share capital of the Company.

Under the Standing Interpretation Committee's (SIC) interpretation 12 'Consolidation -Special Purpose Entities' Barclays Bank PLC controls Gracechurch Mortgage Financing PLC as the activities of the SPE are being conducted in according to Barclays Bank PLC business needs.

Hence transactions with Gracechurch Mortgage Funding No. 1 Limited and other companies of the Barclays Group are regarded as related party transactions and are summarised below:

	Sub note	2007 £	2006 £
Transactions and Balances			
Cash at Bank with Barclays Bank PLC	1	61,515	12,502
	2	533,786,320	46,759,907
	2	10,291,583,390	6,006,836,416
	3	8,142	5,477
	4	7,537,171	7,508,546

Sub-note

1. Barclays Bank PLC controls Gracechurch Mortgage Financing Plc.
2. Gracechurch GMF Holdings Limited, whose parent is SFM Corporate Services Limited is the parent of Gracechurch Mortgage Funding No.1 Limited.
3. SFM Directors Ltd, SFM Directors (No.2) Ltd and SFM Corporate Services Ltd are under the common control of Structured Finance Management Ltd.
4. The Company enters into a cross currency swap agreement with Barclays Capital to hedge the EURO and USD exposure on its asset backed note obligations.

18. Ultimate Holding Company

The controlling party of Gracechurch Mortgage Financing PLC is considered to be Gracechurch Mortgage Funding No.1 Limited and hence ultimately controlled by Barclays Bank PLC based on the Standing Interpretation Committee's (SIC) interpretation 12 'Consolidation - Special Purpose Entities'. The ultimate holding company of Barclays Bank PLC, the parent company of the largest group that presents group accounts is Barclays PLC. As such, the ultimate controlling party of Gracechurch Mortgage Financing PLC is Barclays PLC.

Gracechurch GMF Holdings Limited, Barclays Bank PLC and Barclays PLC are incorporated in Great Britain and registered in England and Wales. Gracechurch CIMF Holdings Limited's, Barclays Bank PLC's and Barclays PLC's statutory accounts are available from the Barclays Corporate Secretariat, 1 Churchill Place, London E14 5HP.

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2008.

Principal activity and review of business

Gracechurch Mortgage Financing PLC (the "**Company**") is a public limited company incorporated in England and Wales on 12 January 2006 with an authorised share capital of £50,000, comprising 50,000 ordinary shares of £1 each. The issued share capital comprises 50,000 ordinary shares of £1 each (two fully paid up and 49,998 partly paid up to 25%). All shares are held by Gracechurch GMF Holdings Limited except for one share, which is held by SFM Corporate Services Limited, under the terms of a share declaration of trust. The shares in Gracechurch GMF Holdings Limited are in turn held by SFM Corporate Services Limited under the terms of a trust for charitable purposes.

The Company is a securitisation vehicle for residential mortgage loans and commenced its activities on issue of £6.006bn of debt securities (referred to in these financial statements as the "Notes") in order to purchase an equivalent amount of unlisted securities from Gracechurch GMF Funding 1 Limited. The Notes are listed on the Official List of the UK Listing Authority and a registration statement has been filed with the Securities and Exchange Commission.

Results and Dividends

During the year the Company made a loss after taxation of £22,457,047 (2007: loss after taxation £3,544,429). The Directors do not recommend the payment of a dividend.

The Company's interest income rose by 2% and, as such, managed to fulfil their obligations due to the note holders. The rise in income was offset with the subsequent rise in interest payable, leaving the Company to retain its profit as one basis point of available revenue receipts.

Principal risks and uncertainties

As described in the going concern section below, the principal risk is that the Company is unable to meet its obligations to pay interest and principal to its note holders. This could arise if the interest and principal received on the Company's assets were not sufficient to pay the note holders interest and principal and the associated expenses of the Company.

Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

Such risks, as included in the offering circular, are currency risks. To hedge any currency exchange rate exposure as a result of the Company receiving payment in sterling under the terms of each loan note tranche but, needing to pay amounts in a different currency or at a rate that is not LIBOR for three month sterling deposits, the Company will, on each issue date, enter into the relevant issuer swap agreements with the relevant issuer swap providers. If the Company fails to pay when due amounts owing under any issuer swap agreement, then the Company will have defaulted under such issuer swap agreement and the relevant issuer swap provider will be entitled to terminate the relevant issuer swap agreement. If on any issuer payment date an issuer swap provider is not obliged to make required payments, or if it defaults in its obligation to make payments of, any relevant amounts, the Company will be exposed to changes in currency exchange rates and/or in applicable interest rates. Unless a replacement swap is entered into, the Company may have insufficient funds to make payments due on the series of notes.

The Company is a special purpose financing entity with no business operations other than the issue of each series of notes and instruments, the purchase of loan note tranches and the transactions ancillary thereto. The ability of the Company to make payments of principal and interest on a series of notes and instruments and its ability to pay its operating and administrative expenses will depend primarily on funds being received under the loan note tranches. In addition, the Company will also rely, pursuant to the terms of the issuer swap agreements, on the issuer swap providers to provide, as applicable, appropriate currency and interest rate hedging so as to meet its relevant obligations under the relevant notes.

Key performance indicators

Management are of the opinion that the key performance indicators of the company are the reported performance of Gracechurch Mortgage Financing PLC loan notes' associated share of the collections of the trust. This is reported monthly on Bloomberg. In addition, Management monitor a number of non financial key performance indicators such as triggers (including arrears levels), as set out in the offering circular and the credit ratings of the notes in issue as well as counterparties relevant to the Company, which give further comfort to Management, investors and rating agencies in terms of the performance of the Company.

Directors

The Directors of the Company, who served during the period, together with their dates of appointment and resignation, where appropriate, are as shown below:

SFM Directors (No2) Limited

SFM Directors Limited

Ross Douglas Aucutt (resigned 16 December 2008)

Nicholas John Robert Lambert (resigned 16 December 2008)
(alternate for R D Aucutt)

Andrew Robert Gray (appointed 09 March 2009)

Directors' interests in shares (as defined by section 325 of the Companies Act 1985)

None of the Directors have beneficial interests in the shares of the Company or any disclosable interests in the shares of group companies.

Future outlook and Going concern

Company law requires the Directors to prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business. Due

to the volatility of the EURO & US Dollar exchange rates as at 31 December 2008, the Company had net liabilities. It is anticipated that the unrealised loss arising on the foreign exchange differences between the asset backed notes and the related swap, which gave rise to the loss for the year, will reverse to nil by the redemption date. Having reviewed projected cash flows for the Company over the next 12 months, the Directors believe the Company's cash flows will be sufficient to meet its obligations to pay interest and principal to its note holders and that it is appropriate to prepare the accounts on a going concern basis.

Statement of Directors responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on pages 6 and 7 is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 8 to 25

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been appropriately prepared on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Financial Instruments

The Company's financial risk management objectives and policies, and the exposure to credit risk, liquidity risk and market risk are set out in the note "*Financial Risks*" on pages 19 to 24.

Related party transactions

Details of the Company's related party transactions during the period are set out in note 15.

Creditors' payment policy

The Company's policy is to follow the DTI's Better Payment Practice Code. The code states that a company should have a clear, consistent policy to settle bills in accordance with payment terms agreed with suppliers, dealing quickly with complaints and advising suppliers of disputes. As stated in the offering circular, the Company's creditors are paid in accordance with priority of payments in the waterfall. These payments can only be made on the quarterly investor payment dates.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the next Annual General Meeting.

So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD

For and on behalf of Barcosec Limited

Corporate Secretary

27 April 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRACECHURCH MORTGAGE FINANCING PLC

We have audited the financial statements of Gracechurch Mortgage Financing PLC for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes on pages 8 to 25. These financial statements have been prepared under the accounting policies set out on pages 12 to 15.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 April 2009

INCOME STATEMENT

	<u>Notes</u>	<u>2008</u>	<u>2007</u>
		£	£
Interest and similar income	4	544,571,349	533,786,320
Interest expense	5	(544,270,994)	(533,563,241)
Net Interest income		300,355	223,079
Gain on fair value derivative financial instruments		2,369,511,830	230,704,699
Foreign exchange loss on asset backed notes		(2,392,007,400)	(233,221,149)
Administrative expenses.....	6	(246,476)	(169,723)
Loss before taxation		(22,441,691)	(2,463,094)
Taxation	7	(15,356)	(1,081,335)
Loss after taxation	14	(22,457,047)	(3,544,429)

The accompanying notes form an integral part of the accounts.

BALANCE SHEET

	Notes	2008	2007
		£	£
ASSETS			
Non-current assets			
Financial assets			
- unlisted security	8	6,591,699,594	8,235,494,860
Derivative financial instruments		<u>2,493,808,877</u>	<u>124,297,049</u>
Total non-current assets	12	<u>9,085,508,471</u>	<u>8,359,791,909</u>
Current assets			
Unlisted security	8	1,682,681,994	2,132,260,349
Prepayment		10,491	12,337
Cash and cash equivalents		<u>103,115</u>	<u>61,515</u>
Total current assets		<u>1,682,795,600</u>	<u>2,132,334,201</u>
Total assets		<u>10,768,304,071</u>	<u>10,492,126,110</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	9	(37,032)	(48,738)
Current tax liability	10	(15,356)	(16,007)
Borrowings	11	<u>(2,186,114,105)</u>	<u>(2,158,238,023)</u>
Total current liabilities		<u>(2,186,166,493)</u>	<u>(2,158,173,278)</u>
Net current liabilities		<u>(503,370,893)</u>	<u>(25,839,077)</u>
Financial liabilities			
- long-term borrowings	11	<u>(8,610,609,044)</u>	<u>(8,339,837,761)</u>
Total non-current liabilities		<u>(8,610,609,044)</u>	<u>(8,339,837,761)</u>
Net liabilities		<u>(28,471,466)</u>	<u>(6,014,419)</u>
SHAREHOLDERS' EQUITY			
Share capital	13	12,502	12,502
Retained earnings	14	<u>(28,483,968)</u>	<u>(6,026,921)</u>
Total shareholders' equity		<u>(28,471,466)</u>	<u>(6,014,419)</u>

The accompanying notes form an integral part of the accounts.

The financial statements were approved by the board of Directors and authorised for issue on 27 April 2009. They were signed on its behalf by:

Andrew Robert Gray
 Director
 27 April 2009

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	<u>Note</u>	<u>2008</u>	<u>2007</u>
Loss for the year.....	14	£ (22,457,047)	£ (3,544,429)
Total recognised Loss for the year		<u>(22,457,047)</u>	<u>(3,544,429)</u>

The accompanying notes form an integral part of the accounts.

CASH FLOW STATEMENT

	2008	2007
	£	£
Loss before taxation	(22,441,691)	(2,463,094)
Adjustment for non-cash items		
Decrease/(Increase) in prepayment	1,842	(12,377)
(Decrease)/Increase in trade and other payables	(11,706)	3,972
Decrease/(Increase) in amounts due from Funder	37,285,094	(29,411,914)
(Decrease)/Increase in amounts due to note holders	(37,271,506)	29,417,339
Loss on revaluation of asset backed loan notes	2,392,007,401	233,221,149
Gain on fair value of derivative financial instrument	(2,369,511,827)	(230,704,700)
Net changes in operating assets and liabilities	57,607	50,375
Tax Paid	(16,007)	(1,403)
Net cash from operating activities	41,600	48,972
Purchase of internal loan notes	-	(6,005,843,136)
Repayment of internal loan note	2,056,088,530	1,721,096,162
Interest receipts on asset backed deemed loan	576,359,469	533,786,320
Net cash used in investing activities	(2,632,447,999)	(3,750,960,654)
Issuing of asset backed loan notes	-	6,005,843,136
Repayments to investors	(2,056,088,530)	(1,721,096,162)
Interest payments to investors	(576,359,469)	(533,786,321)
Net cash from financing activities	(2,632,447,999)	3,750,960,654
Net increase in cash and cash equivalents	41,600	49,013
Cash and cash equivalents at the beginning of the year	61,515	12,502
Cash and cash equivalents at the end of the year	103,115	61,515

The accompanying notes form an integral part of the accounts

NOTES TO THE FINANCIAL STATEMENTS

19. Reporting entity

These financial statements are prepared for Gracechurch Mortgage Financing PLC ('the Company').

The Company is a public limited company, incorporated in the United Kingdom. The address of the registered office of the Company is 1 Churchill Place, Canary Wharf, London E14 5HP.

20. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. In all respects, this is also in accordance with IFRS, including the interpretations issued by the International Financial Reporting Interpretations Committee.

21. Accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required under IAS 39, 'Financial Instruments, recognition, and measurement' as set out in the relevant accounting policies. They are stated in pounds sterling, the currency of the country in which the Company is incorporated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements.

(a) **Foreign currency translation**

The financial statements are presented in sterling, which is the functional currency of the Company.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

(b) **Financial assets and liabilities**

The Company recognises financial instruments from the contract date, and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

Financial Assets

Financial assets are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

Held to Maturity

Held to maturity investments are non derivative financial instruments with fixed or determinable payments that the Company's management has the intention and ability to hold to maturity. They are initially recognised at fair value including direct and incremental transaction costs and are subsequently valued using the contractually agreed note profiles.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that its financial assets including trade receivables, are impaired. The factors that the Company takes into account include significant financial difficulties of the debtor, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the debtor's financial difficulties.

The Company first assesses whether objective evidence of impairment exists for individually significant financial assets.

Impairment allowances are calculated, based on the difference between the carrying amount of the asset and its estimated recoverable amount, calculated by reference to the expected cash flows from it discounted at the original effective interest rate for the asset.

Unlisted security

The unlisted security is categorised as a held-to-maturity investment. Payments on the unlisted security are fixed and determinable, and the Company has the positive intent and ability to hold the asset to maturity. The unlisted security is initially recognised at fair value including direct and incremental transaction costs and is subsequently valued at amortised cost, using the effective interest rate method.

Borrowings

Borrowings incorporate bank loans and asset backed floating rate notes which are initially recognised at fair value less transaction costs and are subsequently valued at amortised cost, using the effective interest rate method.

Financial Liabilities

Financial Liabilities are measured at amortised cost, except liabilities designated at fair value, which are held at fair value through the income statement.

Determining fair value

The Company holds financial instruments that are not quoted in active markets, such as the cross currency swaps. Fair values are calculated based on observable market prices where available. For those items where observable market prices are not available, either reference is made to the most recent observable market prices or a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(c) Interest

Interest income or expense is recognised on all interest bearing financial assets classified as Loans and Receivables or other loans and advances, and on financial liabilities, using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

(d) Derivatives

Derivatives are measured at fair value on initial recognition and subsequently the resulting gains and losses are taken to the income statement. The fair value of derivatives is generally determined by reference to open market prices or by calculating the expected cash flows under the terms of each specific contract, discounted back to their present value using an appropriate market based pricing model.

Embedded derivatives

Some hybrid contracts contain both a derivative and a non derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value, the embedded derivative is bifurcated and reported at fair value with gains and losses being recognised in the income statement.

(e) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash comprises cash on hand, demand deposits, and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than 3 months. Trading balances are not considered to be part of cash equivalents.

(f) **Income taxes**

Income tax payable on retained profits ('current tax') is recognised as an expense in the period in which the profits arise.

(g) **Issue costs**

The start-up costs incurred by the entity upon incorporation were initially capitalised on the balance sheet. This balance is amortised and subsequently released into the income statement over the life of the Notes.

22. **Interest and similar income**

	<u>2008</u>	<u>2007</u>
	£	£
Interest income on utilised securities.....	539,095,164	533,563,241
Other income.....	5,476,185	223,079
.....	<u>544,571,349</u>	<u>533,786,320</u>

23. **Interest expense**

	<u>2008</u>	<u>2007</u>
	£	£
Interest expense on asset backed notes.....	538,794,809	533,563,241
Amortised Issue Costs.....	5,476,185	-
.....	<u>544,270,994</u>	<u>533,563,241</u>

24. **Administrative expenses**

	<u>2008</u>	<u>2007</u>
	£	£
Administrative expenses.....	<u>246,476</u>	<u>169,723</u>

The Directors did not receive any emoluments in respect of their services to the Company during the year. The Company had no employees during the year.

The following items have been charged in arriving at the Company's administrative expenses:

	<u>2008</u>	<u>2007</u>
	£	£
Auditors' remuneration – audit services.....	<u>22,822</u>	<u>21,150</u>

25. Taxation

The analysis of the credit for the year is as follows:

	<u>2008</u>	<u>2007</u>
	£	£
Current taxation:		
United Kingdom corporation tax.....	(15,356)	(16,007)
Deferred taxation:		
United Kingdom corporation tax.....	-	(1,065,328)
Total.....	<u>(15,356)</u>	<u>(1,081,335)</u>

A numerical reconciliation of the applicable tax rate and the effective rate of tax is as follows:

	<u>2008</u>	<u>2007</u>
	£	£
Loss before taxation.....	<u>(22,441,691)</u>	<u>(2,463,094)</u>
Tax credit at average UK corporation tax rate of 28.5% (2007: 30%).....	6,395,882	738,928
Deferred tax write off.....	-	(1,065,328)
Adjustment for non taxable items.....	<u>(6,411,238)</u>	<u>(754,935)</u>
Overall tax charge.....	<u>(15,356)</u>	<u>(1,081,335)</u>
Effective tax rate.....	<u>0.07%</u>	<u>44%</u>

In 2007, the Company elected to the permanent tax regime, whereby tax payable is the current taxation on the retained profits. Retained profits are calculated as one basis point of the available revenue receipts. As the Company has elected to be part of the new regime, deferred tax is no longer required to be held on the balance sheet.

26. Unlisted Security

	<u>2008</u>	<u>2007</u>
	£	£
Non Current unlisted security.....	6,591,699,594	8,235,494,860
Current unlisted security.....	1,682,681,994	2,321,260,349
Total.....	<u>8,274,381,588</u>	<u>10,367,755,209</u>

Information relating to Financial Risks is detailed in note 15.

27. Trade and other Payables

An analysis of trade and other payables is as follows:

	<u>2008</u>	<u>2007</u>
	£	£
Accrued administrative expenses.....	<u>(37,032)</u>	<u>(48,738)</u>

The Directors consider that the carrying amount of trade payables approximates their fair value.

28. Current tax liability

Current tax liabilities were as follows:

	<u>2008</u>	<u>2007</u>
	£	£
UK corporation tax payable.....	<u>(15,356)</u>	<u>(16,007)</u>

29. Long-term borrowings

An analysis of the Company's borrowings is as follows:

	<u>2008</u>	<u>2007</u>
	£	£
Non Current Asset backed floating rate notes	8,610,609,044	8,339,837,761
Curent Asset backed floating rate notes	<u>2,186,114,105</u>	<u>2,158,238,023</u>
Total	<u>10,796,723,149</u>	<u>10,498,075,784</u>

Borrowings are the notes issued by the Company to external investors. They are recognised initially at fair value net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost; any difference between the proceeds net of transaction costs (issuance costs) and the redemption value is recognised in the income statement over the period of the notes using the effective interest method.

A first tranche of notes were issued on 9 November 2006 with a nominal value of £6,006,836,416 and a further issuance was made on 6 June 2007 with a nominal value of £6,005,843,136. At 31 December 2008 the value of the outstanding notes was £8,235,494,860.

In the event that impairment losses exceed the credit enhancement provided by Barclays Bank PLC, losses are borne by the note holders in accordance with the priority of payments waterfall.

Interest is payable on tranche 1 of the floating rate notes as follows:

Class A1a Notes – 3 month USD LIBOR plus 0.03%

Class A2a Notes – 3 month EURIBOR plus 0.04%

Class A3a Notes – 3 month GBP LIBOR plus 0.04%

Class A4a Notes – 3 month USD LIBOR plus 0.05%

Class A5a Notes – 3 month EURIBOR plus 0.10%

Class A6a Notes – 3 month USD LIBOR plus 0.10%

Class A7a Notes – 3 month GBP LIBOR plus 0.11%

Class B1b Notes – 3 month USD LIBOR plus 0.10%

Class B3b Notes – 3 month EURIBOR plus 0.18%

Class B4b Notes – 3 month GBP LIBOR plus 0.18%

Class C1c Notes – 3 month USD LIBOR plus 0.18%

Class C3c Notes – 3 month EURIBOR plus 0.27%

Class C4c Notes – 3 month GBP LIBOR plus 0.27%

Class D2d Notes – 3 month USD LIBOR plus 0.47%

Class D3d Notes – 3 month EURIBOR plus 0.47%

Class D4d Notes – 3 month GBP LIBOR plus 0.47%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 August 2013.

Interest is payable on tranche 2 of the floating rate notes as follows:

- Class 1A1 Notes – 3 month USD LIBOR plus 0.03%
- Class 1A2 Notes – 3 month EURIBOR plus 0.04%
- Class 1A3 Notes – 3 month GBP LIBOR plus 0.04%
- Class 2A1 Notes – 3 month USD LIBOR plus 0.04%
- Class 2A2 Notes – 3 month EURIBOR plus 0.05%
- Class 3A1 Notes – 3 month USD LIBOR plus 0.08%
- Class 3A2 Notes – 3 month GBP LIBOR plus 0.10%
- Class 3A3 Notes – 3 month GBP LIBOR plus 0.10%
- Class 1B1 Notes – 3 month USD LIBOR plus 0.08%
- Class 2B2 Notes – 3 month EURIBOR plus 0.14%
- Class 2B3 Notes – 3 month GBP LIBOR plus 0.14%
- Class 1C1 Notes – 3 month USD LIBOR plus 0.16%
- Class 2C2 Notes – 3 month EURIBOR plus 0.23%
- Class 2C3 Notes – 3 month GBP LIBOR plus 0.23%
- Class 2D1 Notes – 3 month USD LIBOR plus 0.39%
- Class 2D2 Notes – 3 month EURIBOR plus 0.40%
- Class 2D3 Notes – 3 month GBP LIBOR plus 0.40%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 December 2012. The class B notes will be subordinated to the class A notes. The class C notes will be subordinated to both the class A notes and the class B notes. The class D notes will be subordinated to the class A notes, the class B notes and the class C notes. Information relating to the fair value of borrowing is detailed in note 15.

30. Derivative Financial Instruments

	<u>2008</u>	<u>2007</u>
	£	£
UK corporation tax payable.....	<u>2,493,808,877</u>	<u>124,297,049</u>

The Company enters into cross currency swaps in order to match its sterling deemed loan assets with its Euro & US Dollar denominated asset backed debt obligations.

The cross currency swaps are recognised at fair value on the date on which the swap contracts are entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The cross currency swaps are carried as assets when fair value is positive and as liabilities when fair value is negative.

The gain or loss on the cross currency swaps and the Euro & US Dollar denominated asset backed debt obligations is taken to the income statement.

Information relating to Financial Risks is detailed in note 15.

31. Share capital

Particulars of the Company's share capital were as follows

	<u>Authorised</u>	<u>Allotted, issued and fully paid</u>	<u>Allotted, issued and quarter paid</u>	<u>Total</u>
	£	£	£	£
At 31 December 2007	<u>50,000</u>	<u>2</u>	<u>12,500</u>	<u>12,502</u>

The authorised share capital of Gracechurch Mortgage Financing PLC is £50,000, (2007: £50,000), comprising 50,000 (2007: 50,000) ordinary shares of £1 each. The issued share capital of the Company comprises 50,000 (2007: 50,000) ordinary shares of £1 each. Of the total number of shares issued, 2 have been fully paid and 49,998 have been quarter paid up.

32. Retained earnings

Movements in retained earnings are as follows:

	<u>2008</u>	<u>2007</u>
	£	£
At 01 January 2008	(6,026,921)	(2,482,492)
Net loss for year	<u>(22,457,047)</u>	<u>(3,544,429)</u>
At 31 December 2008	<u>(28,483,968)</u>	<u>(6,026,921)</u>

33. Financial risks

The Company's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk (which includes foreign currency risk). Consequently, the Company devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business. The Company uses derivative financial instruments to hedge certain risk exposures.

The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company.

The primary credit risk to the Company relates to default on the unlisted security with Gracechurch GMF Funding 1 Limited, which in turn depends on the credit risk associated with the securitised pool of mortgages held by Barclays Bank PLC. The current average loan to value ratio for the mortgage pool is in the 50-60% range. Further information can be found in the Investor Reports as at 31 December 2008.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool. All risk factors were assessed in detail at inception and are outlined in the Offering Circular.

The Company assesses its counterparties, including its customers, for credit risk before contracting with them. Risk rating is the main method used to measure credit risk. Third party financial instrument counterparties are required to be rated A- or better, and the Company's exposure to them is subject to financial limits.

At the balance sheet date all counterparties were in fact AA- rated.

The Company has a concentration of risk to the originator (Barclays Bank PLC). The underlying mortgage assets of the securitisation are concentrated in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk.

Maximum exposure to credit risk

The Company's maximum exposure to credit risk is reflected by the amounts disclosed in the balance sheet.

The Company does not hold any collateral as security.

Financial assets subject to credit risk

For the purposes of the Company's disclosures regarding credit quality, financial assets subject to credit risk are Held to Maturity assets. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

	<u>2008</u>	<u>2007</u>
	£	£
Current unlisted security	1,682,681,994	2,132,260,349
Non Current unlisted security.....	6,591,699,594	8,235,494,860
Total	<u>8,274,381,588</u>	<u>10,367,755,209</u>

The Company meets its obligation on the notes issued from the cash flows it receives Gracechurch GMF Funding 1 Limited. These represent the only recourse for the Company. As a consequence, the credit quality of the mortgage loans demonstrates the capacity of the Company to service its payments.

(b) Financial assets neither past due nor impaired

Financial assets neither past due nor impaired can be analysed according to the rating systems used by the Company and Originator when assessing customers and counterparties.

For the purposes of the Company's disclosures regarding credit quality, securitised mortgage loan subject to credit risk have been analysed as follows:

	<u>2008</u>	<u>2007</u>
	£	£
Neither past due nor impaired	7,241,130,439	9,724,738,725
Past due but not individually impaired	517,143,872	8,452,453
Past due and individually impaired	33,969,796	-
Total	<u>7,792,244,107</u>	<u>9,733,191,178</u>

The credit quality of financial assets subject to credit risk that were neither past due nor impaired based on credit ratings is as follows:

Barclays Retail Grade	Description	Probability of default
1	Strong	0.0% - 0.15%
2		0.15% - 0.30%
3		0.30% - 0.60%
4-5 5-7	Satisfactory	0.60% - 2.50% 2.50% - 10.00%
8	Weak / Substandard	10.00% +

Strong – there is very high likelihood of the asset being recovered in full.

Satisfactory –there is a high likelihood that the asset will be recovered in full and therefore, of no cause for concern to the Company.

Weak/Substandard – there is concern over the obligor's ability to make payments when due. However these have not yet converted to actual delinquency and the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	2008			
	Strong	Satisfactory	Weak	Total
	£	£	£	£
Securitised mortgage loans.....	<u>7,023,251,100</u>	<u>157,006,871</u>	<u>60,872,468</u>	<u>7,241,130,438</u>

	2007			
	Strong	Satisfactory	Weak	Total
	£	£	£	£
Securitised mortgage loans.....	<u>9,224,686,323</u>	<u>459,874,981</u>	<u>20,177,421</u>	<u>9,721,255,957</u>

(c) **Liquidity risk**

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its payment obligations as they fall due.

The ability of the Company to make interest payments under the currency swaps, pay interest on the notes and to pay its other expenses is dependant upon the Company receiving sufficient cash flow from Gracechurch GMF Funding 1 Limited and receiving the amounts due from swap counterparties.

Principal repayments are made on the notes in accordance with the Company's principal priority of payments and reflect the amount of principal collection on the internal loan notes.

The Company is only required to make payments on the notes to the extent it has received sufficient cashflows from the Gracechurch GMF Funding 1 Limited.

The Company maintains a mixture of long term and short term committed facilities, including financial support from the parent company, Barclays Bank PLC, that are designed to ensure the Company has sufficient available funds for operations.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Company with regards financial liabilities by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Company manages the inherent liquidity risk based on discounted expected cash inflows.

Prepayment Risks

Cash flows on the unlisted securities with Gracechurch GMF Funding 1 Limited are dependant on the underlying mortgage loans held by Barclays Bank PLC. In the normal course of business, a proportion of mortgage borrowers repay their loan in advance of contractual maturity. As a result, the weighted average life of the deemed loan and the notes is likely to be less than that implied by the contractual maturity dates of the mortgage pool.

The contractual maturities of the Company's borrowings in the table below assume there are no prepayments by borrowers on the underlying mortgage pool. The terms of the notes are that repayments of principal will only be made to the extent that sufficient cash flows have been received from the Company's assets.

2008	<1yr	1-2yrs	2-5yrs	>5yrs	Total
	£	£	£	£	£
Trade and other payables.....	(37,032)	-	-	-	(37,032)
Borrowings.....	(2,186,114,105)	(2,234,598,198)	(6,376,010,846)	-	(10,796,723,149)
Total.....	<u>(2,186,151,137)</u>	<u>(2,234,598,198)</u>	<u>(6,376,010,846)</u>	<u>-</u>	<u>(10,796,760,181)</u>

2007	<1yr	1-2yrs	2-5yrs	>5yrs	Total
	£	£	£	£	£
Trade and other payables.....	48,738	-	-	-	48,738
Borrowings.....	2,158,238,023	1,664,591,433	6,011,305,686	663,940,642	10,498,075,784
Total.....	<u>2,158,286,761</u>	<u>1,664,591,433</u>	<u>6,011,305,686</u>	<u>663,940,642</u>	<u>10,498,124,522</u>

(d) **Market Risk**

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates.

Foreign Currency Risk

The Company's assets are denominated in sterling, its functional currency. However, the Company has issued notes denominated in USD and Euro. It is therefore exposed to currency risk as the value of the notes will fluctuate due to changes in USD and Euro exchange rates and in US and Euro LIBOR rates.

To manage this risk, the Company has entered into a cross currency swap with Barclays Bank PLC at the time of the notes issuance. As shown in the table below, the contractual notional amount of the cross currency swaps correspond exactly to the amount of the notes issued in

USD and Euro and therefore mitigates the Company's exposure to currency risk. The currency swaps substantially eliminates the sensitivity of the Company's results to movements in exchange rates.

At 31 December	2008	2007
	£	£
Asset Backed Notes.....	9,308,366,849	8,666,364,157
Notional principal amounts of the outstanding cross currency contracts.....	<u>9,308,366,849</u>	<u>8,666,364,157</u>

Fair values of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged, or liability settled in an arms-length transaction between knowledgeable parties.

The following table summarises the carrying amounts of financial assets and financial liabilities presented on the Company's balance sheet, and their fair values.

Note	2008		2007	
	Carrying amount]	Fair value	Carrying amount	Fair value
	£	£	£	£
Financial assets:				
Unlisted security				
	a	8,274,381,588	8,274,381,588	10,367,755,209
Financial liabilities				
Borrowings -				
				(9,203,938,839)
A Class	b	(9,573,903,363)	(8,684,487,926)	(9,371,506,649)
B Class	b	(374,896,763)	(312,614,266)	(353,571,282)
				(343,788,714)

C Class	b	(302,803,909)	(232,474,222)	(302,307,135)	(289,811,258)
D Class	b	(506,262,814)	(343,783,222)	(394,562,914)	(358,878,279)
Interest Payable on Debt					
Securities.....	c	(38,856,299)	(38,856,299)	(76,127,805)	(76,127,805)
Derivative financial instruments.....	d	2,493,808,877	2,493,808,877	124,297,050	124,297,050

- (a) Fair value of the deemed loan is calculated by using discounted cash flow applying market rates. The methodology is to calculate expected cash flows under the terms of each specific contract and then discount these values back to present values. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-market pricing models.
- (b) Fair values of the notes are based on prices received from Barclays Capital.
- (c) Fair values of the long term borrowings are based on contractual agreements between counterparties.
- (d) Financial instruments at fair value are priced with reference to a quoted market price for that instrument.

34. Related party transactions

The definition of related parties includes parent company, ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors. Particulars of transactions, and the balances outstanding at the year end, are disclosed in the tables below.

All of the issued share capital of the Company is held by Gracechurch GMF Holdings Limited except for one share held by SFM Corporate Services Limited in its capacity as the issuer share trustee. The one share held by the issuer share trustee is held pursuant to the terms of the Issuer share trust dated 3 May 2006, with Gracechurch GMF Holdings Limited having the beneficial interest in the issuer share trust. Barclays Bank PLC, the Originator, does not own directly or indirectly any of the share capital of the Company.

However, under the Standing Interpretation Committee's (SIC) interpretation 12 'Consolidation – Special Purpose Entities' Barclays Bank PLC controls Gracechurch Mortgage Financing PLC as the activities of the SPE are being conducted in according to Barclays Bank PLC business needs.

Hence transactions with Gracechurch Mortgage Funding No.1 Limited and other companies of the Barclays Group are regarded as related party transactions and are summarised below:

	<u>2008</u>	<u>2007</u>
	£	£
Transactions and Balances		
Cash at Bank with Barclays Bank PLC	103,115	61,515
Interest on internal loan notes with Gracechurch Mortgage Funding 1 Limited	544,571,349	533,786,320
Internal loan notes issued by Gracechurch Mortgage Funding 1 Limited	8,235,494,860	10,291,583,390
Notes held by Barclays Bank PLC	72,151,048	-
Professional fees paid to Structured Finance Management Ltd	4,007	8,142
Underwriting fee to Barclays Bank PLC	-	7,537,171

35. Ultimate Holding Company

The controlling party of Gracechurch Mortgage Financing PLC is considered to be Gracechurch Mortgage Funding No.1 Limited and hence ultimately controlled by Barclays Bank PLC based on the Standing Interpretation Committee's (SIC) interpretation 12 'Consolidation – Special Purpose Entities'. The ultimate holding company of Barclays Bank PLC, the parent company of the largest group that presents group accounts is Barclays PLC. As such, the ultimate controlling party of Gracechurch Mortgage Financing PLC is Barclays PLC.

Gracechurch GMF Holdings Limited, Barclays Bank PLC and Barclays PLC are incorporated in Great Britain and registered in England and Wales. Gracechurch GMF Holdings Limited's, Barclays Bank

PLC's and Barclays PLC's statutory accounts are available from the Barclays Corporate Secretariat, 1 Churchill Place, London E14 5HP.

APPENDIX D
AUDITED FINANCIAL STATEMENTS FOR FUNDING

GRACECHURCH GMF FUNDING 1 LIMITED
(FORMERLY EBONYGRANGE LIMITED)

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE PERIOD 1 JANUARY 2007 TO 31 DECEMBER 2007 AND 1 JANUARY 2008 TO 31
DECEMBER 2008

REGISTERED NUMBER: 05673075

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DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2007.

Principal activity and review of business

Gracechurch GMF Funding 1 Limited (the "**Company**") is a limited company, incorporated in England and Wales on 12 January 2006 with an authorised share capital of 100 ordinary shares of £1 each. The Company's issued share capital comprises one ordinary share of £1 each (of which £1 is paid up). All of the Company's issued share capital is held by Bedell Trustees Limited.

The Company is a securitisation vehicle for residential mortgage loans and commenced its activities on issue of £4.006bn of loan notes (referred to in these financial statements as the ("**unlisted securities**") in order to purchase an equivalent amount of mortgage loans from Barclays Bank PLC. Barclays Bank PLC continues to administer the mortgage portfolio under a servicing agreement with the Company.

Results and Dividends

During the year the Company made a profit after taxation of £36,649 (2006: £3,591). The Directors do not recommend the payment of a dividend.

Principal risks and uncertainties

The principal risk is that the Company is unable to meet its obligations to pay interest and principal to its note holder. This could arise if the interest and principal received on the Company's assets were not sufficient to pay the note holders interest and principal and the associated expenses of the Company.

Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

Future outlook

The Directors remain confident that the Company will be able to meet all due obligations.

Key performance indicators

The key performance indicator of the Company is the reported performance of the Gracechurch GMF Trustee Limited mortgages' associated share of the collections of the trust. This is reported monthly on Bloomberg.

Directors

The Directors of the Company, who served during the period, together with their dates of appointment and resignation, where appropriate, are as shown below:

Geoffrey Raymond Simms	(appointed 26 April 2006)
Bedell (Corporate Services) UK Ltd	(appointed 26 April 2006)
Ross Douglas Aucutt	(appointed 27 October 2006)
Nicholas Robert John Lambert (alternate for R D Aucutt)	(appointed 27 October 2006)
Christopher Dee	(appointed 21 December 2007)

Directors' interests in shares (as defined by section 325 of the Companies Act 1985)

None of the Directors have beneficial interests in the shares of the Company or any disclosable interests in the shares of group companies.

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on pages 5 and 6 is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors' in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 7 to 24

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been prepared on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Financial instruments

The Company's financial risk management objectives and policies, and the exposure to credit risk, liquidity risk and market risk are set out in the note '*Financial Risks*' on pages 18 to 23.

Related party transactions

Details of the Company's related party transactions during the period are set out in note 16.

Creditors' payment policy

The Company's policy is to follow the DTI's Better Payment Practice Code. The code states that a Company should have a clear, consistent policy to settle bills in accordance with payment terms agreed with suppliers, dealing quickly with complaints and advising suppliers of disputes.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

So far as the Directors are aware, there is no relevant audit information of which the Company's Auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD

R D Aucutt
Director
22 May 2008

INDEPENDENT AUDITORS' REPORT TCI THE MEMBERS OF GRACECHURCH MORTGAGE FUNDING 1 LIMITED

We have audited the financial statements of Gracechurch GMF Funding 1 Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes set out on pages 7 to 24. These financial statements have been prepared under the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 May 2008

INCOME STATEMENT

	Notes	2007 £	2006 £
Interest income	4	540,844,357	46,798,197
Interest expense	5	(533,786,320)	(46,759,907)
Net interest income		<u>7,058,037</u>	<u>38,290</u>
Administrative expenses	6	(7,005,681)	(33,160)
Profit before taxation		<u>52,356</u>	<u>5,130</u>
Taxation	7	(15,707)	(1,539)
Profit after taxation	14	<u><u>36,649</u></u>	<u><u>3,591</u></u>

The accompanying notes from an integral part of the accounts.

BALANCE SHEET

	Notes	2007 £	2006 £
ASSETS			
Non-current assets			
Financial assets			
- Deemed loan	8	9,655,262,463	5,601,537,824
Total non-current assets		9,655,262,463	5,601,537,824
Current assets			
Trade and other receivables	9	131,096,574	344,521,243
Cash and cash equivalents		561,989,684	98,590,109
Total current assets		693,086,258	443,111,352
Total assets		10,348,348,721	6,044,649,176
LIABILITIES			
Current liabilities			
Trade and other payables	10	(43,889)	(2,267,547)
Current tax liabilities	11	(15,707)	(1,539)
Total current liabilities		(59,596)	(2,269,086)
Net current assets		693,026,662	440,842,266
Non-current liabilities			
Financial liabilities			
- long-term borrowings	12	(10,348,248,884)	(6,042,376,498)
Total non-current liabilities		(10,348,248,884)	(6,042,376,498)
Net assets		40,241	3,592
SHAREHOLDERS' EQUITY			
Called up share capital	13	1	1
Retained earnings	14	40,240	3,591
Total shareholders' equity		40,241	3,592

The accompanying notes from an integral part of the accounts.

The financial statements were approved by the board of Directors and authorised for issue on 22 May 2008. They were signed on its behalf by:

R D Aucutt
Director
22 May 2008

STATEMENT OF RECOGNISED INCOME AND EXPENSE

	2007	2006
	£	£
Profit for the year	36,649	3,591
Total recognised profit for the year	36,649	3,591

The accompanying notes from an integral part of the accounts.

CASH FLOW STATEMENT

	2007 £	2006 £
Reconciliation of profit before tax to net cash flows from operating activities		
Profit before taxation	52,356	5,130
Adjustment for non-cash items		
Decrease/(Increase) in trade debtors	189,035,660	(339,263,485)
(Decrease)/Increase in trade creditors	(2,223,658)	2,267,547
(Decrease)/Increase in amounts due from Originator	(270,702,605)	270,702,605
Increase in amounts due to Issuer	21,125,412	35,540,082
Net changes in operating assets and liabilities:	(62,712,835)	(30,748,121)
Refund of excess spread to the Originator	27,681,688	3,191,208
Tax Paid	(1,539)	-
Net cash from operating activities	27,680,149	3,191,208
Deemed Loan	(6,005,843,136)	(6,006,836,416)
Repayment of Deemed Loan	2,138,457,962	-
Receipts from underlying mortgage pool	533,786,320	46,759,907
Net cash used in investing activities	(3,333,598,854)	(5,960,076,509)
Issuance of internal loan notes	6,005,843,136	6,006,836,416
Repayments of internal loan notes	(1,721,096,162)	-
Treasury loan from Originator	135,819,295	126,147,021
Repayments of loan from Originator	(54,748,834)	-
Interest payments to Issuer	(533,786,320)	(46,759,907)
Issuance of share capital	-	1
Net cash from financing activities	3,832,031,115	6,086,223,531
Net increase in cash and cash equivalents	463,399,575	98,590,109
Cash and cash equivalents at the beginning of the year	98,590,109	-
Cash and cash equivalents at the end of the year	561,989,684	98,590,109

The accompanying notes from an integral part of the accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

These financial statements are prepared for Gracechurch GMF Funding 1 Limited ("**the Company**").

The Company is a limited company, incorporated in the United Kingdom. The address of the registered office of the Company is 1 Churchill Place, Canary Wharf, London E14 5HP.

2. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. In all respects, this is also in accordance with IFRS, including the interpretations issued by the International Financial Reporting Interpretations Committee.

IFRS 7 "Financial Instruments Disclosures" and an amendment to IAS 1 "Presentation of Financial Statements" on capital disclosures were implemented in 2007, resulting in new or revised disclosures.

3. Accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required under IAS 39, "Financial Instruments, recognition, and measurement" as set out in the relevant accounting policies. They are stated in pounds sterling, the currency of the country in which the Company is incorporated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statement;

(a) **Foreign currency translation**

The financial statements are presented in sterling, which is the functional currency of the Company.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the period end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

(b) **Financial assets and liabilities**

The Company recognises financial instruments from the contract date and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

Financial Assets

Financial assets are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that its financial assets including trade receivables, is impaired. The factors that the Company takes into account include significant financial difficulties of the debtor, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the debtor's financial difficulties.

The Company first assesses whether objective evidence of impairment exists individually for individually significant financial assets.

Impairment allowances are calculated, based on the difference between the carrying amount of the asset and its estimated recoverable amount, calculated by reference to the expected cash flows from it discounted at the original effective interest rate for the asset.

Financial Liabilities

Financial Liabilities are measured at amortised cost, except liabilities designated at fair value, which are held at fair value through the income statement.

Determining fair value

The Company holds financial instruments that are not quoted in active markets, such as the cross currency swaps. Fair values of such instruments are determined by using valuation techniques

(c) **Interest**

Interest income or expense is recognised on all interest bearing financial assets classified as held to maturity or other loans and advances, and on financial liabilities, using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument.

The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

(d) **Cash and cash equivalents**

For the purpose of the cash flow statement, cash comprises demand deposits and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than 3 months. Trading balances are not considered -to be part of cash equivalents.

(e) **Income taxes, including deferred income taxes**

Income tax payable on taxable profits ("**current tax**") is recognised as an expense in the period in which the profits arise. Deferred income tax assets are recognised to the extent that it is possible that future taxable profits will be available against which temporary differences can be utilised.

Deferred income tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates and legislation enacted or substantially enacted by the balance sheet date and is expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

4. **Interest income**

	<u>2007</u> £	<u>2006</u> £
Interest income on deemed loan	497,211,699	45,037,593
Interest income on demand deposits	43,632,658	1,760,604
	<u>540,844,357</u>	<u>46,798,197</u>

5. **Interest expense**

	<u>2007</u> £	<u>2006</u> £
Interest expense on Internal Loan Notes	533,786,320	46,759,907

6. **Administrative expenses**

	<u>2007</u> £	<u>2006</u> £
Administrative expenses	7,005,681	33,160

The Directors did not receive any emoluments in respect of their services to the Company during the year. There were no employees employed by the Company during the year.

The following items have been charged in arriving at the Company's administration expenses:

	<u>2007</u> £	<u>2006</u> £
Auditors remuneration - audit services	21,150	18,000

7. **Income tax expense**

The analysis of the charge for the year is as follows:

	<u>2007</u> £	<u>2006</u> £
Current taxation		
United Kingdom corporation tax	(15,707)	(1,539)

The effective rate of current tax is 30% (2006: 30%).

A numerical reconciliation of the applicable tax rate and the effective rate of tax is as follows:-

	<u>2007</u> £	<u>2006</u> £
Profit before taxation	52,356	5,130
Tax charge at average UK corporation tax rate of 30%	(15,707)	(1,539)
Overall tax charge	(15,707)	(1,539)
Effective tax rate	30%	30%

8. **Deemed Loan**

	<u>2007</u> £	<u>2006</u> £
Deemed Loan	9,655,262,463	5,601,537,824

Under IAS 39 the Company can not recognise securitised residential mortgage loans as its assets. Instead the Company recognises a limited recourse loan to Barclays Bank PLC, which is secured on, and only has recourse to, the cash flows arising from the mortgage loans.

The deemed loan has been initially recognised at the amount corresponding to the consideration paid by the Company for the pool of mortgage loans less any credit enhancements granted by Barclays Bank PLC. The deemed loan has been subsequently adjusted for principal receipts for the underlying mortgage loans which have been retained by the Company and which represent repayments of the deemed loan.

Delinquencies and defaults on the securitised assets will not result in an impairment loss if the cash flows from the asset pool are still expected to be sufficient to meet obligations under the deemed loan. Losses incurred on securitised assets will only trigger an impairment of the deemed loan when they exceed the credit enhancement granted by Barclays Bank PLC.

In the event of an impairment of the (deemed loan, the carrying amount of the asset would be reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Information relating to financial risks is in note 15.

9. **Trade and other receivables**

An analysis of trade and receivables is as follows:

	<u>2007</u> £	<u>2006</u> £
Interest Income receivable.....	-	1,760,604
Amounts due from Mortgage Trustee.....	131,096,574	342,760,639
	<u>131,096,574</u>	<u>344,521,243</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

10. Trade and other Payables

An analysis of trade and other payables is as follows:

	<u>2007</u> £	<u>2006</u> £
Accrued expenses.....	43,889	33,160
Costs to be capitalised.....	-	2,234,387
	<u>43,889</u>	<u>2,267,547</u>

The Directors consider that the carrying amount of trade payable; approximates to their fair value.

11. Current tax liabilities

Current tax liabilities were as follows:

	<u>2007</u> £	<u>2006</u> £
UK corporation tax payable	<u>15,707</u>	<u>1,539</u>

12. Long term borrowings

An analysis of the Company's borrowings is as follows:

	<u>2007</u> £	<u>2006</u> £
Asset backed floating rate notes.....	10,367,755,210	6,053,596,322
Capitalised Issue Costs.....	(19,506,326)	(11,219,824)
	<u>10,348,248,884</u>	<u>6,042,376,498</u>

Long term borrowings are the unlisted securities issued by the Company to Gracechurch Mortgage Financing PLC. They are recognised initially at fair value and are subsequently stated at amortised cost.

A first tranche of notes were issued on 9 November 2006 with a nominal value of £6,006,836,416 and a further issuance was made on 6 June 2007, with a nominal value of £6,005,843,136. At 31 December 2007 the value of the outstanding notes was £10,291,583,391.

In the event that impairment losses exceed the credit enhancement provided by Barclays Bank PLC, losses will be borne by the note holder.

Interest is payable on tranche 1 of the floating rate notes as follows:

- Class A1a Notes - 3 month LSD LIBOR plus 0.03%
- Class A2a Notes - 3 month EURIBOR plus 0.04%
- Class A3a Notes - 3 month GBP LIBOR plus 0.04%
- Class A4a Notes - 3 month LSD LIBOR plus 0.05%
- Class A5a Notes - 3 month EURIBOR plus 0.10%

Class A6a Notes - 3 month USD LIBOR plus 0.10%
 Class A7a Notes - 3 month GBP LIBOR plus 0.11%
 Class B1b Notes - 3 month USD LIBOR plus 0.10%
 Class B3b Notes - 3 month EURIBOR plus 0.18%
 Class B4b Notes - 3 month GBP LIBOR plus 0.18%
 Class C1c Notes - 3 month USD LIBOR plus 0.18%
 Class C3c Notes - 3 month EURIBOR plus 0.27%
 Class C4c Notes - 3 month GBP LIBOR plus 0.27%
 Class D2d Notes - 3 month USD LIBOR plus 0.47%
 Class D3d Notes - 3 month EURIBOR plus 0.47%
 Class D4d Notes - 3 month GBP LIBOR plus 0.47%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 August 2013.

Interest is payable on tranche 2 of the floating rate notes as follows:

Class 1A1 Notes - 3 month USD LIBOR plus 0.03%
 Class 1 A2 Notes - 3 month EURIBOR plus 0.04%
 Class 1A3 Notes - 3 month GBP LIBOR plus 0.04%
 Class 2A1 Notes - 3 month USD LIBOR plus 0.04%
 Class 2A2 Notes - 3 month EURIBOR plus 0.05%
 Class 3A1 Notes - 3 month USD LIBOR plus 0.08%
 Class 3A2 Notes - 3 month GBP LIBOR plus 0.10%
 Class 3A3 Notes - 3 month GBP LIBOR plus 0.10%
 Class 1 B1 Notes - 3 month USD LIBOR plus 0.08%
 Class 282 Notes - 3 month EURIBOR plus 0.14%
 Class 2B3 Notes - 3 month GBP LIBOR plus 0.14%
 Class 1 C1 Notes - 3 month USD LIBOR plus 0.16%
 Class 2C2 Notes - 3 month EURIBOR plus 0.23%
 Class 2C3 Notes - 3 month GBP LIBOR plus 0.23%
 Class 2D1 Notes - 3 month USD LIBOR plus 0.39%
 Class 2D2 Notes - 3 month EURIBOR plus 0.40%
 Class 2D3 Notes - 3 month GBP LIBOR plus 0.40%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 December 2012.

The class B notes will be subordinated to the class A notes. The class C notes will be subordinated to both the class A notes and the class B notes. The class D notes will be subordinated to class A notes, class B notes and class C notes.

Information relating to the fair value of borrowings is in note 15.

13. **Share capital**

Particulars of the Company's share capital are as follows:

	<u>No. of shares</u>	<u>Ordinary Shares</u>	<u>Total</u>
At 20 November 2006.....	100	1	1
At 31 December 2007	100	1	1

The authorised share capital of Gracechurch Funding 1 Limited is £100 (2006: £100), comprising 100 ordinary shares of £1 each (2006: 100). The issued share capital of the Company comprises 1 ordinary share of £1 which is fully paid up.

14. **Retained earnings**

Movements in retained earnings are as follows:

	2007 £	2006 £
At 01 January 2007	3,591	-
Net Profit for year	36,649	3,591
At 31 December 2007	<u>40,240</u>	<u>3,591</u>

15. Financial risks

The Company's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk, (which includes interest rate risk). Consequently, the Company devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business. The Company uses derivative financial instruments to hedge certain risk exposures.

The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

(a) Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company.

The primary credit risk of the Company relates to delinquency or default on the deemed loan to Barclays Bank PLC, which in turn depends on the credit risk associated with the securitised pool of mortgages.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool. All risk factors were assessed in detail at inception and are outlined in the Offering Circular.

Credit enhancement is provided to the Company in a number of ways. The income on the mortgage pool is expected to exceed the interest payable on the Company's deemed loan. The excess spread is available to make good any reduction in the principal balance of the mortgage pool as a result of defaults by customers. In addition, Barclays Bank PLC provides a subordinated loan to create a reserve fund which can be utilised by the Company in certain circumstances. In the event that Barclays Bank PLC is downgraded below AA, excess spread may be used to increase the amount of the reserve fund.

The Company assesses its counterparties, including Barclays Bank PLC, for credit risk before contracting with them. Risk rating is the main method used to measure credit risk. Third party financial instrument counterparties are required to be rated AA or better, and the Company's exposure to them is subject to financial limits.

At the balance sheet date all counterparties were in fact AA rated.

The Company has a concentration of risk to the originator (Barclays Bank PLC). The underlying mortgage assets of the securitisation are concentrated in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk.

Maximum exposure to credit risk:

The Company's maximum exposure to credit risk is reflected by the amounts disclosed in the balance sheet.

The Company does not hold any collateral as security.

Financial assets subject to credit risk

For the purposes of the Company's disclosures regarding credit quality, financial assets subject to credit risk include Loans & Receivables and Trade & Other Receivables. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

	<u>2007</u> £	<u>2006</u> £
Deemed Loan	9,655,262,463	5,553,255,436
Trade and Other Receivables.....	131,096,574	344,521,243

The Company meets its obligation on the notes issued from the cash flows it receives on the securitised residential mortgage loans. These represent the only recourse for the Company. As a consequence, the credit quality of the mortgage loans demonstrates the capacity of the Company to service its payments.

For the purposes of the Company's disclosures regarding credit quality, securitised mortgage loan subject to credit risk have been analysed as follows:

	<u>2007</u> £	<u>2006</u> £
Neither past due nor impaired	9,724,993,800	5,664,075,776
Past due but not individually impaired	8,197,378	-
Total	<u>9,733,191,178</u>	<u>5,664,075,776</u>

The credit quality of the mortgage loans are based on credit ratings as follows:

Barclays Retail Grade	Description	Probability of default
1	Strong	0.0% - 0.15%
2	Strong	0.1 5% - 0.30%
3	Strong	0.30% - 0.60%
4-5	Satisfactory	0.60% - 2.50%
5-7	Satisfactory	2.50% - 10.00%
8	Weak / Substandard	10.00% +

Strong -there is very high likelihood of the asset being recovered in full.

Satisfactory -there is a high likelihood that the asset will be recovered in full and therefore, of no cause for concern to the Company.

Weak/Substandard - there is concern over the obligor's ability to make payments when due. However these have not yet converted to actual delinquency and the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	<u>2007</u>			
	<u>Strong</u> £	<u>Satisfactory</u> £	<u>Weak</u> £	<u>Total</u> £
Securitised mortgage loans.....	9,2152,471,532	453,109,167	19,413,101	9,924,993,800
	<u>2006</u>			
	<u>Strong</u> £	<u>Satisfactory</u> £	<u>Weak</u> £	<u>Total</u> £
Securitised mortgage loans.....	5,378,145,179	285,559,927	370,670	5,664,075,776

(b) **Liquidity risk**

Liquidity risk is the risk that the Company's cash and committed facilities may be insufficient to meet its payment obligations as they fall due.

The ability of the Company to pay interest on the unlisted securities and to pay its other expenses is dependant upon the Company receiving sufficient cash flow from the mortgage pool. Having met other obligations the Company returns any surplus cashflows ("**excess spread**") to Barclays Bank PLC.

Principal repayments are made on the unlisted securities in accordance with the Company's principal priority of payments and reflect the amount of principal collection on the underlying mortgage loans. The

Company is only required to make payments on the unlisted securities to the extent it has received sufficient cashflows from the underlying mortgage pool.

The Company maintains a mixture of long term and short term committed facilities, including financial support from Barclays Bank PLC, that are designed to ensure the Company has sufficient available funds for operations.

Prepayment Risks

Cash flows on the deemed loan to Barclays Bank PLC are dependant n the underlying mortgage loans. In the normal course of business, a proportion of mortgage borrowers repay their loans in advance of contractual maturity. As a result, the weighted average life of the deemed loan and the unlisted securities is likely to be significantly less then that implied by the contractual maturity dates of the mortgage pool.

The contractual maturities of the Company's borrowings in the table below assume there are no prepayments by borrowers on the underlying mortgage pool. The terms of the unlisted securities are that repayments of principal will only be made to the extent that sufficient cash flows have been received from the Company's assets. In the event that prepayment rates in the mortgage pool reduce, principal repayments on the deemed loan and the unlisted securities will be spread over a longer period.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Company under financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Company manages the inherent liquidity risk based on discounted expected cash inflows.

	<1 yr £	1-2 yrs £	2-5 yrs £	>5 yrs £	Total £
2007					
Trade and other payables	(43,889)	-	-	-	(43,889)
Long Term Borrowings.....	(2,132,260,350)	(1,643,795,267)	(5,930,814,880)	(641,378,387)	(10,348,248,884)
Total.....	(2,132,304,239)	(1,643,795,267)	(5,930,814,880)	(641,378,386)	(10,348,292,773)
2006					
Trade and other payables	(2,267,547)	-	-	-	(2,267,547)
Long Term Borrowings.....	(1,337,711,041)	(943,705,753)	(1,906,408,868)	(1,854,550,836)	(6,042,376,498)
Total.....	(1,339,978,588)	(943,705,753)	(1,906,408,868)	(1,854,550,836)	(6,044,644,045)

(c) Market Risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates. Interest rate risk is the possibility that changes in interest rates will result in reduced income and / or higher financing costs from the Company's interest bearing financial assets and liabilities.

The securitised mortgage loans comprise loans which are subject to variable rates of interest set by Barclays Bank PLC based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest.

To mitigate the changes in interest rate that would result in the interest cashflows from the mortgage pools being insufficient to meet the payments of LIBOR interest due to the note holder, the Company entered into basis swaps with Barclays Bank PLC, at the time of transfer of the securitised assets. The swap agreements cover the life of the transactions.

The basis swaps substantially eliminates the sensitivity of the Company's results to movements in interest rates.

Fair values of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged, or liability settled in an arms-length transaction between knowledgeable parties.

The following table summarises the carrying amounts of financial assets and financial liabilities presented on the Company's balance sheet and their fair values:

	Note	2007		2006	
		Carrying amount £	Fair value £	Carrying amount £	Fair value £
Financial assets:					
Deemed loan.....	a	9,655,262,463	9,634,172,924	5,601,537,824	5,575,429,750
Financial liabilities:					
Long Term Borrowings.....	b	(10,348,248,884)	(10,348,248,884)	(6,042,376,498)	(6,042,376,498)

- (a) Fair value of the deemed loan is calculated by using discounted cash flow applying market rates. The methodology is to calculate expected cash flows under the terms of each specific contract and then discount these values back to present values. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-market pricing models.
- (b) Fair values of the long term borrowings are based on contractual agreements between counterparties.

16. Related party transactions

The definition of related parties includes parent company, ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors. Particulars of transactions, and the balances outstanding at the year end, are disclosed in the tables below.

All of the issued share capital of the Company is held by Bedell Trustees Limited as share trustee pursuant to a declaration of trust for charitable purposes. Barclays Bank PLC, the Seller, does not own directly or indirectly any of the share capital of the Company.

Under the Standing Interpretation Committee's (SIC) interpretation 12 "*Consolidation - Special Purpose Entities*" Barclays Bank PLC controls Gracechurch GMF Funding 1 Limited as the activities of the SPE are being conducted according to Barclays Bank PLC business needs.

Hence transactions with Gracechurch GMF Funding 1 Limited and other companies of the Barclays Group are regarded as related party transactions and are summarised below:

Asset / (liability) Income / (expense)	Sub note	2007 £	2006 £
Cash at Bank with Barclays Bank PLC.....	1	561,989,684	98,590,110
Deemed Loan.....	1	9,655,262,463	5,601,537,824
Internal Loan Notes purchased by Gracechurch Mortgage Financing PLC.....	2	10,348,248,884	6,042,376,498

- Barclays Bank PLC controls Gracechurch GMF Funding 1 Limited (SIC 12), Barclays PLC is the parent of Barclays Bank PLC.
- Gracechurch Mortgage Financing PLC is also deemed to be under the control of Barclays Bank PLC.

17. Ultimate Holding Company

The controlling party of Gracechurch GMF Funding 1 Limited is considered to be Barclays Bank PLC based on the Standing Interpretation Committee's (SIC) interpretation 12 "*Consolidation - Special Purpose Entities*". The ultimate holding company of Barclays Bank PLC, the parent company of the largest group that presents group accounts is Barclays PLC. As such, the ultimate controlling party of Gracechurch GMF Funding 1 Limited is Barclays PLC.

Barclays Bank PLC and Barclays PLC are incorporated in Great Britain and registered in England and Wales. Barclays Bank PLC's and Barclays PLC's statutory accounts are available from the Barclays Corporate Secretariat, 1 Churchill Place, London E14 5HP.

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2008.

Principal activity and review of business

Gracechurch GMF Funding 1 Limited (the "**Company**") is a private limited company, incorporated in England and Wales on 12 January 2006 with an authorised share capital of 100 ordinary shares of £1 each. The Company's issued share capital comprises one ordinary share of £1 each (of which £1 is paid up). All of the Company's issued share capital is held by Bedell Trustees Limited.

The Company is a securitisation vehicle for residential mortgage loans and commenced its activities on issue of £4.006bn of internal loan notes (referred to in these financial statements as the ("**unlisted securities**") in order to purchase an equivalent amount of mortgage loans from Barclays Bank PLC. Barclays Bank PLC continues to administer the mortgage portfolio under a servicing agreement with the Company.

Results and Dividends

During the year the Company made a profit after taxation of £35,398 (2007: £36,649). The Directors do not recommend the payment of a dividend.

The Company's cash balances fell by 46% and interest income rose by 2%; however the Company managed to meet all their obligations, even continuing to receive excess interest required to pay to Gracechurch Mortgage Financing PLC.

Principal risks and uncertainties

The principal risk is that the Company is unable to meet its obligations to pay interest and principal to its note holder. This could arise if the interest and principal received on the Company's assets were not sufficient to pay the note holder interest and principal and the associated expenses of the Company.

Risks are formally reviewed by the Board and appropriate processes put in place to monitor and mitigate them.

As included in the offering circular, the Company's ability to pay required amounts of interest, principal and fees due and payable to the issuer in respect of global loan note no.1 will depend upon the Company receiving enough principal and revenue collections in relation to the funding share of the trust property, including revenue receipts and principal receipts on the mortgage loans included in the mortgages trust on or before each funding payment date.

Future outlook

The Directors remain confident that the Company will be able to meet all its obligations when they fall due.

Key performance indicators

Management are of the opinion that the key performance indicators of the company are the reported performance of the Gracechurch GMF Trustee Limited mortgages' associated share of the collections of the trust. This is reported monthly on Bloomberg. In addition, Management monitor a number of non financial key performance indicators such as triggers (including arrears levels), as set out in the offering circular and the credit ratings of the notes in issue, which give further comfort to Management, investors and rating agencies in terms of the performance of the Company.

Directors

The Directors of the Company, who served during the year, together with their dates of appointment and resignation, where appropriate, are as shown below:

Bedell (Corporate Services) UK Ltd

Geoffrey Raymond Simms	(resigned 27 February 2009)
Ross Douglas Aucutt	(resigned 16 December 2008)
Nicholas Robert John Lambert (alternate for R D Aucutt)	(resigned 16 December 2008)
Christopher Dee	(resigned 20 April 2009)

Directors appointed after the year end, together with their dates of appointment are shown below:

Andrew Robert Gray	(appointed 20 April 2009)
Roland Mark Deller	(appointed 27 February 2009)
Matthew Jon Dobson	(appointed 20 April 2009)

Directors' interests in shares (as defined by section 325 of the Companies Act 1985)

None of the Directors have beneficial interests in the shares of the Company or any disclosable interests in the shares of group companies.

Statement of Directors' responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on pages 5 and 6, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The Directors consider that in preparing the financial statements on pages 7 to 24

- the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and
- that all the accounting standards which they consider to be applicable have been followed, and
- that the financial statements have been appropriately prepared on a going concern basis.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure the financial statements comply with the Companies Act 1985.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Financial instruments

The Company's financial risk management objectives and policies, and the exposure to credit risk, liquidity risk and market risk are set out in the note 'Financial Risks' on pages 18 to 23.

Related party transactions

Details of the Company's related party transactions during the period are set out in note 16.

Creditors' payment policy

The Company's policy is to follow the DTI's Better Payment Practice Code. The code states that a Company should have a clear, consistent policy to settle bills in accordance with payment terms agreed with suppliers, dealing quickly with complaints and advising suppliers of disputes. As stated in the

Offering Circular, the Company's creditors are paid in accordance with priority of payments in the waterfall. These payments can only be made on the quarterly investor payment dates.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in.

So far as the Directors are aware, there is no relevant audit information of which the Company's Auditors are unaware. The Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

BY ORDER OF THE BOARD

For and on behalf of Barcosec Limited

Corporate Secretary
27 April 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRACECHURCH GMF FUNDING 1 LIMITED

We have audited the financial statements of Gracechurch GMF Funding 1 Limited for the year ended 31 December 2008 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes on pages 7 to 24. These financial statements have been prepared under the accounting policies set out on pages 11 to 13.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2008 and of its profit and cash flows for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 April 2009

INCOME STATEMENT

The accompanying notes form an integral part of the accounts.

	Notes	2008 £	2007 £
Interest income	4	552,247,878	540,844,357
Interest expense	5	(544,571,349)	(533,786,320)
Net interest income		7,676,529	7,058,037
Administrative expenses	6	(7,627,021)	(7,005,681)
Profit before taxation		49,508	52,356
Taxation	7	(14,110)	(15,707)
Profit after taxation	14	35,398	36,649

	Notes	2008 £	2007 £
ASSETS			
Non-current assets			
Financial assets			
- Deemed loan	8	7,704,743,044	9,174,223,538
Total non-current assets		7,704,743,044	9,174,223,538
Current assets			
Deemed loan	8	468,669	481,038,925
Trade and other receivables	9	251,843,404	131,096,574
Prepayment		3,416	-
Cash and cash equivalents		303,416,470	561,989,684
Total current assets		555,731,959	1,174,125,182
Total assets		8,260,475,003	10,348,348,721
LIABILITIES			
Current liabilities			
Borrowings	12	(1,682,681,993)	(2,132,260,349)
Trade and other payables	10	(33,811)	(43,889)
Current tax liabilities	11	(14,110)	(15,707)
Total current liabilities		(1,682,729,914)	(2,132,319,945)
Net current liabilities		(1,126,997,956)	(958,194,763)
Non-current liabilities			
Financial liabilities			
- long-term borrowings	12	(6,577,669,450)	(8,215,988,535)
Total non-current liabilities		(6,577,669,450)	(8,215,988,535)
Net assets		75,639	40,241
SHAREHOLDERS' EQUITY			
Share capital	13	1	1
Retained earnings	14	75,638	40,240
Total shareholders' equity		75,639	40,241

BALANCE SHEET

The accompanying notes form an integral part of the accounts.

The financial statements were approved by the board of Directors and authorised for issue on 27 April 2009. They were signed on its behalf by:

Andrew Robert Gray
Director
27 April 2009

STATEMENT OF RECOGNISED INCOME AND EXPENSE

The accompanying notes form an integral part of the accounts.

	2008	2007
	£	£
Profit for the year	<u>35,398</u>	<u>36,649</u>
Total recognised profit for the year	<u>35,398</u>	<u>36,649</u>

CASH FLOW STATEMENT

	2008	2007
	£	£
Reconciliation of profit before tax to net cash flows from operating activities		
Profit before taxation	49,508	52,355
Adjustment for non-cash items		
(Increase)/Decrease in trade and other receivables	(120,746,829)	189,035,661
Decrease in trade and other payables	(10,079)	(2,223,658)
Decrease in amounts due from Originator	(534,944,794)	(270,702,605)
(Decrease) / Increase in amounts due to Issuer	(31,808,910)	21,125,412
Increase in Prepayments	(3,416)	-
Net changes in operating assets and liabilities:	(687,464,520)	(62,712,835)
Refund of excess spread to the Originator	10,332,361	27,681,688
Tax Paid	(15,707)	(1,539)
Net cash from operating activities	10,316,654	27,680,149
Deemed Loan	-	(6,005,843,136)
Repayment of Deemed Loan	2,499,728,733	2,138,457,962
Interest Receipts from underlying mortgage pool	576,359,469	533,786,320
Net cash used in investing activities	(3,076,088,202)	(3,333,598,854)
Issuance of internal loan notes	-	6,005,843,136
Repayments of internal loan notes	(2,056,088,530)	(1,721,096,162)
Treasury loan from Originator	-	135,819,295
Repayments of loan from Originator	(25,065,551)	(54,748,834)
Interest Payments to Issuer	(576,359,469)	(533,786,320)
Net cash from financing activities	(2,657,513,550)	3,832,031,115
Net increase in cash and cash equivalents	(258,573,214)	463,399,575
	561,989,684	98,590,109
Cash and cash equivalents at the beginning of the year		
Cash and cash equivalents at the end of the year	303,416,470	561,989,684

The accompanying notes form an integral part of the accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting entity

These financial statements are prepared for Gracechurch GMF Funding 1 Limited ('the Company').

The Company is a limited company, incorporated in the United Kingdom. The address of the registered office of the Company is 1 Churchill Place, Canary Wharf, London E14 5HP.

2. Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS. In all respects, this is also in accordance with IFRS, including the interpretations issued by the International Financial Reporting Interpretations Committee.

3. Accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the fair valuation of certain financial instruments to the extent required under IAS 39, 'Financial Instruments, recognition, and measurement' as set out in the relevant accounting policies. They are stated in pounds sterling, the currency of the country in which the Company is incorporated.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the accounting policies. The notes to the financial statements set out areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the financial statements.

(a) Foreign currency translation

The financial statements are presented in sterling, which is the functional currency of the Company.

Foreign currency transactions are translated into sterling using the exchange rates prevailing at the dates of the transactions. Monetary items denominated in foreign currencies are retranslated at the rate prevailing at the year end. Foreign exchange gains and losses resulting from the retranslation and settlement of these items are recognised in the income statement.

Accounting policies

(b) Financial assets and liabilities

The Company recognises financial instruments from the contract date and continues to recognise them until, in the case of assets, the rights to receive cash flows have expired or the Company has transferred substantially all the risks and rewards of ownership, or in the case of liabilities, until the liability has been settled, extinguished or has expired.

Financial Assets

Financial assets are initially recognised at fair value and then classified in the following categories and dealt with in the financial statements as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Impairment of financial assets

The Company assesses at each balance sheet date whether there is objective evidence that its financial assets including trade receivables, are impaired. The factors that the Company takes into account include significant financial difficulties of the debtor, a breach of contract or default in payments, the granting by the Company of a concession to the debtor because of a deterioration in its financial condition, the probability that the debtor will enter into bankruptcy or other financial reorganisation, or, in the disappearance of an active market for a security because of the debtor's financial difficulties.

The Company first assesses whether objective evidence of impairment exists for individually significant financial assets.

Impairment allowances are calculated, based on the difference between the carrying amount of the asset and its estimated recoverable amount, calculated by reference to the expected cash flows from it discounted at the original effective interest rate for the asset.

Financial Liabilities

Financial Liabilities are measured at amortised cost, except liabilities designated at fair value, which are held at fair value through the income statement.

Determining fair value

The Company holds financial instruments that are not quoted in active markets, such as the cross currency swaps. Fair values are calculated based on observable market prices where available. For those items where observable market prices are not available, either reference is made to the most recent observable market prices or a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity.

(c) Interest

Interest income or expense is recognised on all interest bearing financial assets classified as held to maturity or other loans and advances, and on financial liabilities, using the effective interest method.

The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument.

The application of the method has the effect of recognising income (or expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

(d) Cash and cash equivalents

For the purpose of the cash flow statement, cash comprises demand deposits and cash equivalents. Cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of less than 3 months. Trading balances are not considered to be part of cash equivalents.

(e) Income taxes

Income tax payable on retained profits ('current tax') is recognised as an expense in the period in which the profits arise.

4. Interest income

	2008	2007
	£	£
Interest income on deemed loan	515,628,695	497,211,699
Interest income on demand deposits	36,619,183	43,632,658
	<u>552,247,878</u>	<u>540,844,357</u>

5. Interest expense

	2008	2007
	£	£
Interest expense on Internal Loan Notes	539,095,164	533,786,320
Amortised Issue Costs (Note 12)	<u>5,476,185</u>	<u>-</u>
	<u>544,571,349</u>	<u>533,786,320</u>

6. Administrative expenses

	2008	2007
	£	£
Administrative expenses	<u>7,627,021</u>	<u>7,005,681</u>

The Directors did not receive any emoluments in respect of their services to the Company during the year. There were no employees employed by the Company during the year (2007: nil).

The following items have been charged in arriving at the Company's administration expenses:

	2008	2007
	£	£
Auditors remuneration – audit services	<u>22,822</u>	<u>21,150</u>

7. Taxation

The analysis of the charge for the year is as follows:

	2008	2007
	£	£
Current taxation:		
United Kingdom corporation tax	<u>(14,110)</u>	<u>(15,707)</u>

The effective rate of current tax is 28.5% (2007: 30%).

A numerical reconciliation of the applicable tax rate and the effective rate of tax is as follows:-

	2008	2007
	£	£
Profit before taxation	49,508	52,356
Tax charge at average UK corporation tax rate of 28.5% (2007: 30%)	(14,110)	(15,707)
Overall tax charge	<u>(14,110)</u>	<u>(15,707)</u>
Effective tax rate	<u>28.5%</u>	<u>30%</u>

In 2007, the Company elected to the permanent tax regime, whereby tax payable is the current taxation on the retained profits. Retained profits are calculated as one basis point of the available revenue receipts.

8. Deemed Loan

	2008	2007
	£	£
Current Deemed Loan	468,669	481,038,925
Non Current Deemed Loan	<u>7,704,743,044</u>	<u>9,174,223,538</u>
Total	<u>7,705,211,713</u>	<u>9,655,262,463</u>

Under IAS 39 the Company cannot recognise securitised residential mortgage loans as its assets. Instead the Company recognises a limited recourse loan to Barclays Bank PLC, which is secured on, and only has recourse to, the cash flows arising from the mortgage loans.

The deemed loan has been initially recognised at the amount corresponding to the consideration paid by the Company for the pool of mortgage loans less any credit enhancements granted by Barclays Bank PLC. The deemed loan has been subsequently adjusted for principal receipts from the underlying mortgage loans which have been retained by the Company and which represent repayments of the deemed loan.

Delinquencies and defaults on the securitised assets will not result in an impairment loss if the cash flows from the asset pool are still expected to be sufficient to meet obligations under the deemed loan. Losses incurred on securitised assets will only trigger an impairment of the deemed loan when they exceed the credit enhancement granted by Barclays Bank PLC.

In the event of an impairment of the deemed loan, the carrying amount of the asset would be reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

Information relating to financial risks is detailed in note 15.

9. Trade and other receivables

An analysis of trade and receivables is as follows:

	2008 £	2007 £
Amounts due from Mortgage Trustee	<u>251,843,404</u>	<u>131,096,574</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

10. Trade and other Payables

An analysis of trade and other payables is as follows:

	2008 £	2007 £
Accrued expenses	<u>33,811</u>	<u>43,889</u>

The Directors consider that the carrying amount of trade payables approximates to their fair value.

11. Current tax liabilities

Current tax liabilities were as follows:

	2008 £	2007 £
UK corporation tax payable (Note 7)	<u>14,110</u>	<u>15,707</u>

12. Long term borrowings

An analysis of the Company's borrowings is as follows:

	2008 £	2007 £
Current asset backed floating rate notes	1,682,681,992	2,132,260,349
Non Current asset backed floating rate notes	6,591,699,592	8,235,494,861
Capitalised Issue Costs	(14,030,141)	(19,506,326)
	<u><u>8,260,351,443</u></u>	<u><u>10,348,248,884</u></u>

Long term borrowings are the unlisted securities issued by the Company to Gracechurch Mortgage Financing PLC. They are recognised initially at fair value and are subsequently stated at amortised cost.

A first tranche of notes were issued on 9 November 2006 with a nominal value of £6,006,836,416 and a further issuance was made on 6 June 2007 with a nominal value of £6,005,843,136. At 31 December 2008 the value of the outstanding notes was £8,235,494,860.

In the event that impairment losses exceed the credit enhancement provided by Barclays Bank PLC, losses will be borne by the note holder.

Interest is payable on tranche 1 of the floating rate notes as follows:

Class A1a Notes – 3 month USD LIBOR plus 0.03%
 Class A2a Notes – 3 month EURIBOR plus 0.04%
 Class A3a Notes – 3 month GBP LIBOR plus 0.04%
 Class A4a Notes – 3 month USD LIBOR plus 0.05%
 Class A5a Notes – 3 month EURIBOR plus 0.10%
 Class A6a Notes – 3 month USD LIBOR plus 0.10%
 Class A7a Notes – 3 month GBP LIBOR plus 0.11%
 Class B1b Notes – 3 month USD LIBOR plus 0.10%
 Class B3b Notes – 3 month EURIBOR plus 0.18%
 Class B4b Notes – 3 month GBP LIBOR plus 0.18%
 Class C1c Notes – 3 month USD LIBOR plus 0.18%
 Class C3c Notes – 3 month EURIBOR plus 0.27%
 Class C4c Notes – 3 month GBP LIBOR plus 0.27%
 Class D2d Notes – 3 month USD LIBOR plus 0.47%
 Class D3d Notes – 3 month EURIBOR plus 0.47%
 Class D4d Notes – 3 month GBP LIBOR plus 0.47%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 August 2013.

Interest is payable on tranche 2 of the floating rate notes as follows:

Class 1A1 Notes – 3 month USD LIBOR plus 0.03%
 Class 1A2 Notes – 3 month EURIBOR plus 0.04%
 Class 1A3 Notes – 3 month GBP LIBOR plus 0.04%
 Class 2A1 Notes – 3 month USD LIBOR plus 0.04%
 Class 2A2 Notes – 3 month EURIBOR plus 0.05%
 Class 3A1 Notes – 3 month USD LIBOR plus 0.08%
 Class 3A2 Notes – 3 month GBP LIBOR plus 0.10%
 Class 3A3 Notes – 3 month GBP LIBOR plus 0.10%
 Class 1B1 Notes – 3 month USD LIBOR plus 0.08%
 Class 2B2 Notes – 3 month EURIBOR plus 0.14%
 Class 2B3 Notes – 3 month GBP LIBOR plus 0.14%
 Class 1C1 Notes – 3 month USD LIBOR plus 0.16%
 Class 2C2 Notes – 3 month EURIBOR plus 0.23%
 Class 2C3 Notes – 3 month GBP LIBOR plus 0.23%
 Class 2D1 Notes – 3 month USD LIBOR plus 0.39%
 Class 2D2 Notes – 3 month EURIBOR plus 0.40%
 Class 2D3 Notes – 3 month GBP LIBOR plus 0.40%

The notes will follow a set amortisation profile, with the final redemption taking place in 20 December 2012.

The class B notes will be subordinated to the class A notes. The class C notes will be subordinated to both the class A notes and the class B notes. The class D notes will be subordinated to class A notes, class B notes and class C notes.

Information relating to the fair value of borrowings is detailed in note 15.

13. Share capital

Particulars of the Company's share capital are as follows:

	No. of authorised shares	Issued Ordinary Shares £	Total Issued shares £
At 31 December 2007 and 2008	100	1	1

The authorised share capital of Gracechurch Funding 1 Limited is £100 (2007: £100), comprising 100 ordinary shares of £1 each (2007: 100). The issued share capital of the Company comprises 1 ordinary share of £1 which is fully paid up.

14. **Retained earnings**

Movements in retained earnings are as follows:

	2008	2007
	£	£
At 01 January 2008	40,240	3,591
Net Profit for year	35,398	36,649
At 31 December 2008	<u>75,638</u>	<u>40,240</u>

15. **Financial risks**

The Company's activities expose it to a variety of financial risks. These are credit risk, liquidity risk and market risk (which includes interest rate risk). Consequently, the Company devotes considerable resources to maintaining effective controls to manage, measure and mitigate each of these risks, and regularly reviews its risk management procedures and systems to ensure that they continue to meet the needs of the business. The Company uses derivative financial instruments to hedge certain risk exposures.

The Board of Directors monitors the Company's financial risks and has responsibility for ensuring effective risk management and control.

(a) **Credit risk**

Credit risk is the risk of suffering financial loss, should any of the Company's customers or market counterparties fail to fulfil their contractual obligations to the Company.

The primary credit risk to the Company relates to delinquency or default on the deemed loan to Barclays Bank PLC, which in turn depends on the credit risk associated with the securitised pool of mortgages. The current average loan to value ratio for the mortgage pool is in the 50-60% range. Further information can be found in the Investor Reports as at 31 December 2008.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool. All risk factors were assessed in detail at inception and are outlined in the Offering Circular.

Credit enhancement is provided to the Company in a number of ways. The income on the mortgage pool is expected to exceed the interest payable on the Company's deemed loan. The excess spread is available to make good any reduction in the principal balance of the mortgage pool as a result of defaults by customers. In addition, Barclays Bank PLC provides a subordinated loan to create a reserve fund which can be utilised by the Company in certain circumstances. In the event that Barclays Bank PLC is downgraded below A-, excess spread may be used to increase the amount of the reserve fund.

The Company assesses its counterparties, including Barclays Bank PLC, for credit risk before contracting with them. Risk rating is the main method used to measure credit risk. Third party financial instrument counterparties are required to be rated A- or better, and the Company's exposure to them is subject to financial limits.

At the balance sheet date all counterparties were in fact AA- rated.

The Company has a concentration of risk to the originator (Barclays Bank PLC). The underlying mortgage assets of the securitisation are concentrated in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk.

Maximum exposure to credit risk:

The Company's maximum exposure to credit risk is reflected by the amounts disclosed in the balance sheet.

The Company does not hold any collateral as security.

Financial assets subject to credit risk

For the purposes of the Company's disclosures regarding credit quality, financial assets subject to credit risk include Loans & Receivables and Trade & Other Receivables. At the balance sheet date all financial assets subject to credit risk were neither past due nor impaired.

	2008	2007
	£	£
Non Current deemed loan	7,704,743,044	9,174,223,538
Current deemed loan	468,669	481,038,925
Trade and Other Receivables	251,843,404	131,096,574

The Company meets its obligation on the notes issued from the cash flows it receives on the securitised residential mortgage loans. These represent the only recourse for the Company. As a consequence, the credit quality of the mortgage loans demonstrates the capacity of the Company to service its payments.

For the purposes of the Company's disclosures regarding credit quality, securitised mortgage loan subject to credit risk have been analysed as follows:

	2008	2007
	£	£
Neither past due nor impaired	7,241,130,439	9,724,738,725
Past due but not individually impaired	517,143,872	8,452,453
Past due and individually impaired	33,969,796	-
Total	7,792,244,107	9,733,191,178

The credit quality of the mortgage loans are based on credit ratings as follows:

Barclays Retail Grade	Description	Probability of default
1	Strong	0.0% - 0.15%
2		0.15% - 0.30%
3		0.30% - 0.60%
4-5	Satisfactory	0.60% - 2.50%
5-7		2.50% - 10.00%
8	Weak / Substandard	10.00% +

Strong – there is very high likelihood of the asset being recovered in full.

Satisfactory –there is a high likelihood that the asset will be recovered in full and therefore, of no cause for concern to the Company.

Weak/Substandard – there is concern over the obligor’s ability to make payments when due. However these have not yet converted to actual delinquency and the borrower or counterparty is continuing to make payments when due and is expected to settle all outstanding amounts of principal and interest.

	2008			
	Strong	Satisfactory	Weak	Total
	£	£	£	£
Securitised mortgage loans	<u>7,023,251,099</u>	<u>157,006,871</u>	<u>60,872,468</u>	<u>7,241,130,439</u>

	2007			
	Strong	Satisfactory	Weak	Total
	£	£	£	£
Securitised mortgage loans	<u>9,252,228,850</u>	<u>453,097,283</u>	<u>19,412,592</u>	<u>9,724,738,725</u>

(b) **Liquidity risk**

Liquidity risk is the risk that the Company’s cash and committed facilities may be insufficient to meet its payment obligations as they fall due.

The ability of the Company to pay interest on the unlisted securities and to pay its other expenses is dependant upon the Company receiving sufficient cash flow from the mortgage pool. Having met other obligations the Company returns any surplus cashflows ("**excess spread**") to Barclays Bank PLC.

Principal repayments are made on the unlisted securities in accordance with the Company’s principal priority of payments and reflect the amount of principal collection on the underlying mortgage loans. The Company is only required to make payments on the unlisted securities to the extent it has received sufficient cashflows from the underlying mortgage pool.

The Company maintains a mixture of long term and short term committed facilities, including financial support from Barclays Bank PLC, that are designed to ensure the Company has sufficient available funds for operations.

Prepayment Risks

Cash flows on the deemed loan to Barclays Bank PLC are dependant on the underlying mortgage loans. In the normal course of business, a proportion of mortgage borrowers repay their loans in advance of contractual maturity. As a result, the weighted average life of the deemed loan and the unlisted securities is likely to be less than that implied by the contractual maturity dates of the mortgage pool.

The contractual maturities of the Company's borrowings in the table below assume there are no prepayments by borrowers on the underlying mortgage pool. The terms of the unlisted securities are that repayments of principal will only be made to the extent that sufficient cash flows have been received from the Company's assets.

Contractual maturity of financial liabilities on an undiscounted basis

The table below presents the cash flows payable by the Company with regards to financial liabilities by remaining contractual maturity at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows of all financial liabilities (i.e. nominal values), whereas the Company manages the inherent liquidity risk based on discounted expected cash inflows.

2008	<1yr	1-2yrs	2-5yrs	>5yrs	Total
	£	£	£	£	£
Trade and other payables	(33,811)	-	-	-	(33,811)
Long Term Borrowings	<u>(1,682,681,993)</u>	<u>(1,710,657,162)</u>	<u>(4,867,012,289)</u>	-	<u>(8,260,351,443)</u>
Total	<u>(1,682,715,804)</u>	<u>(1,710,657,162)</u>	<u>(4,867,012,289)</u>	-	<u>(8,260,385,254)</u>

2007	<1yr	1-2yrs	2-5yrs	>5yrs	Total
	£	£	£	£	£
Trade and other payables	(43,889)	-	-	-	(43,889)
Long Term Borrowings	<u>(2,132,260,350)</u>	<u>(1,643,795,267)</u>	<u>(5,930,814,880)</u>	<u>(641,378,387)</u>	<u>(10,348,248,884)</u>
Total	<u>(2,132,304,239)</u>	<u>(1,643,795,267)</u>	<u>(5,930,814,880)</u>	<u>(641,378,386)</u>	<u>(10,348,292,773)</u>

(c) Market Risk

Market risk is the risk that the Company's earnings or capital, or its ability to meet business objectives will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, equity prices and foreign exchange rates.

Interest rate risk

Interest rate risk is the possibility that changes in interest rates will result in reduced income and / or higher financing costs from the Company's interest bearing financial assets and liabilities.

The securitised mortgage loans comprise loans which are subject to variable rates of interest set by Barclays Bank PLC based on general interest rates and competitive considerations, loans which track the Bank of England base rate and loans which are subject to fixed rates of interest.

To mitigate the changes in interest rate that would result in the interest cashflows from the mortgage pools being insufficient to meet the payments of LIBOR interest due to the note holder, the Company entered into basis swaps with Barclays Bank PLC, at the time of transfer of the securitised assets. The swap agreements cover the life of the transactions.

The basis swap substantially eliminates the sensitivity of the Company's results to movements in interest rates.

Fair values of financial instruments

The fair value of financial instruments is the amount for which an asset could be exchanged, or liability settled in an arms-length transaction between knowledgeable parties.

The following table summarises the carrying amounts of financial assets and financial liabilities presented on the Company's balance sheet and their fair values:

	Note	2008		2007	
		Carrying amount	Fair value	Carrying amount	Fair value
		£	£	£	£
Financial assets:					
Deemed loan	a	7,705,211,713	7,565,856,271	9,655,262,463	9,634,172,924
Financial liabilities:					
Long Term Borrowings	b	<u>(8,260,361,935)</u>	<u>(8,260,361,935)</u>	<u>(10,348,248,884)</u>	<u>(10,348,248,884)</u>

Fair value of the deemed loan is calculated by using discounted cash flow applying market rates. The methodology is to calculate expected cash flows under the terms of each specific contract and then discount these values back to present values. The expected cash flows for each contract are determined either directly by reference to actual cash flows implicit in observable market prices or through modelling cash flows using appropriate financial-market pricing models.

Fair values of the long term borrowings are based on contractual agreements between counterparties.

Related party transactions

The definition of related parties includes parent company, ultimate parent company, subsidiary, associated and joint venture companies, as well as the Company's key management which includes its Directors. Particulars of transactions, and the balances outstanding at the year end, are disclosed in the tables below.

All of the issued share capital of the Company is held by Bedell Trustees Limited as share trustee pursuant to a declaration of trust for charitable purposes. Barclays Bank PLC, the Seller, does not own directly or indirectly any of the share capital of the Company.

However, under the Standing Interpretation Committee's (SIC) interpretation 12 'Consolidation – Special Purpose Entities' Barclays Bank PLC controls Gracechurch GMF Funding 1 Limited as the activities of the SPE are being conducted according to Barclays Bank PLC business needs.

Hence transactions with Gracechurch GMF Funding 1 Limited and other companies of the Barclays Group are regarded as related party transactions and are summarised below:

Asset / (liability)	2008	2007
Income / (expense)	£	£
Cash at Bank with Barclays Bank PLC	303,416,470	561,989,684
Deemed Loan	7,705,211,713	9,655,262,463
Internal Loan Notes purchased by Gracechurch Mortgage Financing PLC	(8,260,351,443)	(10,348,248,884)
Professional fees paid to Bedell Trustees Limited	<u>(12,432)</u>	<u>(13,192)</u>

16. Ultimate Holding Company

The controlling party of Gracechurch GMF Funding 1 Limited is considered to be Barclays Bank PLC based on the Standing Interpretation Committee's (SIC) interpretation 12 'Consolidation – Special Purpose Entities'. The ultimate holding company of Barclays Bank PLC, the parent company of the

largest group that presents group accounts is Barclays PLC. As such, the ultimate controlling party of Gracechurch GMF Funding 1 Limited is Barclays PLC.

Barclays Bank PLC and Barclays PLC are incorporated in Great Britain and registered in England and Wales. Barclays Bank PLC's and Barclays PLC's statutory accounts are available from the Barclays Corporate Secretariat, 1 Churchill Place, London E14 5HP

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